Emerging Consumer Demand:

Rise of the Small Town Indian
FOREWORD

I am very happy to present this White Paper from Confederation of Indian Industry (CII) and Nielsen India, titled 'Emerging Consumer Demand: Rise of the Small Town Indian.' This White Paper takes a closer look at how the smaller Indian towns are leading the demand surge & shopping like metros. I believe, one of the inherent strength of the Indian economy - private consumption expenditure, will continue to remain the strongest pillar of the Indian growth story. Sustaining this consumption story is the rise of the small town consumer. The Indian consumption landscape in the small towns is dramatically changing – higher disposable income, demographic dividend of a younger generation, heightened aspirations, increasing urbanization resulting in a growing number of nuclear families – all important and key factors leading this development.

In line with this consumption growth story, Indian marketers have a great responsibility to nurture this consumption with sensible and responsible demand generation. It has always been our endeavor at CII to bring the best perspective and balanced thought to help businesses create sustainable value for Indian consumers. I would like to take this opportunity to thank the members of the CII National Committee on Marketing for the year 2012-13 for their active participation and engagement towards contributing to the growth of progressive marketing in Indian industry.

Thomas Varghese
Chairman,
CII National Committee on Marketing 2012-13 &
CEO – Textile Business, Aditya Birla Group
Emerging Consumer Demand:
Rise of the Small Town Indian

About this Report

Eight thousand towns, 630,000 villages, over eight million stores and 1.2 billion people! In such a diverse consumer universe, how do you measure demand, where is it strongest? North vs. South, the metros vs. Rural - the choices are endless. Nielsen has found that despite current inflationary environment, tier II and tier III towns are showing strong momentum with an improved demand appetite. This White Paper titled ‘Emerging Consumer Demand: Rise of the Small Town Indian,’ takes a closer look at how the smaller Indian towns are leading the demand surge & shopping like metros.

“The Indian consumer is changing - more connected than ever, more savvy and better equipped to benefit from an ever-changing marketplace. In such a dynamic scenario, what must businesses do to succeed while simultaneously ensuring that the consumer wins?”
Prologue

In a year where consumer confidence generally took a beating with the European crises, high interest rates, inflation, and political uncertainty, the Indian FMCG market managed to clock a respectable growth rate of 15 percent in 2011 over the previous year in value terms. While some argue this signifies a worrisome slowdown relative to the growth rates of almost 19 percent witnessed in the previous year, 2011 was still a significant year for the Indian small town consumer. As we dissect the reasons behind the 15 percent value growth and identify where consumer demand resides in India, for the first time we find that the charge is led by the tier II and tier III towns. The metros have carried India for the last decade; now smaller towns have taken on the demand baton.

The Rise of the Indian Small Town

The last three years paint an interesting picture for the Indian FMCG market. Over a three year period (from 2009 to 2011), we find that Middle India (Towns with a population of 1-10 lakh) leads the pack in value growth. If we just look at 2011, we find that the even smaller towns (‘Rest of Urban’ or towns with a population of < 1 lakh) have stepped up to lead overall value growth. This is evidence that the Indian growth momentum is percolating down to small-town urban India.

Demand Spotting: Where is consumer pull growing the fastest?

The million dollar question Indian marketers are forever wrestling with is - in a land of over 8000 towns and 6,00,000 villages, where is demand the strongest? This has implications for marketers as they zero-in on key markets to focus their energies on in 2012 and beyond. While Middle India (1-10 lakh towns) leads the pack in same-store sales for the last 3-year period, smaller towns with a population of 1 lakh and below have surged far ahead of the rest in 2011.

When we examined the performance in 2011 (Q4 over Q1), we found that the smaller Indian towns with a population of less than 1 lakh people, led an impressive growth story (19 percent in value terms versus 15 percent in rural India and 12 percent in the metros) even though distribution grew marginally faster in rural (4 percent in villages compared to 3 percent in these smaller towns). Growth in sales per point of distribution in 2011 for towns with a population of 1 lakh & below stood at 16 percent versus 11 percent for the metros. Demand pull today is undoubtedly strongest in the smallest of Indian towns.

Source: Nielsen
What are small-town Indian consumers demanding?

The small-town demand opportunity runs deep and wide. From an FMCG perspective, within the same year (Q4 over Q1 2011), we found that 42 out of 83 categories in Middle India grew at least 10 percent or more in same-store sales; in smaller towns (rest of urban, population of <1 lakh) this was even more broad-based with 53 out of 83 categories clocking at least a 10 percent growth in same-store sales. When we evaluate some of the fastest growing categories from a pure consumer pull perspective, we find that many specialty and evolved categories like pre-post wash, hair conditioners, air fresheners, prickly heat powder and cheese stack up on the top of the list. Smaller towns want to shop like the metros and marketers better take notice!

