

## Coca-Cola India's Thirst for the Rural Market

*This case was written by **K Subhadra**, under the direction of **Sanjib Dutta**, ICFAI Center for Management Research (ICMR). It is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.*

*The case was compiled from published sources.*

## **COCA COLA INDIA'S THIRST FOR THE RURAL MARKET**

*"We want to be the Hindustan Lever<sup>1</sup> of the Indian beverage business."*

- Sanjeev Gupta, Deputy President – Coca-Cola India in May 2002.<sup>2</sup>

*"The rural market is a significant part of our marketing strategy which enables us to help the consumer link with our product."*

- Sanjeev Gupta, Marketing Director – Coca-Cola India, in August 1995.<sup>3</sup>

### **'THANDA' GOES RURAL**

In early 2002, Coca-Cola India (CCI) (Refer Exhibit I for information about CCI) launched a new advertisement campaign featuring leading Bollywood actor – Aamir Khan. The advertisement with the tag line – ***'Thanda Matlab Coca-Cola'***<sup>4</sup> was targeted at rural and semi-urban consumers. According to company sources, the idea was to position Coca-Cola as a generic brand for cold drinks. The campaign was launched to support CCI's rural marketing initiatives.

CCI began focusing on the rural market in the early 2000s in order to increase volumes. This decision was not surprising, given the huge size of the untapped rural market in India (Refer Exhibit II to learn about the rural market in India). With flat sales in the urban areas, it was clear that CCI would have to shift its focus to the rural market. Nantoo Banerjee, spokeswoman – CCI, said, "The real market in India is in the rural areas. If you can crack it, there is tremendous potential."<sup>5</sup>

However, the poor rural infrastructure and consumption habits that are very different from those of urban people were two major obstacles to cracking the rural market for CCI. Because of the erratic power supply most grocers in rural areas did not stock cold drinks. Also, people in rural areas had a preference for traditional cold beverages such as 'lassi'<sup>6</sup> and lemon juice. Further, the price of the beverage was also a major factor for the rural consumer.

### **CCI'S RURAL MARKETING STRATEGY**

CCI's rural marketing strategy was based on three A's – ***Availability, Affordability and Acceptability***. The first 'A' – *Availability* emphasized on the availability of the product to the customer; the second 'A' - *Affordability* focused on product pricing, and third 'A'- *Acceptability* focused on convincing the customer to buy the product.

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<sup>1</sup> Indian arm of FMCG major Unilever. HLL was credited with pioneering rural market initiatives in India with its *Project Bharat* (1988) and *Project Shakti* (2002). The company boasts of the largest rural distribution network and presence in India.

<sup>2</sup> Kripalani, Manjeet, *Rural India, Have a Coke*, BusinessWeek, May 27, 2002.

<sup>3</sup> Guha Ray, Shantanu, *The Great Rural Bazaar*, www.rediff.com, August 28, 1995.

<sup>4</sup> Cool drink means – Coca Cola.

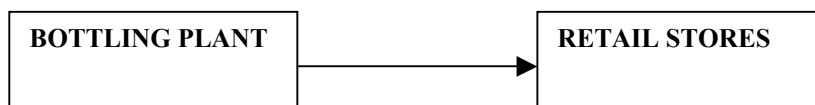
<sup>5</sup> Bailay, Rasul, *Small Packets, Big Business*, Far Eastern Economic Review, January 23, 2003.

<sup>6</sup> Lassi is a homemade drink made by blending thick curd with sugar or salt.

