

## **Appraising the FMCG Product Distribution in Rural Areas**

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### **ABSTRACT**

*The study intends to analyze the distribution and logistics problems faced by companies at lower level. As the maximum sales of FMCG products are done in rural areas, the companies face problems of distributing goods as there is no fixed transport facility. Companies operating in rural markets face particular challenges because of the low density of the population and poor transport facilities and infrastructure. The objective of study is to understand and analyze the problems from wholesaler and retailers point of view simultaneously. The study is based on descriptive research technique. FMCG retailers of rural areas of NCR region have been questioned while using convenient sampling method.*

*After analyzing the distribution system of FMCG companies (incorporating distributors, diverse retailers and the sales executives) study found the product delivery, frequency and timely supply as the main issue with the retailers and they face a lot of problems due to weak distribution network and channel. Lack of transport utility and bad condition of rural roads also create a lot of hindrance in distribution of FMCG products in rural areas. Every company has to evolve suitable distribution network to sell its products and services in rural emerging markets.*

**Keywords:** Rural Distribution, Distribution Channels, FMCG Products, Rural Marketing

### **1. INTRODUCTION**

Since prehistoric times, Indian village markets are popularly known as the 'Vil-lage Haats'. This concept is old enough and still being followed. The basic concept behind haats is to gather the local buyers and sellers. The barter system was to a certain extent prevalent, which is still followed in a number of places even today. Haat son the whole are a weekly event, and focuses on the village economy.

Village level markets (Haats, Bazaars and Shandies) have different names in different regions. They offer good scope for distribution for the corporate because of its convenience,

attractiveness and availability. 'Melas' are also another low cost distribution channel for marketers. By participating in haats and melas, the marketer can not only promote the products but also understand the shared values, belief and perceptions of the rural consumers that influence their buying behavior.

An unofficial channel of distribution consisting of village mechanics, local real estate agents or shop keepers has also emerged. The people are taking motorcycles from the official dealers

usually in two's or three's and - displaying them outside their premises and closing a sale.

Distribution network can have delivery vans that can be ferried upto every nook and corner to connect every possible customer; it will facilitate big push in sales as well. There are cases wherein companies or distributors do not have resources for running exclusive vans for delivery of goods to the rural market. In this case, the firm or distributors selling non competitive consumer goods come together and operate delivery van to service the rural retailer (syndicate distribution). Satellite Distribution advocates appointment of stockists in important towns. These stockists are responsible for placing orders with the company, receiving stocks, sorting of stocks and supply the goods in small lots to the rural retailers and merchants.

A fragmented distribution system is a major challenge for SMEs in the FMCG sector. This results in demand and supply gaps, wastage and increased supply chain costs. From the perspective of rural distribution channels, the issue can be addressed by eliminating redundant intermediaries and establishing a network of distributors to cater to locality-specific demands and keep a tab on fluctuating demands. Hindustan Unilever Limited (HUL) has also set up an integrated distribution channel by consolidating various product categories. The distribution channel consists of around 6000 SMEs sub-stockist under company distributors to serve rural zones across India.

Rural markets are becoming very important in today's perspective as competition in urban markets is becoming tough day by day. At the same time dealing with rural consumer also is not very easy in comparison to urban ones as the infrastructure and connectivity in the rural

areas is not conducive for easy distribution. Companies have to struggle a lot to establish themselves in the rural markets and only unique / out of the box ideas make them sustainable in rural markets in long term. Rural markets need different strategy of business as you have to count on volumes in the place of margins. Communication channels have been strengthened now in comparison to earlier times and rural youth is becoming phone savvy.

New age changes are making rapid pace in rural societies also and one has to impart influences well to increase the acceptability of product as well as design unique marketing mix to tap the emerging market bases in rural areas. Retailers in rural markets too are important stakeholders in this whole chain and they have to be treated very well and as an integral part in whole distribution channel.

## 2. LITERATURE REVIEW

HUL has used very innovative distribution network to strengthen its outreach in rural areas. It came up with idea of using woman self-help group members (*Shakti Ammas*) for their last end retailing and gained a lot. It helps them to attain the end customers as well as earn the goodwill of villagers for employing the women in their distribution ranks. The unorganized and scattered character of markets in India requires different tactics for sales and distribution strategy. The rural markets are very distinct in nature and they should be dealt with different strategy containing the methods which suits the rural environment and have the potential to unlock the hidden demand. Inadequate infrastructure will always be a tough task for any business operating in these areas but experimentation and creativity will always show the path to go ahead in these conditions also (Pralhad, 2005).