The evolving demand appetite

The demand profile of the small town Indian consumer is evolving beyond FMCG. Not to be outdone by the metros, there is a noticeable increase in the willingness to partake in categories and price segments that were until now not associated with small-town India.

A consumer deep dive in the summer of 2011 yielded some interesting insights into the lifestyle choices these small-town consumers are making.

We found that while mobile penetration across smaller towns and metros was largely comparable, small-town India was willing to spend more on their handsets. When asked what the price of the most expensive mobile handset in the household was, we found Middle India (1-10 lakh towns) spent about one-third more than a mini metro like Pune. This demonstrates the improving ‘quality’ of demand going beyond FMCG.

The small-town journey along the push-pull continuum

As distribution inroads are made into these smaller Indian towns and as brands find ways to connect with the small-town Indian, we will continue to see a stronger proportion of value growth being led by consumer pull. In the metros, given that distribution opportunities are largely maximized, most of the value gains must now come from same-store sales increases. In 2011, less than 5 percent of value sales growth in the metros came on account of distribution gains. As we look at the small-town opportunity, we find that these towns are quickly making the transition from a push to a pull-based consumer economy.

As many marketers continue to increase presence in these towns with stronger direct and indirect distribution channels, distribution will become decreasingly important as a differentiator for organizations in 3-5 years.

What will matter then will be the strength of your brand and your ability to innovate & stay relevant to the small-town Indian. Is your organization fit to stay in the small-town race?
Are you keeping up with the market?

Small town India (towns of 10 lakh and below) contributes to 38 percent of the Indian FMCG market today; their growth contribution is even larger. Today, the question Indian marketers need to ask themselves is whether or not their marketing efforts and spends are keeping up with where the real demand is?

Source: Nielsen
Spotlight on Middle India

While metros will remain a staple for marketers and increasing a rural footprint will be critical for volumes in the long run, there is a growth opportunity that is vastly under-rated by many marketers today, which could emerge as a key growth engine for the next 10 years. Middle India, a region made up of approximately 400 towns each with a population of 1-10 Lac, are home to 100 million Indians and today constitute up to 20 percent of the country’s FMCG consumption.

Middle India will grow from an FMCG market worth INR 287 Billion (5.74 Billion USD) today to over INR 4 Trillion (80 Billion USD) in value by 2026 and it is about time marketers took notice.
While marketers remain fixated on opportunities at the bottom-of-the-pyramid and in metro regions, not many are aware that only the metros and Middle India (1-10 Lac population towns) have outpaced the all-India growth story in the last 8 years. Even today, Middle India leads the pack across urban and rural segments for FMCG value growth rates.

Middle India has been outpacing the all-India FMCG story for many years now

### FMCG Value Sales (Rupees Billion)

<table>
<thead>
<tr>
<th>Category</th>
<th>Year 2002</th>
<th>Year 2010</th>
<th>Multiple Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>All India</td>
<td>442</td>
<td>1,425</td>
<td>3.2</td>
</tr>
<tr>
<td>Metro</td>
<td>110</td>
<td>412</td>
<td>3.8</td>
</tr>
<tr>
<td>Middle India</td>
<td>83</td>
<td>287</td>
<td>3.5</td>
</tr>
<tr>
<td>Rest of Urban</td>
<td>98</td>
<td>245</td>
<td>2.5</td>
</tr>
<tr>
<td>Rural</td>
<td>151</td>
<td>480</td>
<td>3.2</td>
</tr>
</tbody>
</table>

Source: Nielsen

### Strong Value Growth: recently Middle India is growing at 20% (up 3+ points from 2010)

<table>
<thead>
<tr>
<th>Category</th>
<th>MAT May 2010</th>
<th>MAT May 2011</th>
<th>Delta</th>
</tr>
</thead>
<tbody>
<tr>
<td>All India</td>
<td>18.5</td>
<td>18.8</td>
<td>0.3</td>
</tr>
<tr>
<td>Metro</td>
<td>16.4</td>
<td>19.1</td>
<td>2.7</td>
</tr>
<tr>
<td>Middle India</td>
<td>16.9</td>
<td>20.1</td>
<td>3.2</td>
</tr>
<tr>
<td>Rest of Urban</td>
<td>15.6</td>
<td>19.5</td>
<td>3.9</td>
</tr>
<tr>
<td>Rural</td>
<td>22.8</td>
<td>17.5</td>
<td>-5.4</td>
</tr>
</tbody>
</table>