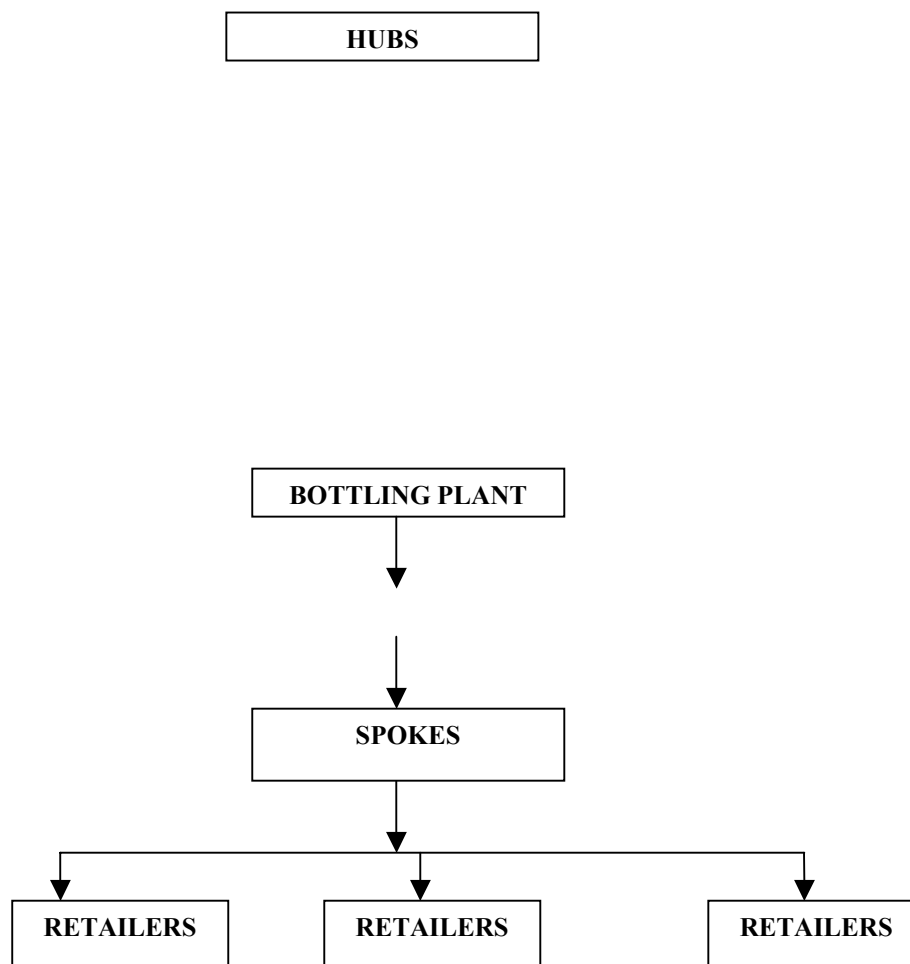
**Availability**

Once CCI entered the rural market, it focused on strengthening its distribution network there. It realized that the centralized distribution system used by the company in the urban areas would not be suitable for rural areas. In the centralized distribution system, the product was transported directly from the bottling plants to retailers (Refer Figure I). However, CCI realized that this distribution system would not work in rural markets, as taking stock directly from bottling plants to retail stores would be very costly due to the long distances to be covered. The company instead opted for a hub and spoke distribution system (Refer Figure II).

**FIGURE I**  
**CCI's DISTRIBUTION SYSTEM IN URBAN AREAS**



**FIGURE II**  
**CCI's RURAL DISTRIBUTION NETWORK**



Source: ICFAI Center for Management Research

Under the hub and spoke distribution system, stock was transported from the bottling plants to hubs and then from hubs, the stock was transported to spokes which were situated in small towns. These spokes fed the retailers catering to the demand in rural areas. CCI not only changed its distribution model, it also changed the type of vehicles used for transportation. The company used large trucks for transporting stock from bottling plants to hubs and medium commercial vehicles transported the stock from the hubs to spokes. For transporting stock from spokes to village retailers the company utilized auto rickshaws and cycles. Commenting on the transportation of stock in rural markets, a company spokesperson said, “We use all possible means of transport that range from trucks, auto rickshaws, cycle rickshaws and hand carts to even camel carts in Rajasthan and mules in the hilly areas, to cart our products from the nearest hub.”<sup>7</sup>

<sup>7</sup> Shashidhar, Ajit, *Colas' Countryside Crusade*, The Hindu Business Line – Catalyst, July 3, 2003.

In late 2002, CCI made an additional investment of Rs 7 million (Rs 5 million from the company and Rs 2 million from the company's bottlers) to meet rural demand. By March 2003, the company had added 25 production lines and doubled its glass and PET bottle capacity<sup>8</sup>. Further it also distributed around 2,00,000 refrigerators to its rural retailers. It also purchased 5,000 new trucks and auto rickshaws for boosting its rural distribution. Through its rural distribution initiatives, CCI was able to increase its presence in rural areas from a coverage of 81,383 villages in 2001 to 1,58,342 villages in August 2003. Apart from strengthening its distribution network, CCI also focused on pricing in rural market.

