

PLANNING THE ROUTE TO GROWTH IN RURAL MARKETS

MAXIMISING MARKET POTENTIAL THROUGH PLANNED DISTRIBUTION

- Accessibility, affordability and awareness have created increased potential in the rural markets.
- Rural markets exist in clusters with urban markets that can be visualised to efficiently identify and distribute to high potential towns and villages through a hub and spoke model.
- Each industry requires its own category-specific analytics to identify where the high-potential markets are.
- Sales, affluence and accessibility are key to the process of planning distribution expansion.

Scaling infrastructure and digital inclusion represent the next frontier for India, as is apparent by the government's continued efforts to run programmes like Smart Cities and 'Make in India'. Despite urbanisation, however, rural markets still account for half of India's gross domestic product (GDP). This market activity and affluence make it necessary for marketers to continue focusing on them. In fact, some industries, such as two-wheelers and telecom, derive almost half their earnings from the hinterland.

RURAL AREAS REMAIN A PROMISING CONSUMER MARKET

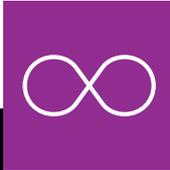


Source: Govt. of India Census 2011. GDP: IBEF, FMCG: Nielsen Retail Panel, Auto sales: http://www.business-standard.com/article/companies/auto-sales-move-into-slow-lane-as-rural-demand-falls-115062300572_1.html

Telecom: IBEF; <http://www.ibef.org/industry/indian-telecommunications-industry-analysis-presentation>

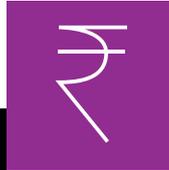
WHY NOW?

Not only have rural markets always been a core opportunity for marketers charting out growth strategies, but our data highlights certain trends pertaining to these areas that indicate that they will continue to thrive in future.



ACCESSIBILITY

It's easier for rural consumers to get to bigger towns than in times past because of better road connectivity. These consumers' lifestyles will therefore be influenced by urban markets, prompting consumption and penetration of urban-centric categories to go up.



AFFORDABILITY

Improved roads and connectivity have allowed people to explore non-agrarian employment, which has led to higher incomes. Since non-agrarian incomes are at least 10% higher than farm incomes, consumers with non-agrarian jobs have more disposable income.



AWARENESS

Widespread use of phones and mobile data, and the proliferation of direct-to-home satellite broadcast (DTH), among other digital technologies, have increased consumer awareness about what's available outside of rural markets. This will have a corresponding impact on rural consumers' awareness and ensuing adoption and consumption of new categories as well as existing products.

DISSECTING THE RURBAN MARKET

A large part of this burgeoning opportunity lies in the "rurban" part of India—the urban part of rural areas. This includes markets that are quintessentially rural, yet have the influences of a more affluent urban lifestyle. But while rurban India has existed for a while, there is an increased need for companies to distribute to this market more optimally. With increased availability of macroeconomic data, geospatial data and custom data assets like Nielsen's retail census, and the ability to combine them using advanced analytical methods, this optimisation is now more possible than before.