Source: Nielsen

The expansion of Middle India shows that the demand revolution is percolating to the next tier of cities. Why do these cities matter? These cities are ready to behave like the metros of tomorrow. Of the total INR 1.4 Trillion (28 Billion USD) in FMCG sales in 2010, goods worth about INR 287 Billion (5.74 Billion USD) were consumed by the Middle India population. This number makes up more than 20 percent of the overall FMCG sales, and 30 percent of the urban FMCG sales. Middle India is also home to 30 percent of all urban stores, comprising over 900,000 stores today. In addition to this, the annual per capita FMCG consumption of Middle India towns touched INR 2,800 (56 USD), which exceeded the national average by INR 1,600 (32 USD). This is a significant achievement for these smaller towns, considering the fact that the metros breached the INR 2,800 (56 USD) mark as recently as 2009.
In these 1-10 Lac towns, 49 of the 81 categories outgrew the all-India rate in 2011 vs. 2010.

<table>
<thead>
<tr>
<th>1-10 Lac Towns Value Growth indexed to All-India (MAT May 2011 over 2010)</th>
<th>Personal Care / OTC</th>
<th>Household Care</th>
<th>Food</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.5X or more</td>
<td>After shave lotions, Nail enamel, Coconut oil, Shaving preparations</td>
<td>Batteries, Scourers, Glass cleaners, Soap cakes/ bars</td>
<td>Chayavanprash</td>
</tr>
<tr>
<td>1.25X or more</td>
<td>Antiseptic creams, Antiseptic liquids, Acne preparations, Baby oils/ massage</td>
<td>Air fresheners, Utensil cleaners</td>
<td>Cough lozenges, Packaged tea, Glucose powders</td>
</tr>
<tr>
<td>1.15X or more</td>
<td>Analgesics/ Cold remedies, Condoms, Toilet soaps</td>
<td>Liquid toilet soaps</td>
<td>Breakfast cereals, Chewing gum, Squash cordials &amp; drinks, Biscuits, Milk foods, Baby foods, Chocolates</td>
</tr>
</tbody>
</table>

The growth figures for different FMCG categories also reveal a strong and vast market potential for Middle India. Out of the total 81 FMCG categories, 49 product categories across personal care, over-the-counter drugs, household care, and food outgrew the all-India rate. Over 30 categories saw growth rates faster than 1.15 times the all-India rate. The top five fastest growing categories like diapers, scourers, liquid toilet soaps, acne preparations and air fresheners, which fared strongly in the past year, performed even better in 2011, indicating continued possibility of robust growth in the near future.

Interestingly, the focus on hygiene, health, personal grooming and convenience seems to be driving the rapid growth in these towns. Middle India is also accepting evolved categories like breakfast cereals, air fresheners, acne preparations, and liquid toilet soaps. The metros took on to many of these categories in a big way just a few years ago and Middle India does not want to be left out.

Middle India: firing on both cylinders

Cash registers in stores all over Middle India seem to be ringing off the hook, thanks to the growing consumer wallets, increased exposure to the ‘metro’ lifestyle, a larger assortment of product supply, and improved access to consumer finance. While the change in consumption patterns in Middle India can be partially attributed to a rapid surge in consumer demand, the increasing ubiquity of consumer products is contributing to this growth as well. It is a story of consumer pull meeting distribution push.
The top 10 FMCG players in these towns clocked INR 86 Billion in value sales in 2009.
The same players had a turnover of INR 121 Billion from these towns in 2011.

These developments augur well for FMCG companies, especially in light of the fact that this market is still in a nascent stage, and is expected to grow substantially in the next five years. The rise in demand for consumer products and relatively lower penetration of FMCG companies in these towns means that competition is not as fierce in these towns as would be in larger metros. A few major players with adequate capital and wide distribution networks are already cashing in on the opportunity. The annual turnover of the top ten FMCG players from the Middle India segment rose more than 42 percent by INR 35.8 Billion (716 Million USD) in just two years between 2009 and 2011.

It’s not just a story of sheer volumes, Middle India is also capturing marketers’ attention due to a shift in demand, a direct consequence of people’s rising aspirations for a better lifestyle in these regions. Consequently, there is an increase in the Middle India consumers’ willingness to spend more on a variety of products that enhance their standard of living. They are accepting categories that never were part of their consumption basket. This has opened up a window of opportunity for FMCG companies to introduce products that were initially brought to market primarily for the metros. The size of the opportunity will multiply in the next few years as these new categories will see deeper penetration levels across a larger household base.

