



**A Study on the Problems faced by the FMCG Distribution Channels in Rural Area of
Bhopal & Hoshangabad Districts of M.P.**

Dr. A.K Singh

Professor, S.V College

Bairagarh Bhopal, M.P

Anilksingh065@gmail.com

Imran Mehraj Dar

Scholar in Management Studies

Barkutallah University, Bhopal, M.P, India

Imranmehraj.dar@gmail.com

Abstract:

Rural markets offer a great scope for FMCG Companies to market their products because of the recent increase in the rural incomes. The tough competition in the FMCG sector makes it important to constantly revise the schemes as per the market conditions. Understanding the taste and preference of the consumers provide the useful insight into the market conditions and helps companies devise their schemes accordingly. Proper distribution coverage is a powerful tool to stimulate the demand which not only helps in retaining the present customers but can also attract additional customers by offering better services. The right distribution objective is to get the right goods to the right places at the right time for the least cost. The paper opted for an exploratory study using the interview technique to solicit information from the distributors, wholesalers and retailers. The data were complemented by other information from Consumer Behavior and Rural Marketing literatures also. The distribution mechanisms and channel behavior dimension of the rural market of Bhopal and Hoshangabad is analyzed. The channel behavior has a critical influence on channel decisions and identifying the manner in which the distribution channel performs would help us to understand how successfulness the company is. The paper includes implications for understanding distribution management and channel behavior which are critical to Study the Problems faced by the FMCG Distribution Channels in Rural Area of Bhopal & Hoshangabad Districts of M.P.



Introduction:

The Indian FMCG sector is the fourth largest sector in the economy with a total market size in excess of US\$ 13.1 billion. It has a strong MNC presence and is characterised by a well established distribution network. Availability of key raw materials, cheaper labor costs and presence across the entire value chain gives India a competitive advantage. The FMCG market is set to treble from US\$ 11.6 billion in 2003 to US\$ 33.4 billion in 2015. Burgeoning Indian population, particularly the middle class and the rural segments, presents an opportunity to FMCG sector to walk away with a sizable share.

Fast-moving consumer goods (FMCGs) are commonly known as consumer packaged goods. The FMCG goods include those products that are sold quickly at relatively low cost. The most common things that are counted in the list of FMCG products include toilet soaps, detergents, and shampoos, toothpastes, shaving products, shoe polish, packaged foodstuff and household accessories. The term even extends to certain electronic goods also. Consumers need these things in their everyday life, so they invest a good portion of their income in these things. There are so many companies which are dealing in FMCG products like HUL, Dabur, Cavin Care, AMUL, P&G etc. As large numbers of companies are looking this sector as a profitable venture, so for sustaining their position and gain new market they have to bring something unique in their products or services to gain position in the market or to sustain there.

There are about more than 6 lakh villages in India and the companies need to make their products available in the remotest corner of each village. It is not easy to achieve that goal and the major companies are incurring huge costs to make their products available in the 3.5 million rural outlets. It is a challenge for any company to design a distribution model that is cost effective and that meets the growing demand from the rural market. The distribution network involves number of channels that helps the company to make their products available to the ultimate customer. FMCG distribution has the maximum channel partners in the Indian rural market like distributors, super-stockiest, wholesalers, stockiest, transporters and retailers. So, in order capture the rural market efficiently; the companies need to improve their supply chain.

In modern business, distribution network has a great impact on the success of any business. In the FMCG segment the role of an excellent distribution channel becomes even more crucial because the delivery of FMCG Product is confined to day to day basic. Hence in order to survive and thrive in a highly competitive market one should have its distribution channel which has no problem at any point of the distribution channel. The factor which is of crucial importance to survive in any business is the understanding of the mind of the individual consumer i.e. to know



the main characteristics of the product which a consumer consider while making a purchasing decision regarding FMCG Product. In order to make right decision regarding all these aspects, the company requires a complete knowledge of the problems faced in distribution channel and should be a be able to overcome all these problems.