### **Affordability**

A survey conducted by CCI in 2001 revealed that 300 ml bottles were not popular with rural and semi-urban residents where two persons often shared a 300 ml bottle. It was also found that the price of Rs10/- per bottle was considered too high by rural consumers. For these reasons, CCI decided to make some changes in the size of its bottles and pricing to win over consumers in the rural market.

In 2002, CCI launched 200 ml bottles (*Chota Coke*)<sup>9</sup> priced at Rs 5. CCI announced that it would push the 200 ml bottles more in rural areas, as the rural market was very price-sensitive. It was widely felt that the 200 ml bottles priced at Rs. 5 would increase the rate of consumption in rural India. Reports put the annual per capita consumption of bottled beverages in rural areas at one bottle as compared to 6 bottles in urban areas.

The 200 ml bottles priced at Rs. 5 would also make CCI competitive against local brands in the unorganized sector. It was reported that in the states of Rajasthan and Gujarat the local cola brands such as *Choice* and *Tikli* cost only half the price offered by CCI, which gave them the advantage in garnering the major market share before CCI came out with *Chota Coke*.

CCI also targeted the rural consumer aggressively in its marketing campaigns, which were aimed at increasing awareness of its brands in rural areas.

### **Acceptability**

The initiatives of CCI in distribution and pricing were supported by extensive marketing in the mass media as well as through outdoor advertising. The company put up hoardings in villages and painted the name Coca Cola on the compounds of the residences in the villages. Further, CCI also participated in the weekly mandies<sup>10</sup> by setting up temporary retail outlets, and also took part in the annual haats<sup>11</sup> and fairs - major sources of business activity and entertainment in rural India.

CCI also launched television commercials (TVCs) targeted at rural consumers. In order to reach more rural consumers, CCI increased its ad-spend on Doordarshan.<sup>12</sup> The company ensured that all its rural marketing initiatives were well-supported by TVCs. When CCI launched *Chota Coke* in

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<sup>8</sup> Apart from the rural markets, CCI also began to focus on the home segment, by introducing – 1 litre, 1.5 and 2 litre PET bottles.

<sup>9</sup> Small Coke

<sup>10</sup> Weekly fairs where villagers gather and sell their produce

<sup>11</sup> Annual exhibitions, conducted during festival season.

<sup>12</sup> State-owned broadcaster in India. According to reports it reaches around 70 million homes.

2002 priced at Rs. 5, it bought out a commercial featuring Bollywood actor Aamir Khan to communicate the message of the price cut and the launch of 200 ml bottles to the rural consumers. The commercial was shot in a rural setting.

In the summer of 2003, CCI came up with a new commercial featuring Aamir Khan, to further strengthen the Coca-Cola brand image among rural consumers. The commercial aimed at making coke a generic name for '**Thanda**.' Of the reason for picking up the word 'Thanda', Praseon Joshi, national creative director – McCann Erickson, the creator of the commercial, said, "Thanda is a very North India-centric phenomenon. Go to any restaurant in the north, and attendants would promptly ask, 'thanda ya garam?' 'Thanda' usually means lassi or nimbu pani, 'garam' is essentially tea. Because the character, in itself, represented a culture, we wanted to equate Coke with 'Thanda', since 'Thanda' too is part of the popular dialect of the north. Thus making 'Thanda' generic for Coca-Cola. With the long-playing possibilities of the 'Thanda' idea becoming evident, 'Thanda' became the central idea. Once we decided to work on that idea, the creative mind just opened up."<sup>13</sup>

Between March and September 2003, CCI launched three commercials with the '**Thanda Matlab Coca-Cola**' tag line. All the three commercials aimed to make rural and semi-urban consumers connect with Coca-cola. The first ad featured Aamir Khan as a '**tapori**' (street smart); in the ad he makes the association between Coca-Cola and the word '**Thanda**.' The second commercial in the series featured Aamir Khan as a '**Hyderabadi shop-keeper**'; here again he equates the word '**Thanda**' with Coca-Cola. The third commercial featured Aamir Khan as a '**Punjabi farmer**' who offers Coca Cola to ladies asking for Thanda.

The three commercials showed progression in associating 'Coke' with 'Thanda' in a rural/semi-urban context. In the first commercial the connection of Coke with Thanda was made, in the second one there was a subtle difference, with the shopkeeper asking customers to ask for Thanda instead of Coke, and the third commercial showed that when one asked for Thanda, one would get Coke.

Analysts said that all the three commercials succeeded in make rural consumers connect to Coke and increased awareness of the brand among them. Along with TVCs, CCI also launched print advertisements in several regional newspapers.