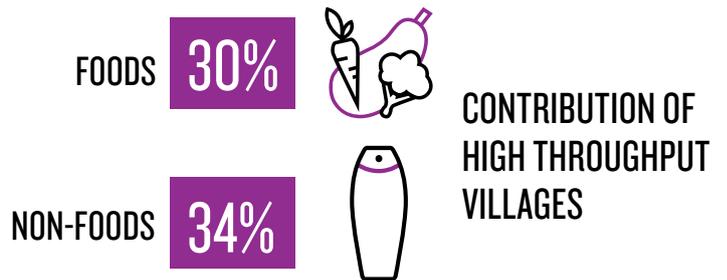
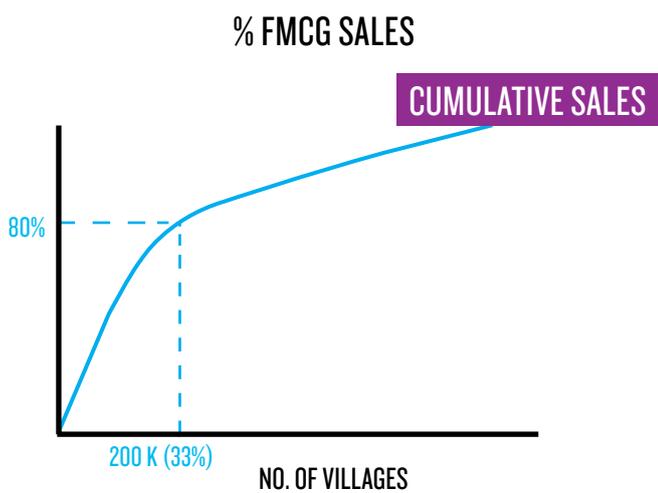
The real challenge is being able to identify the affluent clusters. The holy grail would be a precise identification of the Rurban clusters (including villages) that account for a bulk of the affluence. For instance, Nielsen's advanced analytics and macroeconomic data reveal that just 33% of villages, numbering about 200,000, account for 80% of all rural fast-moving consumer goods (FMCG) sales. This high concentration exists

across various markets and levels of consumer affluence, making it vital for manufacturers and retailers to cater to people in those villages and clusters. Further, these high potential Rurban clusters and villages act as feeder points for the rest of the proximate markets.

When picking the most attractive markets, high-potential villages should not be confused with those that have a high density of population. This is a prevalent practice and is inefficient. Again, our meta analytics clearly establishes that there is only a 50% overlap between villages with high population, and those that contribute high sales, indicating that population is not the sole driver of sales. This is why transportation infrastructure - ease of reaching these markets—is one of the most important considerations in selecting high-potential clusters. Health infrastructure, market infrastructure and mobile connectivity are some of the other important considerations. They indicate prosperity.

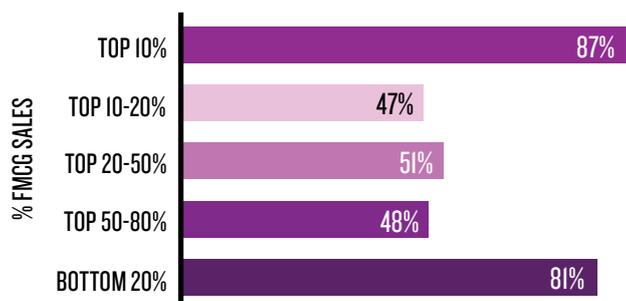
WHEN PICKING THE MOST ATTRACTIVE MARKETS, HIGH-POTENTIAL VILLAGES SHOULD NOT BE CONFUSED WITH THOSE THAT HAVE A HIGH DENSITY OF POPULATION. THIS IS A PREVALENT PRACTICE AND IS INEFFICIENT.

IDENTIFYING HIGH-POTENTIAL VILLAGES



33% VILLAGES ACCOUNT FOR 80% OF THE CURRENT FMCG SALES IN RURAL AREAS

% OVERLAP BY VILLAGE POPULATION



KEY DRIVERS

KEY DRIVERS	% IMPORTANCE
POPULATION	50% (APPROX.)
HEALTH INFRASTRUCTURE	15-20%
MARKET INFRASTRUCTURE	5-10%
TRANSPORT INFRASTRUCTURE	5-10%
MOBILE CONNECTIVITY	5% (APPROX.)

Source: Nielsen

PRIORITISING RURBAN MARKETS

The important task is to be able to prioritise markets to build efficient reach and distribution expansion. As a first step, prioritisation involves socio-economic data, geo-spatial data, existing sales, affluence and ease of access. Then, geo-clusters are built using clustering and location analytics, depending on the business issue at hand. From here, hub-and-spoke distribution points should be identified where hubs serve as the distribution nodes and the spokes become the end delivery points.

CASE STUDY

Let us bring this approach to life by looking at a case study.