The consumer pull story

Increased exposure to the media and a gradual improvement in infrastructure have played a substantial role in introducing the Middle India population to what was earlier only a 'metro' lifestyle, fuelling a desire to improve their standard of living. These factors, combined with an increased spending capacity, are rapidly pushing up the demand for a vast consumer product profile in Middle India.

### Per Dealer Offtake Growth %

<table>
<thead>
<tr>
<th>Category</th>
<th>MAT May 2010</th>
<th>MAT May 2011</th>
<th>Delta</th>
</tr>
</thead>
<tbody>
<tr>
<td>All India</td>
<td>12.1</td>
<td>13.0</td>
<td>0.9</td>
</tr>
<tr>
<td>Metro</td>
<td>14.5</td>
<td>16.0</td>
<td>1.5</td>
</tr>
<tr>
<td>1-10 Lac towns</td>
<td>11.7</td>
<td>14.4</td>
<td>2.7</td>
</tr>
<tr>
<td>RoU</td>
<td>9.7</td>
<td>12.8</td>
<td>3.1</td>
</tr>
<tr>
<td>Rural</td>
<td>15.1</td>
<td>11.4</td>
<td>-3.7</td>
</tr>
</tbody>
</table>

Source: Nielsen
A strong indicator of this trend is the rise in per dealer offtakes – which represents the average sales per dealer over time. The per dealer offtake in Middle India saw a rise of 2.7 points in 2011, compared to an increase of 1.5 points in metropolitan cities in the same period. This is a growth of more than 14 percent over the previous year (MAT May 2010). For some FMCG categories like cheese, packaged rice, diapers, etc., the increase in per dealer offtake was quite substantial, at more than 30 percent. Per dealer offtakes for almost a dozen and a half categories in Middle India towns grew at over 20 percent in the last one year alone.

The top ten FMCG companies in these Middle India towns saw a spurt in per dealer offtakes, which grew 17% in one year.

The last three years have also seen a rapid increase in the number of FMCG stores.

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**The distribution push story**

In addition to the surging demand for consumer products in Middle India, marketers are extending their reach in the 1-10 Lac population towns through a constantly expanding distribution network. As a result, new FMCG retail stores have mushroomed in these towns in the past few years.

The last three years have also seen a rapid increase in the number of FMCG stores.

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**1-10 Lac Towns: Categories showing Per Dealer Off-take growth of more than 20% MAT May 2011 over 2010**

<table>
<thead>
<tr>
<th>Category</th>
<th>2010</th>
<th>2011</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>CHEESE</td>
<td>25K</td>
<td>30K</td>
<td>20%</td>
</tr>
<tr>
<td>SOUPERS</td>
<td>20K</td>
<td>25K</td>
<td>25%</td>
</tr>
<tr>
<td>PACKAGED RICE</td>
<td>15K</td>
<td>20K</td>
<td>33%</td>
</tr>
<tr>
<td>DIAPERS</td>
<td>10K</td>
<td>12K</td>
<td>20%</td>
</tr>
<tr>
<td>ACNE PREPARATIONS</td>
<td>5K</td>
<td>6K</td>
<td>20%</td>
</tr>
<tr>
<td>NAIL ENAMEL</td>
<td>4K</td>
<td>5K</td>
<td>25%</td>
</tr>
<tr>
<td>CHOCOLATE</td>
<td>3K</td>
<td>4K</td>
<td>33%</td>
</tr>
<tr>
<td>SALT SNACKS</td>
<td>2K</td>
<td>3K</td>
<td>50%</td>
</tr>
<tr>
<td>VERMICELLI &amp; NOODLE</td>
<td>1K</td>
<td>2K</td>
<td>100%</td>
</tr>
<tr>
<td>ALL AIR FRESHENERS</td>
<td>1K</td>
<td>2K</td>
<td>100%</td>
</tr>
<tr>
<td>RUBBERGENT</td>
<td>1K</td>
<td>2K</td>
<td>100%</td>
</tr>
<tr>
<td>HAIR DYES</td>
<td>1K</td>
<td>2K</td>
<td>100%</td>
</tr>
<tr>
<td>CONDOMS</td>
<td>500</td>
<td>1K</td>
<td>100%</td>
</tr>
<tr>
<td>CLEANERS - FLOOR</td>
<td>300</td>
<td>500</td>
<td>100%</td>
</tr>
<tr>
<td>TOOTH BRUSH</td>
<td>200</td>
<td>300</td>
<td>50%</td>
</tr>
</tbody>
</table>

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“Consumption baskets in these towns are evolving – categories as varied as breakfast cereals, air fresheners, and glass cleaners which earlier saw little acceptance in these towns are growing much faster in these towns than at the all-India level.”