Good infrastructure becomes necessary precondition for business growth and specifically road connectivity plays very vital role in tapping the untapped market spots in rural hinterlands. This situation should be understood properly and then suitable marketing strategy can be derived for covering rural consumers (Kashyap and Raut, 2005).

Designing appropriate distribution networks and constructing trustworthy distribution channels, companies can spread organically in rural markets. Keeping the consumer behaviour aspects in mind companies have to offer suitable after sale services to maintain a longer relationship with the customers in rural areas as well and strengthen the brand trust (Chopra and Meindl, 2010).

Dynamics of rural markets are also changing day by day and rural consumers are also coming close to the brands and products offered in urban markets. Annual “melas” organized in the rural areas can be very good platform for distribution as well as promotion of the product (Ramkrishnan, 2006).

Distribution costs and non-availability of retail outlets are major problems faced by the marketers. Marketers have to understand complexities in rural societies and try to amend their strategies according to the situation. Mostly they are going to face poor infrastructure, glitches in distribution and they have to think about innovative solutions towards challenges relating to promotion and communication (Sudhanshu, 2010).

Rural markets have to be taken up as investment for better tomorrow and winners will be only those who understand this phenomenon and play accordingly. They have to explore what rural consumer is thinking and how they can

serve the demand while establishing a flexible and efficient distribution network. (Gopalaswamy, 2008).

Only FMCG companies with deeper pockets and unwavering rural commitment will be able to stay longer in this rural race. Since the big problem in rural markets is getting distribution, one solution often mooted for (non-competing) companies is to do it together through pooling resources to reduce overheads. Some companies with existing distribution networks have attempted to distribute others' products on a contract basis though in practice this hasn't worked. Rural retailers have limited liquidity, so companies are unlikely to sacrifice their share of this for other companies. Packages need to be designed to withstand more distribution abuse due to poor roads and more primitive modes of transportation. Small sized products allow consumers to try new products. It also caters to the fact that most rural Indians have low disposable incomes and little storage space at home (Dawar & Chattopadhyay 2002).

### 3. RESEARCH METHODOLOGY

The research is conducted to know the rural distribution network and to explore the reasons which are making the rural network so complex. The research also enquires the problems related to lack of transportation and infrastructure during the distribution.

Descriptive research design has been used for the research and both primary and secondary data have been collected in this research. Secondary data have been retrieved from various sources such as books, research journals and magazines and literature review has been done to understand the key issues in the distribution network in rural areas.

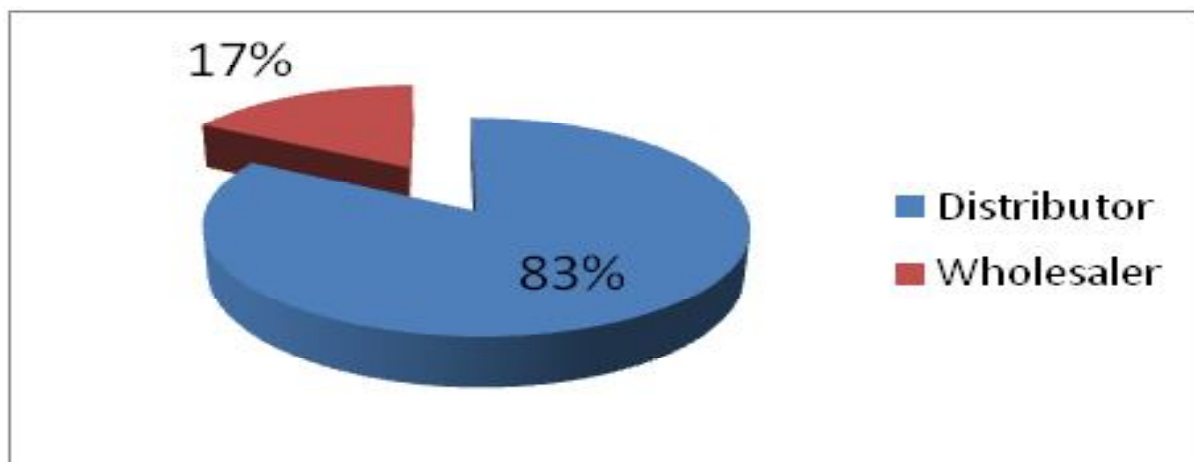
Based on this review data collection tool, a questionnaire consisting of 14 close ended questions has been designed. Primary data has been collected through 60 respondents (FMCG retailers of rural areas of NCR region) while employing convenience sampling technique. Bar charts and pie charts have been used to showcase and analyze the data. This research analyses the distribution system of FMCG companies which essentially incorporates distributors, diverse retailers and the sales executives through which the products eventually reach to the end clients. This research has following objectives related to distribution of FMCG in Rural areas:-

- To identify the grey areas impacting adversely the distribution system.
- To understand and analyze different channels and mediums for distributing goods from wholesaler and retailers point of view simultaneously.
- To present the strategies to overcome the challenges impacted on the distribution system.