## FUTURE PROSPECTS

CCI claimed all its marketing initiatives were very successful, and as a result, its rural penetration increased from 9% in 2001 to 25% in 2003. CCI also said that volumes from rural markets had increased to 35% in 2003. The company said that it would focus on adding more villages to its distribution network. For the year 2003, CCI had a target of reaching 0.1 million more villages. Analysts pointed out that stiff competition from archrival PepsiCo would make it increasingly difficult for CCI to garner more market share.

PepsiCo too had started focusing on the rural market, due to the flat volumes in urban areas. Like CCI, PepsiCo too launched 200 ml bottles priced at Rs. 5. Going one step ahead, PepsiCo slashed the price of its 300 ml bottles to Rs 6/- to boost volumes in urban areas. (Refer Exhibit III for Pepsi Co's rural marketing initiatives.)

In early 2003, CCI announced that it was dropping plans to venture into other beverage businesses. Company sources said that increasing volumes of cola drinks had made the company rethink its plans of launching juice and milk-based beverages. In 2002, CCI had announced plans to launch beverages such as nimbu paani (lemon juice), fruit juice, cold coffee, and iced tea in collaboration

<sup>13</sup> Shartrujeet .N, Vaid Dixit, Sumita, '**Thanda III**' – Coke Scores on Naturalness, [www.agencyfaqs.com](http://www.agencyfaqs.com), September 30, 2002

with Nestle India.<sup>14</sup> Though CCI was upbeat on account of its early success in its drive to capture the rural market, the question was whether the company would be able to take this success further.

A major media setback occurred in August 2003, when the Delhi-based Center for Science and Environment announced that it had found high pesticide content in soft drinks manufactured and sold by both cola majors<sup>15</sup>. Around same time BBC Radio in its program – ‘Face the Facts’ alleged that Coke’s plant in Kerala was making excessive use of groundwater resources in the region and was also contaminating the groundwater through discharge of toxic elements, thereby harming the land, water resources and also the food chain in the region. Though CCI refuted these allegations, the company reportedly experienced a considerable decline in sales after August 2003. With many social and political groups becoming active against the cola companies in rural areas, it remains to be seen whether CCI will be able to quench its thirst for the rural market.

### **QUESTIONS FOR DISCUSSION:**

1. In the late 1990s, CCI increased its focus on the rural market in India. Explain the reasons for CCI’s move in detail.
2. According to analysts, CCI’s ‘Thanda Matlab Coca-Cola’ advertisement was a major hit and made rural consumers connect with the product. Discuss the importance of advertising in rural marketing. What are the issues in advertising that a company should focus on while targeting rural consumers? Do you think there should be differences in advertising for rural consumers and urban consumers? Justify your stand.
3. Some analysts feel that with the urban market reaching saturation, the Cola war will now be fought in the rural market. What are the issues that CCI and Pepsi Co have to focus on to capture the rural market? Who do you think is more comfortably placed in the rural market?

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<sup>14</sup> Wholly owned Indian subsidiary of Swiss FMCG major Nestle.

<sup>15</sup> In the light of the allegations, Government of India constituted a Joint Parliamentary Committee headed by Sharad Pawar to investigate the issue.

## EXHIBIT I

### CCI

CCI reentered<sup>16</sup> India in 1993, through a strategic alliance with Parle Exports (Parle).<sup>17</sup> The alliance gave CCI ownership of 5 popular brands of Parle (Thums Up, Limca, Maaza, Citra and Gold Spot)<sup>18</sup> with a market share of around 60%, and a well-established network of 56 bottlers.

During the period 1993-1999, CCI had three CEOs. The average tenure of its three CEOs was around 2 years. To begin with, CCI was headed by Jaydev Raja (Jaydev), who focused on setting up operations in India. However, he failed when it came to marketing. While PepsiCo was consolidating its presence, CCI failed to define its flagship brand – Coke. In 1995, CCI replaced Jaydev by Richard Nicholas (Nicholas). Nicholas was successful in getting big institutional tie-ups such as McDonald's and Domino's, but he failed in the retail consumer market. CCI lost its market share to PepsiCo, which was surging ahead of CCI in brand recall.