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Source: Nielsen
The total number of stores in these towns rose from 823,000 in June 2008 to 926,000 in May 2011, an average addition of over 250 stores per town. The top ten FMCG players in the 1-10 Lac population towns have aggressively expanded in these areas, adding 29,892 stores on average in the last year alone and 55,767 stores on average in the last two years. More number of stores translates into an increased supply infrastructure, which is helping marketers push products to consumers faster. Not surprisingly, the distribution reach of as many as 15 categories in the FMCG sector has grown by over 5 All Commodity Value (ACV) distribution points in the 3-year period from May 2008 to May 2011. Marketers who had recognized the potential and invested in these regions a few years ago are, today, laughing their way to the bank.
Decoding the Middle India consumer

What is important to the Middle India consumer?

The consumption patterns in Middle India mirror the change in the consumer profile. The consumer fabric in these towns is evolving. Marketers will be in a position to maximize their rewards in Middle India if their offerings are customized to the changing needs and aspirations of this consumer. Will the middle India consumer display the traits of a metro consumer in certain situations and those of a rural consumer in other scenarios? What do we know about what is sacred to this consumer group? The top five learnings and trends about the Middle India consumer are worth highlighting.

1. Education on a higher pedestal

Education is paramount in Middle India. The education sector in Middle India has made considerable progress in the last five years, reflecting the population’s belief that higher education is the ticket to a stable career and a better life.

Modern-day parents from smaller towns are more optimistic about their children’s educational opportunities, which was not the case a decade ago. Parents today, aspire to educate their children in English medium schools, as it opens the doors to a brighter career. Nielsen’s data shows that the Middle India population’s desire to join the best institutions like IIMs and IITs, at 47 percent, is nearly at par with that of an education-centric city like Pune. While post graduation studies in Middle India find favour with only 42 percent of the population—nearly half the figure of Pune—an impressive 50 percent of this stratum aspires to join professional courses like medical and engineering versus 57 percent in Pune. While the numbers are not at par with the urban regions across the board yet, they indicate a growing awareness about the importance of education.

The number of schools, colleges and educational institutions that have sprung up in these small towns has kept pace with the growth in the education sector in India. The rate at which these institutions have proliferated has outshone the rate of growth in other infrastructure facilities like roads, security, water supply, etc. For instance, Nielsen’s figures indicate that Jhansi, a small Mid-India town, has outgrown Pune’s development in the education sector in terms of consumer perception over the last few years. Moreover, education opportunities in these towns are not only compelling people to stay back, but also drawing people from even smaller towns. One area where development is still needed is in the higher education (post-graduate) sector.

“Marketeters will need to cultivate their brands with Middle India and build loyalty now while habits are changing, so that they can flourish when spending increases manifold in the coming decade.”

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2. Health & Wellness

Health consciousness is evident in Middle India households as a large portion of citizens claims to periodically practice some form of exercise, like Yoga, walking, swimming or visiting a health club or a gymnasium. Our study shows about 24 percent people from Middle India practice Yoga, which is much higher compared to the 19 percent who do so in Pune. In line with this awareness, the consumption of health foods like oats, cornflakes and other low cholesterol products in these areas are at par with Pune at 37 percent. In addition to food choices, Middle India consumers are also opting for annual health check-ups and gathering more information on staying fit.

Not surprisingly, many healthy food categories are seeing faster growth in Middle India relative to the all-India rates. Categories like Chyavanprash, milk foods, and breakfast cereals are growing at rates of about 20 percent higher than the all-India numbers.

3. Personal Grooming

Personal grooming has become increasingly important to Middle India – personal care categories dominate the list of Middle India categories outpacing all-India value growth. Affordability, access, and awareness have contributed to the rapid rise of the personal care segment.

“Affordability, access, and awareness have contributed to the rapid rise of the personal care segment.”

Index of Middle India Value Growth over All-India Value Growth (MAT May 2011 vs. YAG)

Source: Nielsen

High convergence between Middle India and Pune on various health attributes shows the rising importance of health & well being in Middle India towns

Source: Nielsen
4. Home Improvement & Hygiene

The consumers in Middle India want their house in order and are beginning to partake in categories that were earlier not a big part of their consumption basket. Household supplies and cleaners are seeing a spurt in growth in Middle India towns relative to all-India levels. The increasing household budgets have allowed for new categories to enter the household. Housewives are open to purchasing specialty cleaning products to help them with household chores. This incremental expenditure on improving the home is an investment many Middle India families are consciously making.