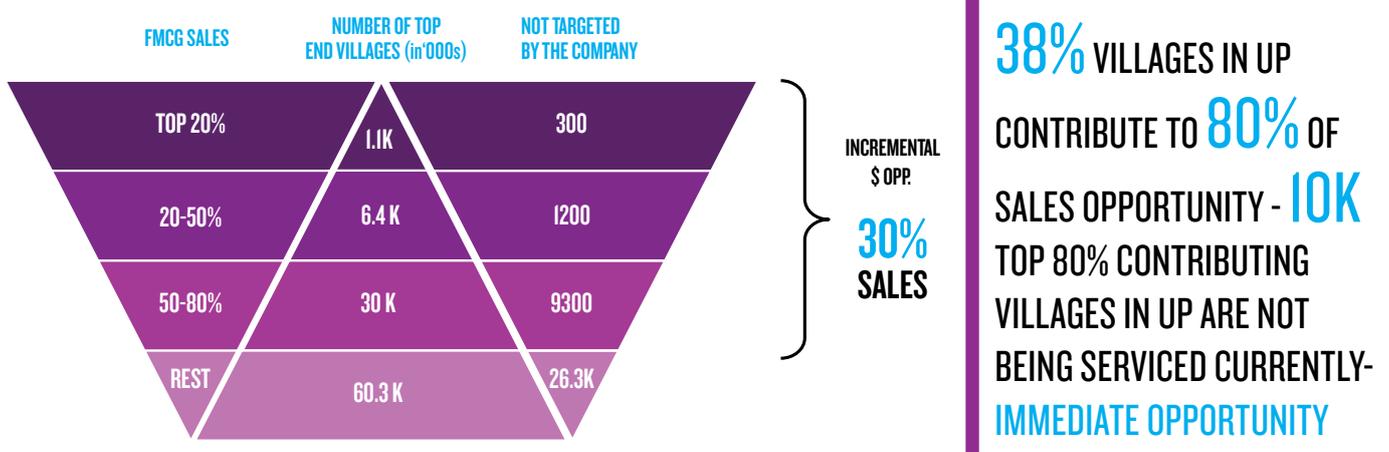
As part of this assignment, we researched optimal distribution in the rural markets of Uttar Pradesh (UP) for an industrial chemicals and lubricants manufacturer. The business was looking to expand distribution in the hinterland to identify the optimal distribution hubs for each of the districts and obtain guidance about last-mile route optimisation.



JUST 33% OF VILLAGES, NUMBERING ABOUT 200,000, ACCOUNT FOR 80% OF ALL RURAL FMCG SALES. THIS MAKES IT VITAL TO CATER TO THOSE VILLAGES AND CLUSTERS.



IDENTIFYING IMMEDIATE OPPORTUNITIES WITH CLUSTER ANALYSIS



Source: Nielsen

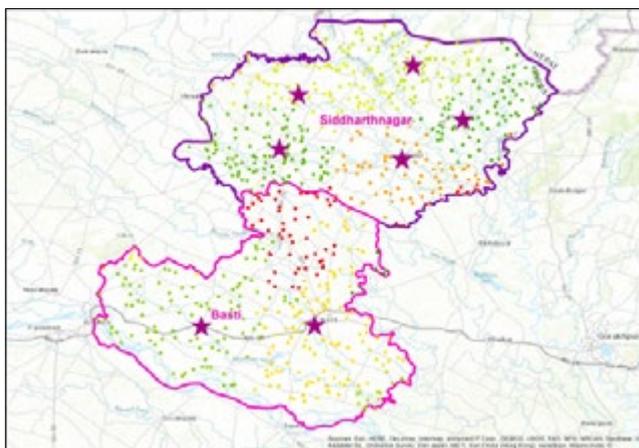
The first task in this kind of exercise is to identify where the important villages are for the category. A Pareto¹ chart could be created for various categories, tailored to dynamics of the relevant category. When data is insufficient, Nielsen's affluence index by village can be used. Interestingly for lubricants, 50% of the high-potential villages are spread across just 21 of the 71 districts. In this case study, an analysis of the company's current distribution revealed that about 10,000 high-potential villages were left out, creating an immediate sales potential of 30%. Admittedly, this may be realised gradually rather than immediately, but the crux is that a holistic approach of identifying demand helps highlight such untapped potential.

