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Demand Spotting: The Rise of the Indian Small Town

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- Smaller Indian towns are leading the demand surge & shopping like the metros
- Value growth driven more by consumer pull and less by distribution gains
- Improvements in the quality of small town India's demand appetite witnessed even beyond FMCG

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.

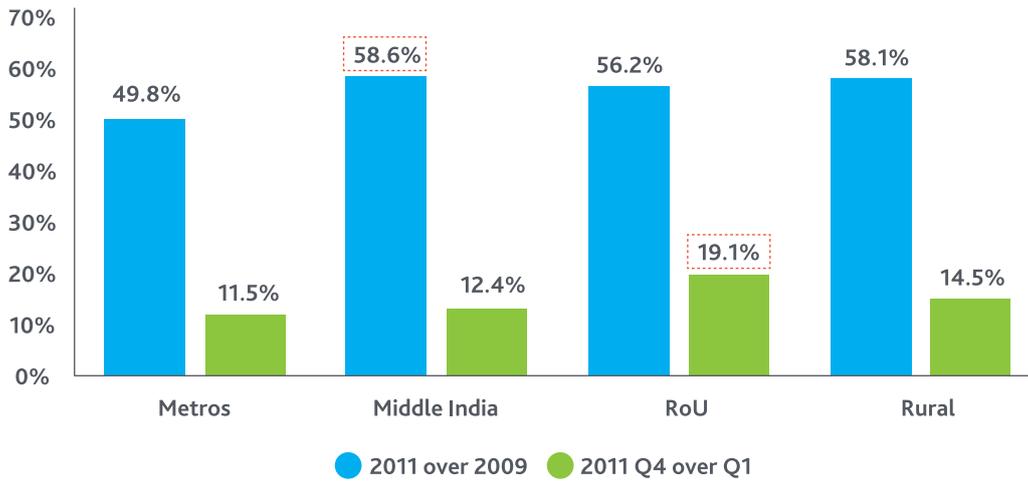
The Rise of the Indian Small Town

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.

All India FMCG: Value Growth



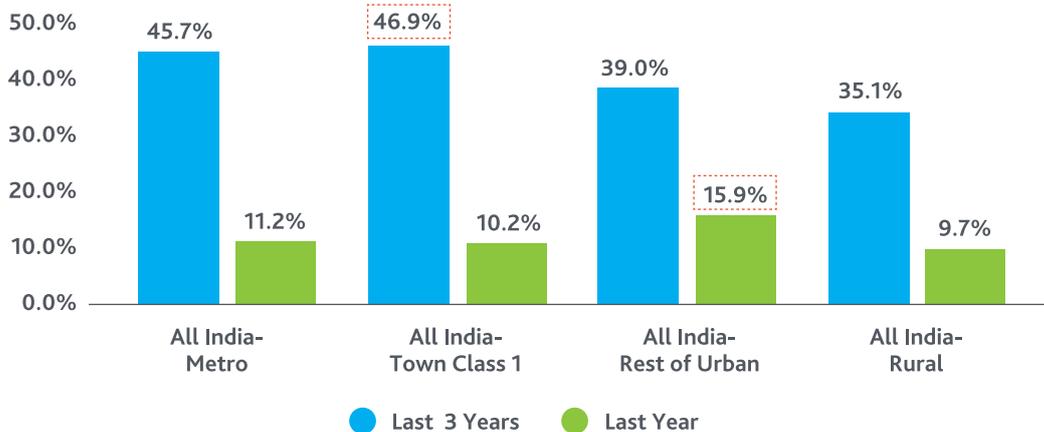
Middle India markets= Bhatinda (Punjab), Jhansi (UP), Nanded (Maharashtra), and Anantapur (AP)

Source: Nielsen

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.



Sales Per Point of Distribution (Consumer Pull) Growth



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!