### 2010 Rank | Categories | Middle India Value Growth Rate | Growth Index Over All-India Rate
--- | --- | --- | ---
1 | After Shave Lotions | 10% | 971%
2 | Batteries | 5% | 291%
3 | Other Scourers | 71% | 194%
4 | Cleaners - Glass | 22% | 188%
5 | Chyavanprash | 28% | 184%
6 | Soap Cakes/Bars | 9% | 180%
7 | Nail Enamel | 23% | 168%
8 | Coconut Oil Pktyp | 15% | 163%
9 | Shaving Preparations | 14% | 150%
10 | Antiseptic Creams | 27% | 146%
11 | Confectionery - Cough Lozinge | 29% | 142%
12 | All Air Fresheners | 48% | 136%
13 | Antiseptic Liquids | 37% | 136%
14 | Acne Preparations | 49% | 135%
15 | Packaged Tea | 16% | 133%
16 | Cleaners - Utensil | 10% | 131%
17 | Baby Oils / Massagge | 26% | 130%
18 | Glucose Powders | 17% | 128%
19 | Liquid Toilet Soaps | 57% | 125%
20 | Breakfast Cereals | 40% | 123%
21 | Confectionery - Total Gum | 27% | 122%
22 | Sqsh Crdls & Sft Drn | 22% | 121%
23 | Biscuits | 28% | 120%
24 | Milk Foods | 21% | 119%
25 | Shoe Polishes | 13% | 119%

Source: Nielsen

### Middle India wants their house in order and wants to partake in categories that were earlier not a big part of their consumption basket.

### Household supplies & cleaners are seeing a spurt in growth in Middle India towns relative to All India levels.

Index of Middle India Value Growth over All-India Value Growth (MAT May 2011 vs. YAG)

5. Eating out & experimentation in the kitchen

Despite making efforts to lead a healthy lifestyle, the lure of fast foods and eating out seems to be getting the better of consumers in smaller towns. Convenience foods like instant noodles, ready-to-cook foods and readymade spices adorn kitchen shelves in Middle India. Although a very small percentage of the population—24 percent compared to Pune’s 60 percent—prefers to eat out, the numbers are fast rising since the last two years. Nielsen found that families prefer to frequent fast food joints and bakeries, with a fondness for Chinese, South Indian, Punjabi and American cuisine. Moreover, global fast food giants like McDonalds, Pizza Hut, and Dominos are considered an affordable and trendy option for a weekend family dinner outing. Despite a recent squeeze in budgets due to high inflation across the board, 80 percent of Middle India (versus 90 percent of larger cities) is either eating out at similar or higher levels than what they did two years ago.

**Eating Out: Last 2 years (%)**

<table>
<thead>
<tr>
<th></th>
<th>Pune (333)</th>
<th>Middle India (446)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased</td>
<td>75</td>
<td>50</td>
</tr>
<tr>
<td>Remained same</td>
<td>50</td>
<td>25</td>
</tr>
<tr>
<td>Decreased</td>
<td>25</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: Nielsen
Implications for business

Ramp-up in the FMCG segment

The rise of Middle India is expected to drive spending to unprecedented levels. Since there is a vast scope and relatively less competition in this market today, existing players have registered impressive growth in the last few years. FMCG companies which anticipated this kind of growth and invested in these areas a few years ago, are reaping rich dividends today. The good news is that marketers who will act quickly even now, will be able to grab a sizeable portion of the market.

Marketers planning to penetrate this market in the coming years would do well to target the smaller towns with 1-5 Lac population, as these regions would record unprecedented growth in the coming few years and are less likely to have competition already well entrenched. The focus needs to be on building distribution infrastructure over the next 12-24 months. Current trends indicate that selling products in smaller packs through local business partners will drive sales for FMCG companies. Consumers are also increasingly indulging in impulse buying, signalling a strong growth for products in this category. Consumers base their decisions on affordability and convenience while making their choices. Marketers will need to cultivate their brands with Middle India and build loyalty now while habits are changing.

Personal grooming and hygiene in focus

The per capita expenditure on personal grooming and hygiene products is steadily increasing in the 1-10 Lac population towns. Today, this segment prefers to find homemade solutions for their grooming requirements. However, over time, requirements are expected to evolve and schedules to get busier, which would lead to a higher demand for personal care services like beauty salons, and boost the market for beauty and hygiene products. With an improvement in consumer lifestyle, an increased acceptance for newer products like affordable hair creams, deodorants, and shaving products, and shaving products is expected.

Shift in family consumption patterns

There has been a gradual rise in the number of nuclear families in Middle India in the past few years, and this trend is expected to accelerate in the next decade. For marketers, this would entail redrafting their marketing strategies and product offerings, as a change in the size of the family is likely to bring about significant transformation in consumption patterns.