GEO SPATIAL ANALYTICS TO IDENTIFY HUB AND SPOKES

For illustration purposes, refer to the map of Siddharthnagar and Basti districts in UP, below. High-potential villages, the clusters they form, and the respective hubs (highlighted by a star) were identified. This was based on geospatial analytics in addition to the base data, which included affluence, sales, road networks and GPS locations of the villages.

The map based view offered a clear perspective of what the hub and spokes should be for distribution expansion and optimisation.

HUB & SPOKE GEO CLUSTERS OF HIGH POTENTIAL VILLAGES BY FMCG SALES



A MORE FOCUSED
VIEW OF THE HIGH
POTENTIAL VILLAGES
FOR OPTIMAL
DISTRIBUTION
PLANNING

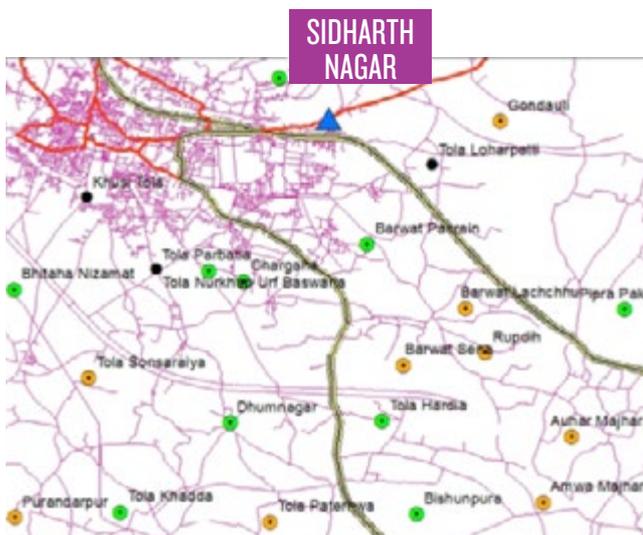
Source: Nielsen, Geo Clusters of HVPs

¹The Pareto principle specifies an unequal relationship between inputs and outputs. It states that 20% entities account for 80% of the outcomes.

THE LAST MILE CHALLENGE

Once the hub and spokes for distribution expansion are identified, it is followed by the last mile challenge, or the practical issue of planning the route efficiently. In this instance, a digital map was created to show the hub of Sidharthnagar town, and the spokes or the high potential villages marked in green. It also integrated road maps along with their quality grading for efficient planning of routes.

LAST MILE CHALLENGE - OPTIMAL ROUTE PLANNING



Zoomed-in map of Sidharth Nagar showing villages to be visited along with road network and quality. The blue triangle is the hub.

SPEED CATEGORY: ROAD NETWORK

Village Location

- No Potential, No Opportunity
- Current Potential, No Opportunity
- Current Potential & Future Opportunity

- ▲ Town Location
- Secondary Highways
- Major Highways

- 71 - 90 KPH
- 51 - 70 KPH
- 31 - 50 KPH
- 11 - 30 KPH
- < 11 KPH

- Street Network
- District Boundary

Source: Nielsen

THE IMPLICATION ON COMPANIES AND SALES LEADERS

Usually distribution expansion follows intuition and legacy, as well as considerations of population clusters. However, this method of building strategies is not efficient. The right way to do it is to take an outside-in view. It is imperative to first identify high potential villages and town clusters using the right key performance indicators (KPIs) like affluence, sales and road connectivity. The hub and spoke distribution points should be identified, followed by efficient route planning. This approach helps realise the full potential of the market and yields gainful ROI.

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ABOUT NIELSEN

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