#### 4. DATA ANALYSIS AND INTERPRETATION

##### 4.1 Source of Purchase for Retailers

Fig.1

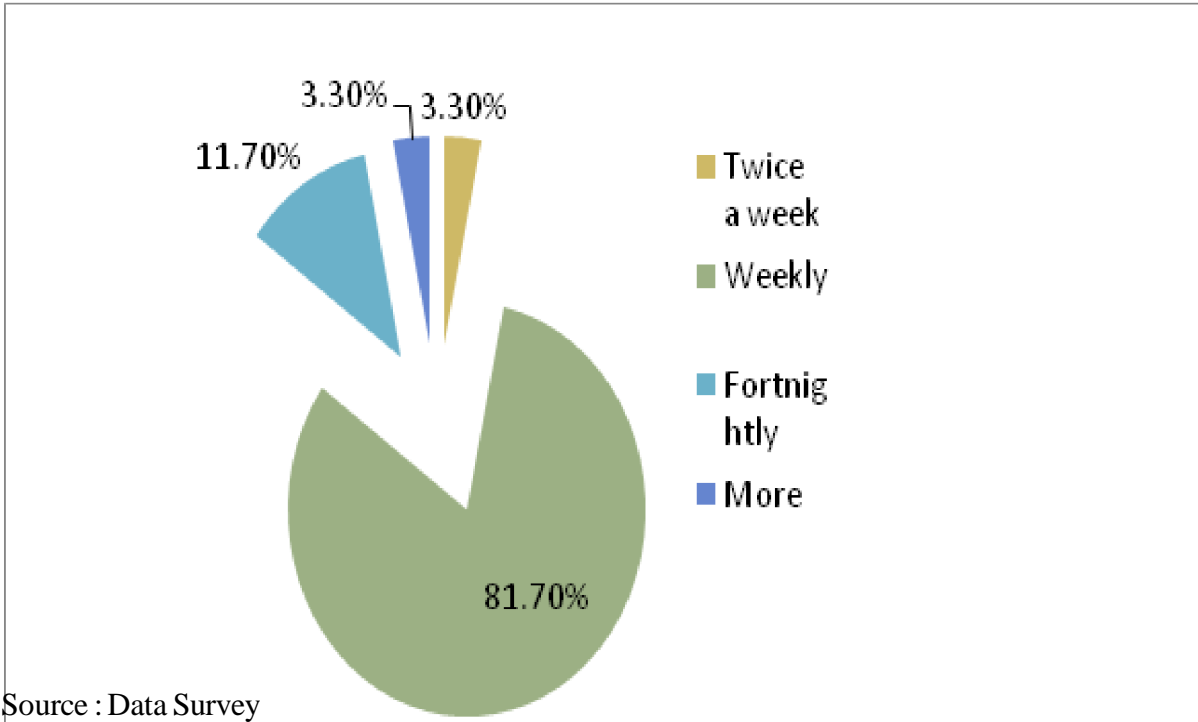


Source : Data Survey

According to the collected data 83% of retailers purchase their goods from the distributor and 17% of retailers from the wholesalers. The distributor salesman covers around 83% of the rural market and the remaining 17% are the retailers which purchase their products from the wholesale markets or small wholesalers. These retailers keep very less of inventories with them according to their scale of demand.