During Nicholas' tenure, CCI ran into problems with its bottlers on the ownership issue. The bottlers were reportedly offended when the company sent them joint venture agreements without consulting them. As per the agreements, the bottlers were asked to expand their capacity from 250 bottles per minute (bpm) to 1,200 – 1,600 bpm, or forego ownership of the bottling plants. Further, the bottlers were not offered any financial assistance for capacity expansion, creating resentment among them. Most of the bottlers did not agree to the CCI's terms and some of them even shifted to Pepsi.

With matters running out of hand, Donald Short (Short) was bought in place of Nicholas in 1997. Short concentrated on building up a strong relationship with the bottlers. Short convinced around 38 bottlers to sell their bottling plants to CCI. CCI bought out 38 bottlers for \$700 million. Short also took on a lot of new manpower between 1997 and 1999, increasing the company's HR overheads considerably. The number of employees at CCI's Gurgaon headquarters increased from 60 employees in 1997 to over 300 employees in 1999.

There was change in the top management once again in 1999, when Alex von Behr (Behr) took over as CEO. Behr restructured the HR and marketing functions. Under Behr, CCI invested heavily in its distribution network. Further, the company also increased the ad spend on the acquired brands - Thums Up, Limca and Maaza.

In the early 2000s, CCI faced stagnant sales in its cola brands, and volumes in urban areas were stagnating. In order to expand sales, Behr decided to diversify into the bottled water and powdered soft drink segments in association with the Kinley and Sunfill brands respectively. Kinley was launched in 2000, while Sunfill was launched the following year. In 2001, CCI announced its maiden profits from its Indian operations.

Adapted from various magazine and newspaper articles

<sup>16</sup> Coca-Cola exited from India in 1977, when the Janata Party government made it mandatory for foreign firms in the consumer sector to divest a majority stake in the favor of Indian nationals. CCI did not wish to dilute its stake and opted to close down its operations in India.

<sup>17</sup> Owned by Ramesh Chauhan, Parle Exports entered the soft drinks market in late 1970s, when the change in government policy made Coca-Cola opt to leave the country.

<sup>18</sup> The leading brands at the time, owned by Parle, and taken over by CCI.



## EXHIBIT II

### THE RURAL MARKET IN INDIA

The vast size and large demand base of the Indian rural market offers great opportunities to FMCG companies. A location is defined as 'rural' if 75% of the population is engaged in agriculture-related activity. India has 450 districts and approximately 6,30,000 villages. These villages can be sorted on the basis of different parameters like income levels, literacy levels, penetration, accessibility and distance from the nearest town. In August 2002, around 700 million people, approximately 70% of the Indian population was engaged in agricultural activity, contributing 1/3<sup>rd</sup> of the country's GNP. Apart from the fact that the rural population is very large, it has also grown richer since the 1990s, with substantial improvements in incomes and spending power. This was a direct result of very high crop yields due to successive good monsoons. Tax exemptions for agricultural income have also contributed to greater rural purchasing power.

For all these reasons, rural India is now seen as a vast market with unlimited opportunities. Therefore it is not surprising that many companies that market FMCGs of everyday use, have put in place parallel rural marketing strategies. The biggest brands in India belong to companies with a strong rural presence. Many FMCG companies had already hit saturation points in urban India by the mid-1990s. The late 1990s saw many FMCG companies in India shifting their emphasis to rural marketing. Companies like HLL, Marico Industries, Colgate-Palmolive and Britannia Industries took up rural marketing in a serious manner during the 1990s. However, selling FMCG products in rural India was a tough task. It has always been difficult to gauge the rural market. Many brands which were well-established in urban areas have not been successful in rural India. Therefore, it is important for a company to understand the social dynamics and attitude variations within each village. A company has to address several problems before it can sell its products successfully in the rural market. These include:

- Physical distribution
- Channel management and
- Promotion and marketing communication

Amongst these, problems related to physical distribution and channel management adversely affect the service and the cost of the company. Typically a market structure consists of a primary rural market and retail sales outlets. The retail sales outlets in towns act as the stock points to service the retail outlets in the villages. But maintenance of the service required for delivery of the product at retail level is costly as well as difficult. Many companies use delivery vans to take products to the customers in the rural areas as well as to facilitate direct contact with them, for sales promotion. However, in general, only large companies can afford to undertake such initiatives.