Top 10 Categories: Consumer Pull in Smaller Towns
Consumer Demand Growth: Q4 2011 over Q1 2011 (sales per point of distribution growth)

Middle India Towns (1-10 lakh Population)		Rest of Urban Towns (<1 lakh Population)	
Cheese	58%	Cheese	103%
Prickly Heat Powder	48%	Prickly Heat Powder	53%
Pre-Post Wash Products	44%	Packaged Rice	47%
Home Insecticides	34%	Hair Conditioners	44%
Baby Foods	33%	Pre-Post Wash Products	41%
Fragrances - Deos, perfumes, colognes	27%	Jams/ Jelly/ Marmalade	41%
Blues	25%	Confectionary - Jelly Cubes	40%
All Air Fresheners	25%	After Shave Lotions	33%
Baby Oils/ Massage Oils	25%	Liquid Toilet Soaps	31%
Milk Powders	24%	Blues	29%

Source: Nielsen

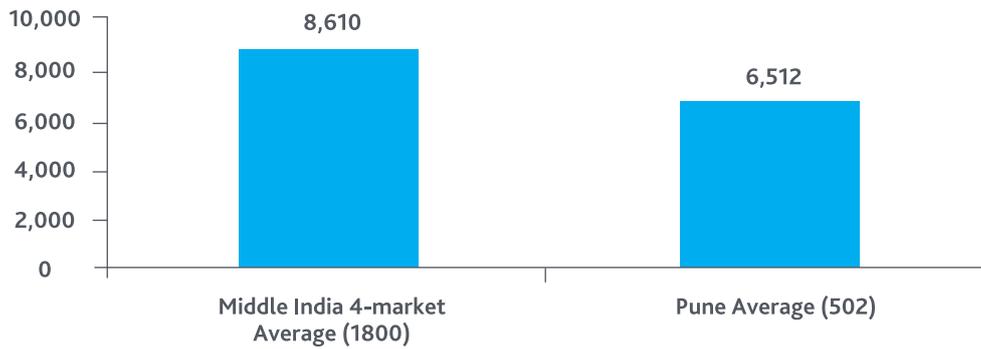
The evolving demand appetite

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.



Most expensive Mobile Handset in the household

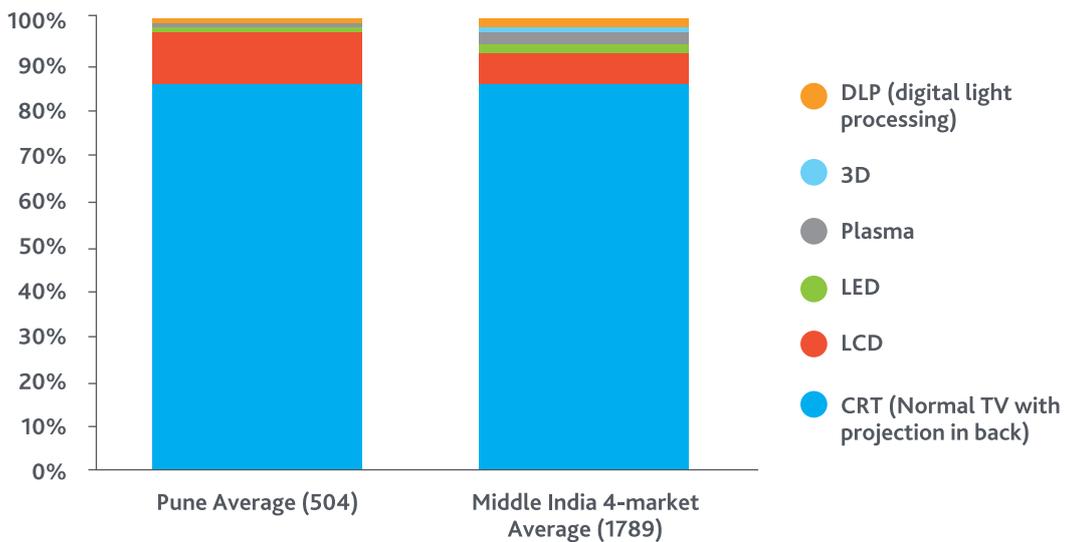


Middle India markets= Bhatinda (Punjab), Jhansi (UP), Nanded (Maharashtra), and Anantapur (AP)

Source: Nielsen

Another interesting consumer insight surfaced in the world of durables upgrade where despite similar levels of TV penetration, we found that the Middle India consumer was more inclined to upgrade to a TV in the next two years than their counterpart from a mini metro like Pune. While four out of every five small-town consumers were looking to upgrade their TV set in the next two years, the figures were much lower for Pune at 61 percent. This finding demonstrates the changing demand appetite for small town India even in sectors beyond FMCG and their ability to match the demand profile in metros.