##### 4.2 Visit Frequency of Distributor's Salesmen

Fig.2

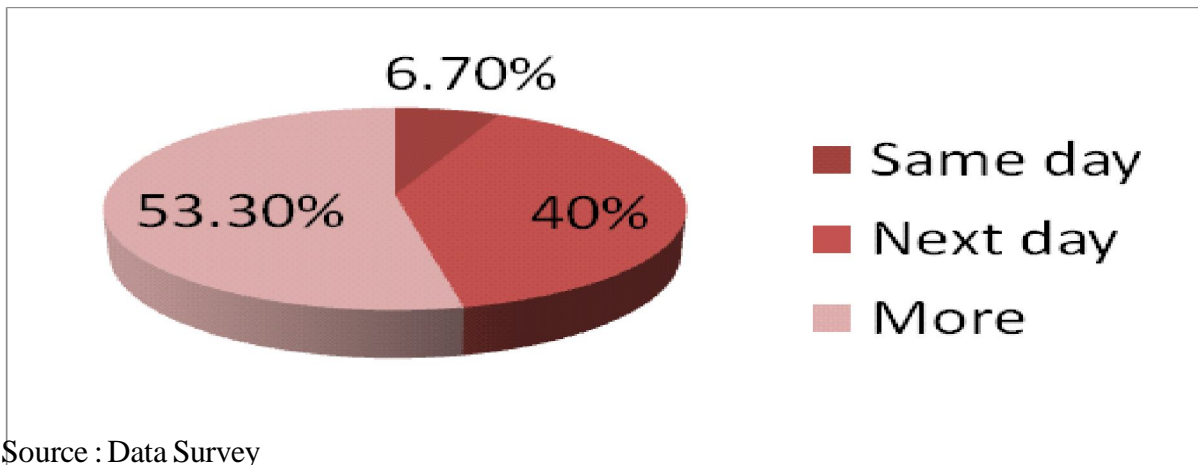


Majority of retailers are served weekly, this consist of 81.70% of retailers of rural market. These are the core retailers which keep SKUs for future. In the rural markets usually there are small retail shops (kirana stores) and so maximum of the distributor’s salesmen visit once a week.

The market also consists of small retailers which carry inventories for long time and purchase goods at once. These retailers consist of 11.70% of market. There are also other factors which fall under this, some of the retail outlets are at extreme localities because of which retailers sometime face problems. Sometimes the salesman doesn’t show up at scheduled time then it becomes difficult for the retailer as they get out of stock.

**4.3 Order Processing Time of Distributor**

**Fig.3**

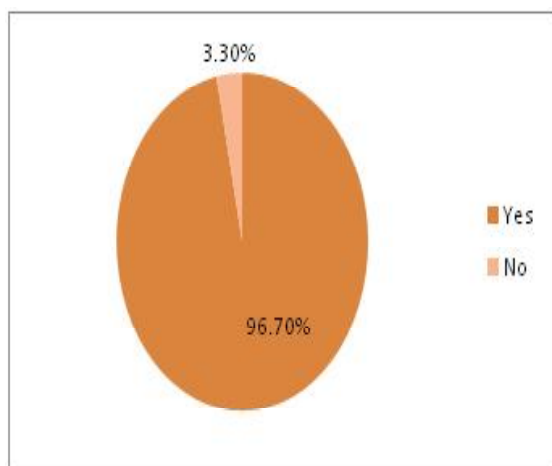


Timely delivery is one of the major causes of concern in the rural areas. Majority of distributors take more than usual time for delivering the goods. 53.3% of retailers get their orders in more than one day. The poor infrastructure and modes of transport creates a huge gap in time delivery.

40% of retailers receive their goods on next day which is still a large figure when they are close to the cities and have connected roads. Only 6.7% retailers receive their goods on the same day.

#### 4.4 Credit Facility

Fig.4

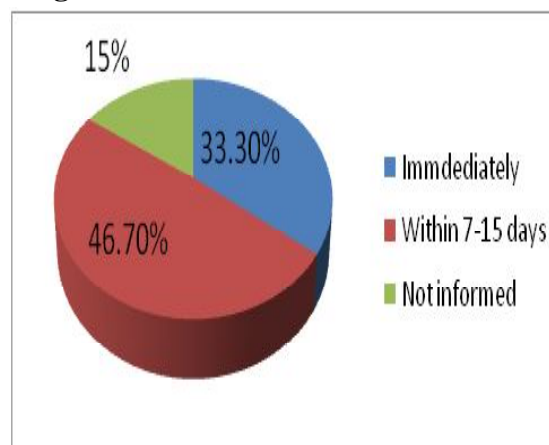


Source: Data Survey

96.7% of the retailers get credit facilities from distributors. Distributors in rural areas provide goods on credit in rural areas as the rural retailers are not able to pay money every time. 3.3% of retailers which are not covered by credit facility and they usually purchase their goods from the wholesalers and purchase inventories according to the demand in the area.