Moreover, communication and promotional strategies need to be targeted at a typical nuclear family in Middle India. Smaller packs and customization of small-sized packages, homes, cars, etc. would address the specific requirements of smaller families.

Media evolution

While there has been some improvement in infrastructure in 1-10 Lac population towns, the penetration of internet is still negligible. Most consumers rely on cable TV for their information and entertainment requirements. This medium caters to a vast group of consumers—from youngsters, children, working men to housewives—and is expected to maintain its stronghold for the coming few years. Cable TV can hence become an ideal medium for marketers to promote their products among all age groups.

A very small percentage of the Middle India population, which mainly consists of youth in select areas, has access to the internet. This gap in the market can be tapped by internet service providers. Those who do have internet access are engaged in social media activities like their counterparts in bigger cities. Companies that offer youth-centric products can hence leverage social media marketing (along with a relevant TV campaign) to popularize their offerings, especially gadgets, personal care products, and cell phones.

Cuisines & Convenience

Fast food restaurants that are convenient, affordable and provide quick service find favor with not only the Middle India youth, but families too. Chains like Pizza Hut, McDonalds, and Dominos that provide an affordable menu and a Western ambience are considered strong contenders for a weekend family dinner outing. The lack of evolved options and limited experimentation serves up Burgers, Pizzas, and American cuisine as the next-in-line favourite to traditional Indian and Chinese fare. In the kitchen, the demand for fast-fix items is on the rise. With increasing dependence on time-saving food mixes, ready-to-cook foods, ready-made spices and prep kits, this is an ideal time for food brands to address this need and expand in these towns.

Celebrations

The Middle India population celebrates festivals with great enthusiasm, which is reflected in their readiness to spend more time and money on them. Nielsen data highlights that this segment is heavily influenced by Western culture, especially when it comes to celebrating festivals, and is slowly shifting from traditional gifts to celebration packs and ready-made gift options. Besides, there is a rising importance of celebrations like Valentine’s Day, Mother’s Day, Teacher’s Day, etc. in the 1-10 Lac population towns. Considering that the trend is expected to attract even more consumers in the coming years, companies dealing in festive offerings like flowers, gifts, greeting cards, chocolates, etc. can expect a strong growth in revenues. FMCG companies can leverage this trend by focusing on seasonal, festive, and gift packs.
Mobility

More than one half of the Middle India households own a bicycle, about one-third own a 2, 3 or 4 wheeler and much less than one in twenty households own a car. With income levels in 1-10 Lac population towns on the rise and a steady increase in both the vehicle options and financing, consumers will gradually upgrade their vehicles from bicycles to two wheelers and from two wheelers to automobiles. Considering the size of population in the region, such upgrades will open up a huge market for automobile companies. Companies dealing in infrastructure development will see a growth too, as the Government will strive to provide better transportation facilities to match Middle India aspirations.

Entertainment & Leisure

Consumers will also look to spend more on leisure activities as incomes rise. Today not many options are at their disposal. Selective investments in customized and affordable entertainment options can yield big dividends in the next few years for companies dealing in entertainment and hospitality. Movie theaters that are a step above the single-screen theaters currently prevalent in most of these towns can encourage family movie outings and unlock a huge opportunity for the entertainment segment.

Women power in Middle India

While women are not the sole decision-makers in the household, their contribution to the decision making process will evolve over the next few years. Nielsen research found that men and women have an equal say in many of the products they purchase, including food items. In addition to this, women are increasingly participating in big ticket household purchases like consumer durables and electronics. White goods companies should take note of these trends to design in-store consumer experiences and form promotional strategies to grab the attention of decision makers for their products.

When it comes to opportunities for women, Middle India is making slow but steady progress. However, longstanding problems like inadequate security and dowry still persist. Companies setting up shop in these regions that want to play a role in ensure women participation in the work force need to ensure the safety of their female staff through facilities such as pick up and drop, flexible work timings, etc.

Mobile telephony

Mobile phones have a stronghold in Middle India. More than 94 percent of the population claims to own a phone for personal or office use. Factors like affordability of handsets and cheap call rates are driving the growth of mobile phones in these regions. Consumers, especially youth, are more open to experimenting with handsets, and are excited about newer technologies. If service providers offer better mobile internet services in small towns at affordable rates, it is likely that a wave of consumers will skip the computer-led internet access phase and unlock the power of the web through mobile devices. However, this is possible only if telecom companies make internet usage appealing, affordable, and relevant to the Middle India population.