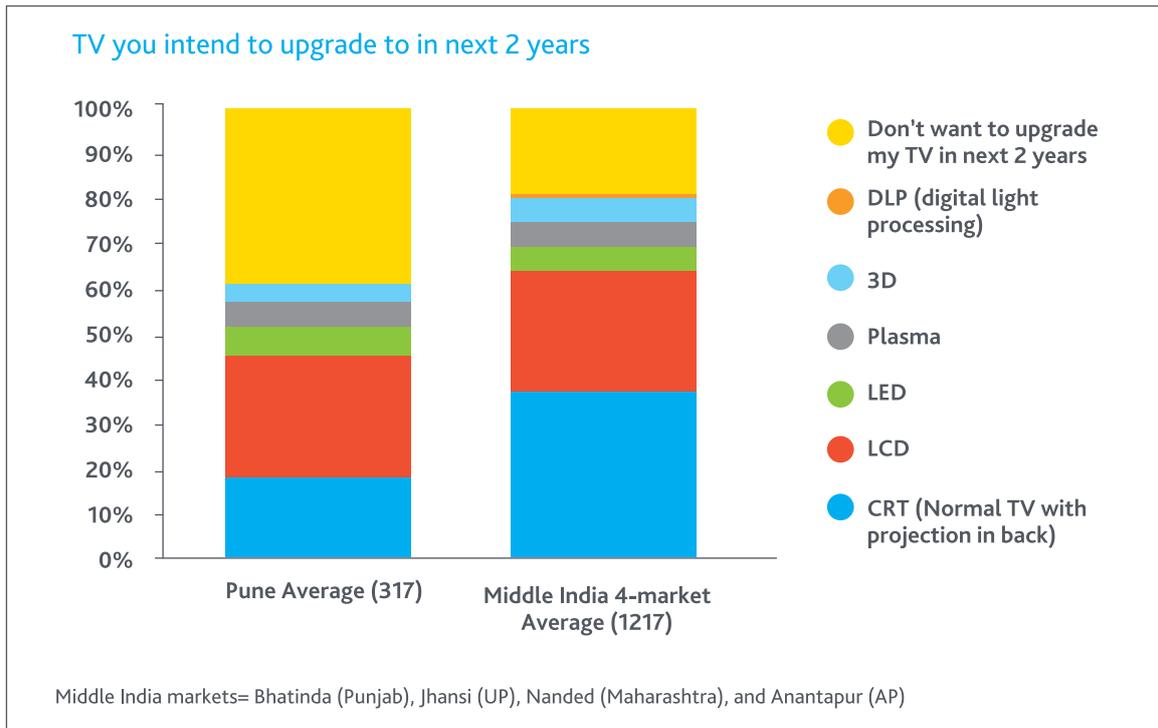
Type of TV in household (%)



Middle India markets= Bhatinda (Punjab), Jhansi (UP), Nanded (Maharashtra), and Anantapur (AP)