#### 4.5 Information about New Product Launch or a New Scheme

Fig.5

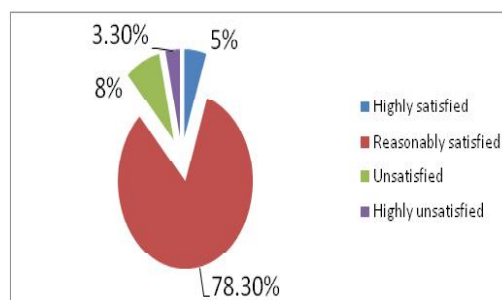


Source : Data Survey

The above data shows that 46.7% of the retailers are being informed within the period of 7 – 15 days about the schemes / new products launched by the company. These retailers are surrounded by the poor infrastructure that is why distributors are not able to reach them regularly. The figure consists of 15% of merchants who don't receive required information and they remain busy with usual business they have. Above figure also puts limelight on the 33.3% of merchants who are informed without delay and sit in a comfortable position.

#### 4.6 Behavior and Communication Skills of Salesmen

Fig.6

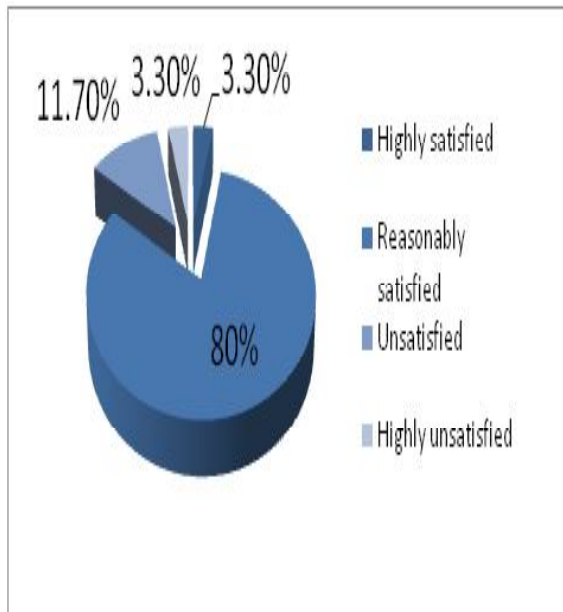


Source : Data Survey

3.3% retailers are highly unsatisfied and 5% are satisfied with their distributors respectively. 78.3% of the retailers are reasonably satisfied with their distributors and 8% of retailers are unsatisfied with their distributors, this is a large figure to interpret and should be taken into consideration for improvement. Although unsatisfied retailers are less but they hold the key to engage customers, hence retailers should be served with utmost priority.

#### 4.7 Grievance Redressal towards Damaged Goods/ Replacements

Fig.7



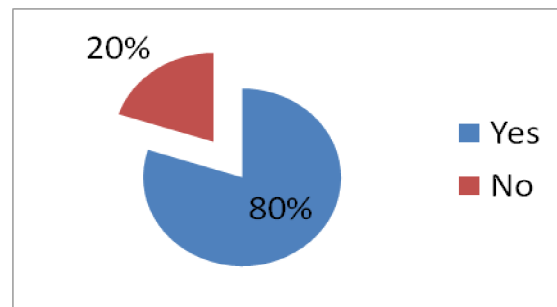
Source : Data Survey

As per the above figure, 80% of the retailers are reasonably satisfied with their distributors. This is also because the retailers in the rural areas don't have many choices in terms of selection of distributors and they have to purchase and work with the particular wholesaler or distributor only. Still 11.7% of retailers are unsatisfied with their distributors which should be taken into consideration for

improvement. Reasons behind this should be explored and dealt with fastest manner possible.

#### 4.8 Supply of Correct SKUs

Fig.8

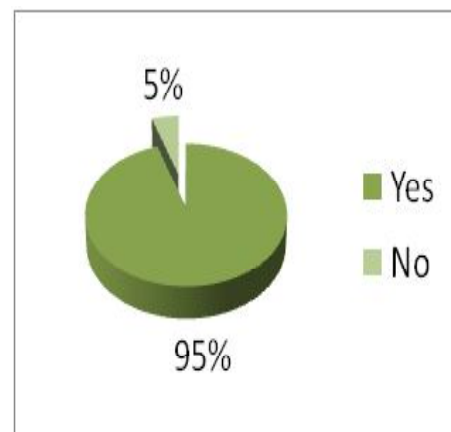


Source : Data Survey

SKUs are one of the major concerns in the distribution system. According to the figure, 80% retailers accept supply of correct SKUs but the problem arises when 20% of retailers don't receive the demanded goods. Most of the time, the distributor supply only the particular product which is available in stock and not the one demanded by the retailers. This has to be looked into for better sales particularly in rural areas.