Source: [www.indiaonline.com](http://www.indiaonline.com)

## EXHIBIT III

## PEPSICO's RURAL MARKETING INITIATIVES

The leading cola major in world PepsiCo (Pepsi) entered India in late 1980s. The company was able to establish itself in the Indian market in a relatively short period. India is one of the few markets where Pepsi leads Coke. Many analysts attributed Pepsi's success to its marketing strategies. It was felt that while CCI did nothing to make Indian consumers relate to its brand, Pepsi was able to create a strong brand identity and recall among consumers. Pepsi ads such as – '***Yeh hi hain right choice, Baby,***' and '***Yeh dil maange more***' were highly successful in luring the Indian consumer, in 1990s.

However, Pepsi also faced the same problems as CCI in terms of stagnating urban sales and low growth. In order to boost its sagging bottom line, Pepsi too decided to focus on the rural market. Shashi Kalathil (Kalathil) – executive vice president, Pepsi Foods, said, "Tapping the rural market involves a whole lot of activity. It involves the right pricing strategy and the products have to be chilled so retailers need refrigeration equipment. Besides, if PET bottle consumption has to grow, people need to have refrigerators at their homes. So the big challenge in cracking the rural markets is distribution and logistics."<sup>19</sup>

Pepsi decided to beef up its distribution network in the rural areas to increase its market presence. The company felt that availability was the key to the rural markets. In a nationwide exercise in early 2000s, Pepsi moved towards doubling the number of its distributors, providing compact refrigerators, and it also invested in vehicles suitable for transporting stock along the long and rough routes in rural areas. In 2002, Pepsi undertook a ***rural activation program*** to increase its presence in the rural markets. Under this program it employed around 200 people to work on bringing more rural areas into the company's distribution network.

Pepsi adopted a 'hub and spoke' distribution system. George Kovoov, Executive Vice-President, Traditional Trade, Pepsi, said, "The spoke is typically closest to the retail outlets and is serviced by a hub distributor who is supplied from the plant or company's warehouse. This format allows for large loads traveling longer distances and short loads doing short distances which is cost effective."<sup>20</sup> Company officials believed that the hub and spoke model would enable company to have a faster turnaround of glass bottles and ensure availability of the product.

Apart from the distribution set up, Pepsi also looked at the pricing aspect. Although rivals Pepsi and CCI both had good distribution networks covering rural markets, in pricing, CCI had scored over Pepsi by introducing 200 ml Coke bottles for Rs 5. This put pressure on Pepsi and it was forced to decrease price of its 300 ml bottles. In some regions it was reported that Pepsi had cut the prices of 300 ml bottles to as low as Rs 6/- per bottle. Though the price cut would have an adverse impact on the company's bottomline, it helped the company to increase volumes. In some regions, volumes from the rural market doubled and overall the volume increase was reported to be 45%. Said Kalathil, "Several states have touched 10 million cases in the month of May alone. This has never happened before."<sup>21</sup>

On the advertising front also, it was CCI which scored over Pepsi with its – ***Thanda Matlab Coca Cola*** advertisement series. CCI's advertisement series featuring popular actor Aamir Khan

<sup>19</sup> Bhushan, Ratna, *A Summer of Content*, Catalyst – The Hindu Business Line, June 5, 2003.

<sup>20</sup> Shashidhar, Ajith, *Cola's Countryside Crusade*, Catalyst – The Hindu Business Line, July 3, 2003

<sup>21</sup> Gupta, Parul, Ghosh, Partho, *Drinks Sales up Sharply*, www.rediff.com, June 7, 2003.

connected with rural and urban consumers alike. Analysts pointed out that the Pepsi advertisements featuring popular film actors—**Saif Ali Khan, Preity Zinta, Kareena Kapoor and Fardeen Khan**, focused only on urban youth. However, the company felt that its ads had clicked with rural consumers. Kalathil said, “It’s a misconception that a rural-looking ad will appeal only to rural audiences, and that an urban backdrop ad will go down well only with city people. As long as the advertising is aspirational, it works. The currently-on-air Kareena-Preity Zinta ad, for example, has gone down well with the rural youth.” In addition to television advertising, Pepsi also focused on event-related factors such as the wedding season in the rural market. Company sources felt that in rural areas, with the penetration of cable television, consumers were aspiring to urban lifestyles, particularly on social occasions when they felt their prestige was on display. This is why many wealthy rural consumers had started offering cool drinks rather than traditional drinks such as lassi and lemon juice, particularly at wedding receptions. This offered a great market for the company.

With both cola major diverting their energies towards the untapped rural markets, it seemed evident that the great Indian cola wars would be fought on rural turf.

Adapted from various newspaper articles.