Source: Nielsen

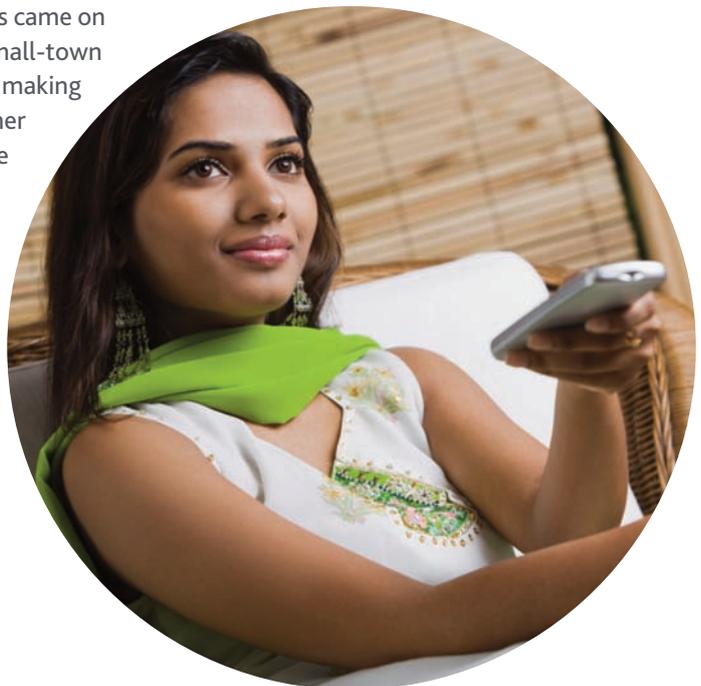


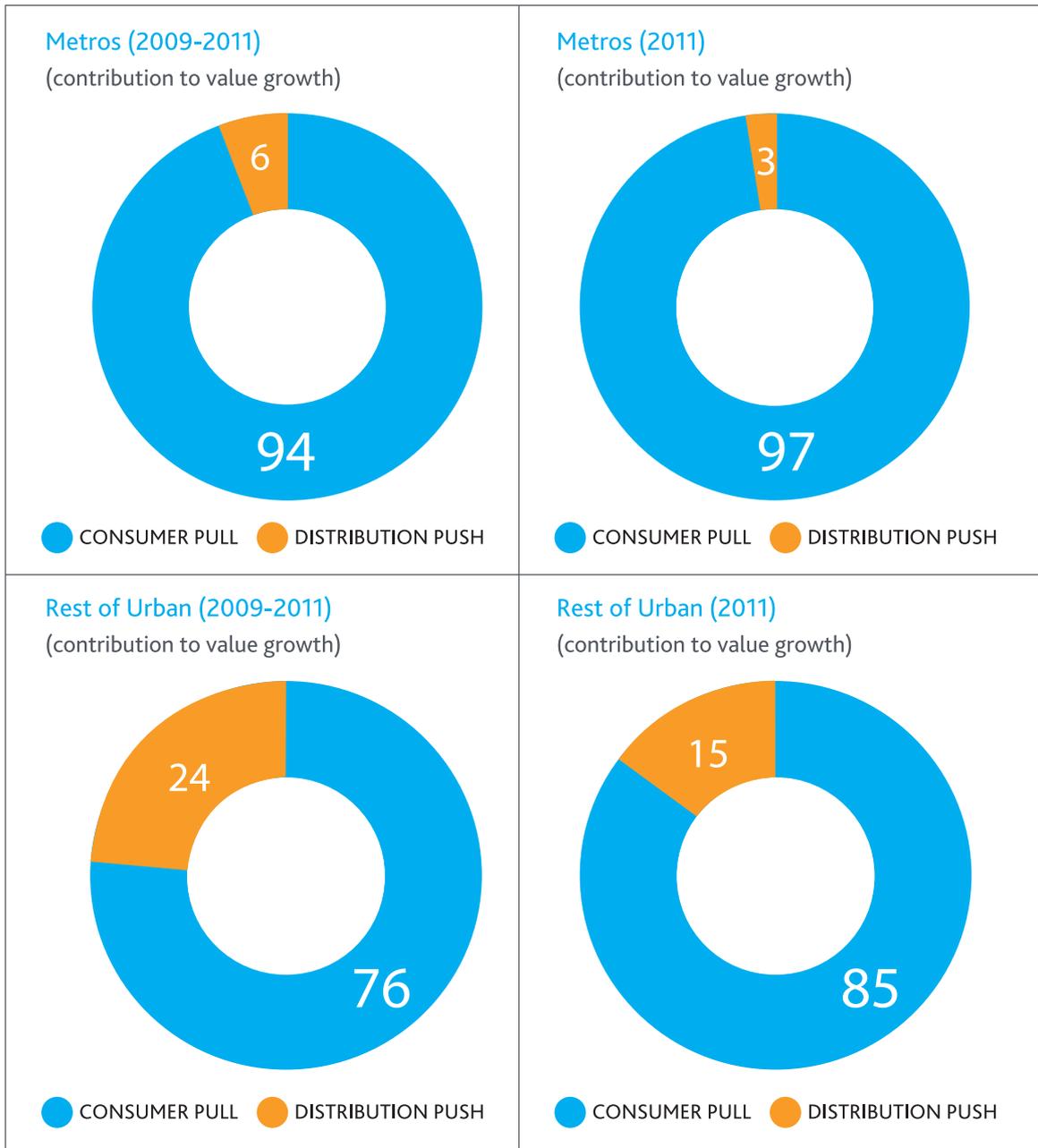


Source: Nielsen

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?





Source: Nielsen

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?

About Nielsen

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