#### 4.9 Provision of Invoice after Sending the Goods

Fig.9

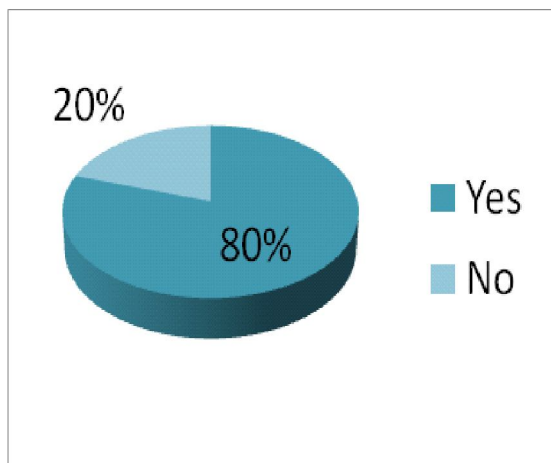


Source : Data Survey

The distributor doesn't face this problem much as shown in the figure, 95% of retailers receive correct invoice from their distributors. Only 5% of retailers face this problem which is still an important issue for the company. At some point of time retailers place orders to the salesmen and they provide the invoices required. Sometimes the invoice amount is scrambled because of which the distributors face problems later on because wrong interpretation takes place which creates mess in the financial figures of the companies.

**4.10 Visual Merchandiser Visits at the Store**

**Fig.10**

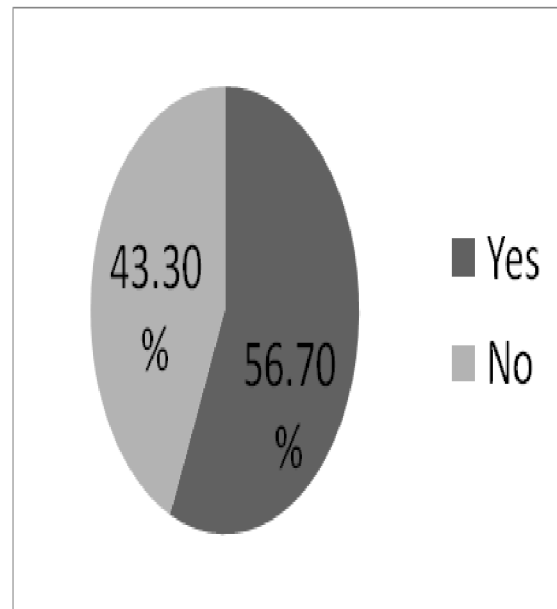


Source : Data Survey

The visual merchandiser who sets the products accordingly in the retail outlet are very important and 80% of the retailers are satisfied the visual merchandiser's visits at their outlet but 20% gets no service in this regard. These 20% of the retailer outlets are the ones who are in extreme remote locations in the rural areas. This issue should be taken up judiciously.

**4.11 Visual Merchandiser's Accuracy towards Arranging Products**

**Fig.11**

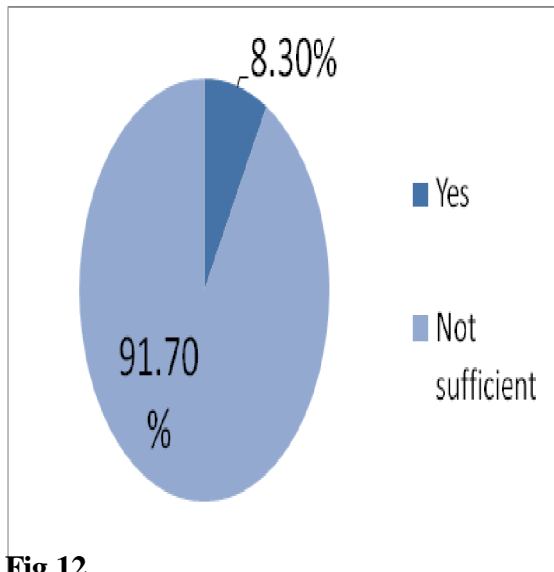


Source : Data Survey

56.7% of retail stores out of 80% of stores regularly visited by the visual merchandiser are happy with their accuracy in arranging the products. Rest of the retail shops are not arranged by the visual merchandiser and they don't feel problem with this as these stores in rural areas are very small and inventories are not kept systematically. Indeed, these retailers don't require any merchandising and don't want any meddling with their stores.