Opportunities for other industries

Apart from scope for the sectors mentioned above, there is a huge gap in the Middle India region for the banking segment. While many national and international banks operate in this space, local moneylenders are still very prevalent. Offering simplified products and solutions can help banks make their operations viable.

With an improvement in lifestyle and rise in consumer awareness, a wave of health consciousness is sweeping across Middle India. Consumers are now willing to spend more on fitness activities in gymnasiums and yoga centers, which bodes well for fitness service providers, health-food players, and lifestyle product companies.

In addition to this, education is gaining importance in these towns. This could mean rapid growth for private schools, colleges, & organized coaching classes in the coming few years.

The Gold Rush has just begun

As educational levels rise, disposable incomes improve, and awareness increases, India will be a market worth betting on in the coming decade and a half. While the current inflationary environment is expect to curb the growth rates to some extent, the India story is still very much alive. We believe marketers should not lose out on the Middle India opportunity as they cash in on the metro and rural opportunities. Over the next few decades, opportunities in the metro areas will become relatively less enticing from an ROI perspective, while the demand revolution will continue in the smaller towns as the Indian middle class rises. Those that are reaping the benefits already have shown that building a distribution infrastructure quickly can play big dividends in Middle India. Companies that act today and start building their brand equity and loyalty base in these smaller towns will be able to cash in over the next decade. In a land of 8,000 towns and 6 Lac villages, these 400 towns account for 1 out of every 5 rupees spent in the country; marketers who ignore this future growth engine will do so only to their peril. What the metros achieved in the last few years, Middle India will achieve in the coming few. The India story and the demand revolution will live on through these Middle India towns.
About this research

Several Nielsen assets were leveraged for this report. Consumer research across housewives (25-50), the youth (M/F, 18-24), and working men (35-50) was carried out in the summer of 2011 across the 4 Middle India centers of Bhatinda (Punjab), Anantapur (Andhra Pradesh), Nanded (Maharashtra), and Jhansi (Uttar Pradesh); Pune (Maharashtra) was selected as a benchmark city to represent a larger mini metro. Consumer research included waves of quantitative surveys as well as qualitative focus groups and all-day consumer immersions. Nielsen retail measurement insights and other assets were mined for the overall story. FMCG values exclude carbonated soft drinks and cigarettes and are based on Nielsen New Universe old Panel estimates as of mid 2011.

This white paper titled ‘Emerging Consumer Demand: Rise of the Small Town Indian’ has been created leveraging Nielsen’s proprietary data as well as Nielsen’s existing thought leadership which include the report titled ‘Managing the Middle India Gold Rush’ and the Featured Insights issue titled ‘Demand Spotting: Rise of the Indian Small Town’.

Dollar value has been approximated at: 1 USD = ₹ 50
1 Lac = 100,000

DISCLAIMER

This publication has been prepared by Nielsen India (“Author”). This paper has been prepared to serve as a background note for investors to assist in evaluating the investment opportunities in India. The paper attempts to provide general information on matters of interest to readers. The application and impact of investing in Small Town India and Middle India varies widely from case to case, based upon the specific or unique facts involved. Accordingly, this publication is not intended to serve as a legal, accounting, investing, insurance, or tax or any other type of advice. Moreover, rules and regulations change; readers are encouraged to consult with professional advisors for advice concerning specific matters before implementing any ventures or strategies. The Author and CII neither recommend nor endorse any specific products or services that may have been mentioned in this publication and nor do they assume any liability or responsibility for the outcome of decisions taken as a result of any reliance placed on this publication. Neither the Author nor CII shall be liable for any direct or indirect damages that may arise due to any act or omission on the part of the user due to any reliance placed or guidance taken from any portion of this publication.
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The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the growth of industry in India, partnering industry and government alike through advisory and consultative processes.

CII is a non-government, not-for-profit, industry led and industry managed organisation, playing a proactive role in India’s development process. Founded over 117 years ago, it is India’s premier business association, with a direct membership of over 7100 organisations from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 90,000 companies from around 250 national and regional sectoral associations.

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The CII Theme for 2012-13, 'Reviving Economic Growth: Reforms and Governance,' accords top priority to restoring the growth trajectory of the nation, while building Global Competitiveness, Inclusivity and Sustainability. Towards this, CII advocacy will focus on structural reforms, both at the Centre and in the States, and effective governance, while taking efforts and initiatives in Affirmative Action, Skill Development, and International Engagement to the next level.

With 63 offices including 10 Centres of Excellence in India, and 7 overseas offices in Australia, China, France, Singapore, South Africa, UK, and USA, as well as institutional partnerships with 223 counterpart organisations in 90 countries, CII serves as a reference point for Indian industry and the international business community.