**4.12 Transportation Facilities for Supplying the Goods**

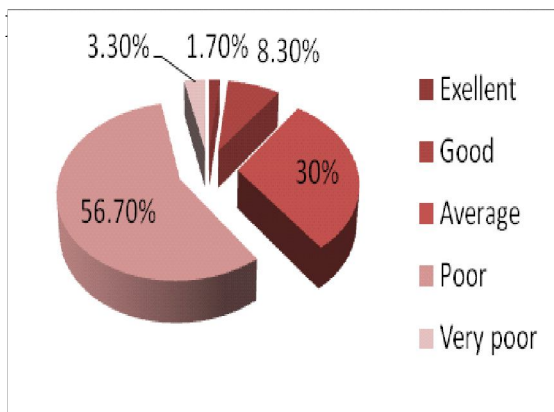


**Fig.12**

Source : Data Survey

Transportation is one of the major concerns in the rural markets. As also proven in the statistics, 91.7% of distributors don't have sufficient transportation medium to deliver the supplies at time. The rural market face huge gap in transportation and infrastructure facilities and because of this the distributors are not able to send the order in time. One of the important factor is medium of transport, the distributor doesn't have the transportation vehicle to transit the goods to the retailer. Thus the distributors face big time challenge in the transportation.

**4.13 Delivery Service**



Source : Data Survey

The maximum figure of 56.7% results that the delivery of the distributor is poor. The distributors don't have sufficient transportation medium to deliver the goods at time. The rural areas face huge gap in transportation and infrastructure facilities and because of this the distributor is not able to send the order in time. Majority of distributors take more than usual time for delivering the goods. The poor infrastructure and modes of transport creates a huge gap in time delivery.

**4. 14 Distributor's Problem Areas**

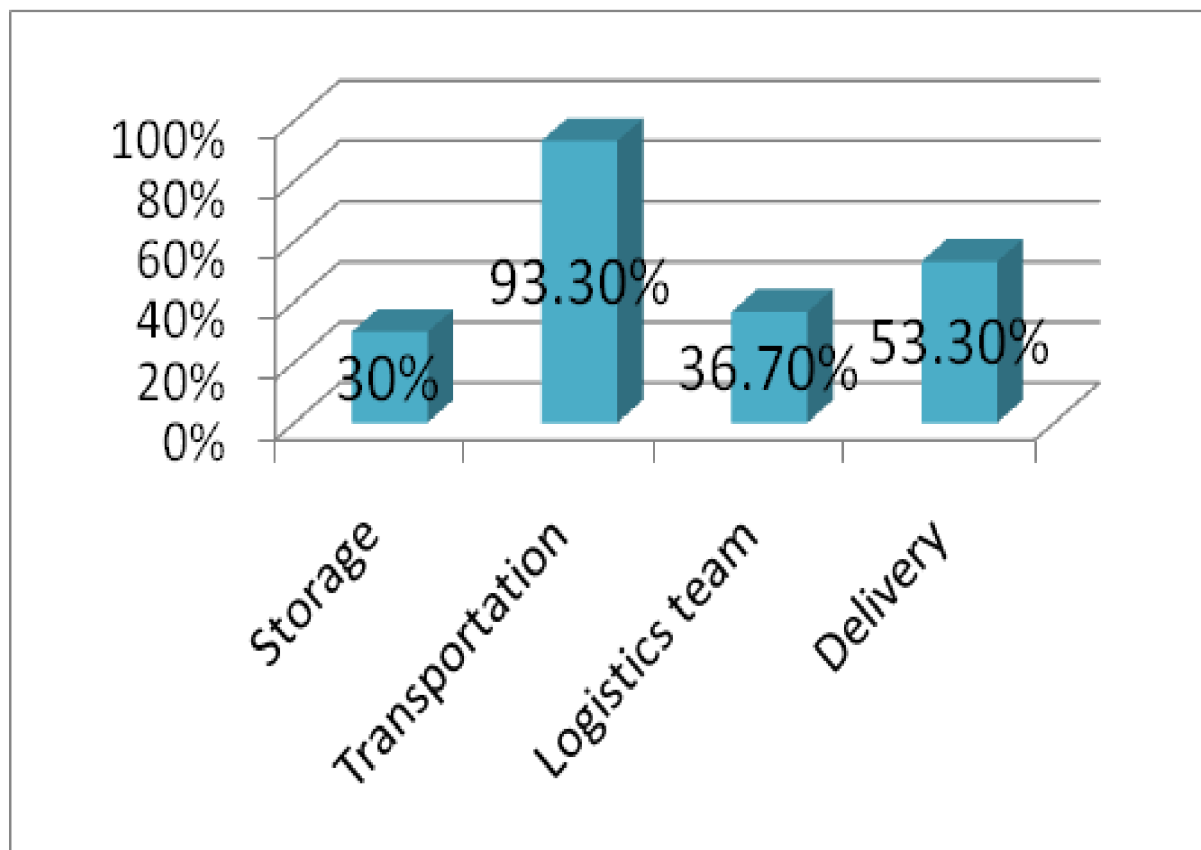
The major concern of the distributor is the transportation facility that carry very high figure of 93.3%. The distributors don't have sufficient transportation medium to deliver the goods in time. The rural areas face huge gap in transportation and infrastructure facilities and because of this distributors are not able to complete the delivery orders in time.

Delivery is also major concern in the distribution system. 53.3% of retailers said that the distributor is facing high problem in delivering the goods as transportation and infrastructure aspects are very poor in the rural areas. Somewhere, distributors don't have adequate number of transportation vehicles to transit the goods to the retailers.

Issues related with logistic arrangements at the distributor level are also area of core concern as per 36.7% of the retailers. Availability of manpower for delivery of goods and timely completion of work are important factors to look into.

According to the figure, 30% of the distributors face problem in storage and inventories, these have to be managed in effective manner so that

the stock matches with demand of product. Unless the distributors have enough of stock with them, they can't take orders from the retailers and delivery will remain affected due to lack of storage space/facility.



Source : Data Survey

## 5. FINDINGS

- Majority of retailers procure products from distributors whereas some are being served by locally active wholesalers also. The distributors are active in the rural market and are serving the retailers at their best to provide the facilities.
- The frequency of salesman visit to the retailers is usually on weekly basis although some of the retailers face problems as the salesman's visit to them is less as compared with others.
- In the remote areas, the retailers face problem as the company distributors are not able to reach the market on time and thus the retailers have to pay for the losses.
- Delivery is one of the major concerns in rural markets. The distributors are not able to deliver the goods on time because rural distribution network is pretty weak.
- One of the most important functions of an intermediary is to offer financial support to retailers. The rural market suffers financial crisis frequently, so credit looks as an important aspect for the retailers.
- The rural market is very scattered and too much travelling and high delivery expenses

demotivate the distributors for catering the programme regularly.

- The problem solving also sometimes take more than usual time because of too much of scattered areas and poor infrastructure of the rural market.
- The rural distribution is not an easy job; there is extreme pressure and high level of risk involved at every time. Also, distributors don't have adequate transport vehicles to deliver the goods.
- Storage and transportation are two aspects which require more focus and attention. The distributor needs adequate storage facility to keep its SKUs updated and better transportation facility to deliver the goods on time.

## 6. CONCLUSION

In today's competitive environment, channels of distribution compete with the existing alternate channels. The channel strategy must be comprehensive and should incorporate goals, objectives, target market segments and competitive positioning. It should also create sustainable competitive advantage for the distributor as well as semi-wholesaler and retailer. And making the product available at the right time (or Just-in-Time) is also an important task of distribution logistics. The distributor, just one level up the distribution chain, is a vital link between the manufacturer and retailer. Effective channel management calls for selecting intermediaries and motivating them. The rural markets are the future potential markets. It has immense monetary and manpower potential, so the companies have to make enough efforts to meet out rural market needs. The distribution system faces many challenges time to time, to meet the rural consumer demands it is very

essential to touch them at every place and so the distribution system has to be made powerful to reach the untapped market.

## 7. RECOMMENDATION

The distributor holds the key to the company's reach in the market place so pressure should be made upon the distributors to increase their week working days by keeping in mind that the total channels should be visited at least once a week to ensure that there are no gaps in physical distribution. Some major recommendations are listed below:

- A regular system of street-combing has to be institutionalized to keep an account of new shops coming up. This would ensure extensive retail coverage and consumers do not have to go from shop to shop to buy the products. One has to generate a "Retail Push" and to do this the only thing that will work is the salesman's rapport with the retailer.
- A compact and established sales territory of a distributor would ensure better coverage, reduced selling cost, improved customer service and more accurate evaluation of distributor performance.
- Frequency in visit to the potential areas and to the selected semi wholesalers or even making phone calls at regular intervals to enquire the requirement of products may remove the problem of supply from other stockists.
- Distributors must be periodically evaluated against standards such as sales quota attainment, average inventory levels, customer delivery time, treatment of

damaged goods and cooperation in promotion etc.

- Due to financial weakness of some dealers, products are sold by 'under cutting' the prices in the wholesale market. They liquidate the stock at a price little above the cost price. A regular monitoring of the stock of the distributors would help curb such practices and help to stabilize the prices.

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