There is a greater degree of rural base choice that would be going for greater consumption of FMCG products with reference to Bhopal and Hoshangabad districts. It is interesting to know that the rural population of Bhopal and Hoshangabad districts is more oriented towards urban patterns of living and life style and their preferences for FMCG products. There is a predominant concentration of well-to-do rural population who have recently migrated and settled in urban areas of Bhopal district, therefore their consumption pattern would influence between rural taste and the elite urban style of preference. Retaining experienced channel members to cater to rural market is a big challenge for all the marketers because the attrition of rural channel members is double the urban counterparts. So it needs to study the various attributes such as promotional schemes, number of assortments and their availability which decide the channel satisfaction. FMCG companies mostly rely on their marketing channels to generate customer satisfaction and to achieve differentiation over competition.

Literature Review:

Sastry et al (2007) have studied the pertinent issues in rural market such as uniqueness of the rural consumer, uniqueness of the structure of rural markets and the peculiarities of distribution infrastructure in rural areas. These are special to rural markets and hence, require unique handling. Practically in every aspect of marketing, rural markets pose certain special problems, but the following are found to be important form the marketing point of view: Distribution logistics, storage, transport and handling, Location and degree of concentration of demands, dealers' attitude and motivation, consumer motivation and buying behaviour, Transmission media, their reach and impact, & organizational alternatives. Thus, the rural market bristles with many problems and to achieve a firm footing, a marketer has to grasp these problems and provide innovative solutions to them.

Bhattacharya (2007) studied the impact of spurious brands in rural market and how it chokes the market for authentic items .The color and almost identical cover graphics are used for passing off spurious products as original. Even the names may sound similar. Many distinctive features between the original and fake versions cannot usually be detected by the unwary and average customer anywhere in the market. Blockages - at present, most products reach the rural



customers generally through wholesale channels. These intermediaries are not sufficiently under the control of manufacturing firms, which intend to enter the rural market in a big way.

Skewed Distribution of Outlets - not surprising therefore, 76% of the estimated 3.7 million rural outlets are concentrated in seven states. They have all sprouted in relatively sizeable and well-off villages where sufficient consumer demand exists to sustain them. Then again, there are about 60,000 villages which do not have even a shop each. Poor infrastructure for most villages in most areas which chronically suffer from lack of periodic supply of goods, poor availability of credit and capital and low purchasing power of patrons.

Bhattacharya (2005) also studied that the FMCG companies change the track of distribution to attract customers. Several FMCG companies have taken to unconventional modes of distribution. CavinKare Pvt. Ltd. has created two separate brands - Chinni for smaller pack sizes and Priya for larger packs - And instead of using the conventional distribution route, they have created a 'sachet' sales force that sells only sachet packs to small retailers, including cigarette and pan shops.

Emami Ltd. tied up with the Post and Telegraph Department to place its products across 5,000 post offices. Wipro Consumer Care and Lighting (WCCL) have been using the Andhra Pradesh Government's e-seva project, which aims at enhancing the common man's interface with the Government. Coupled with traditional distribution methods, this approach allows WCCL to reach consumers who otherwise may not come to a retail point. Alternative distribution channels do not offer better margins and are, at best, tools to gain accessibility in certain areas. Also, distribution margins across these channels are identical to those in conventional routes, so there is little cost saving. So, while alternative distribution options are gaining acceptability, it may be some time before these become a rage.

Schiffmand et al. (2000) consumer behavior is in the search for purchasing, evaluating and disposing of products, and services. They further affirmed that the study of consumer behavior is concerned not only with what consumers buy, but how they buy, and how often they buy it.

Khicha (2007) studied that television and direct marketing activities help rural consumers learn about different brands, ensuring product availability is even more critical. Marketers in rural India claim that setting up a supply chain that reaches the remotest rural areas is extremely arduous given the infrastructure in the country. HUL Project Shakti targeted rural women from existing self-help groups to work as "direct-to-home" distributors for HUL products, and helped the company break into a market they were unfamiliar with.

A "hub and spoke" model of distribution is the "future." As he explains Dabur has successfully adopted the hub and spoke model in India and it has worked very well. Here, feeder towns, primarily on the highways serve as hubs, where companies can rent a warehouse and stock their



products. Spokes are comprised of ‘cyclist salesmen’ who then distribute products to small retail outlets in nearby rural pockets.”

Velayudhan (2007) Studied that Accessing the rural market through the rural distribution network is important as it significantly increases the rural penetration of brands. The higher dealer penetration results in higher reach among consumers and therefore a higher market share. This is examined by comparing the percentage dealer penetration and market share.

Objectives

1. To find the problems perceived by channel members in distribution of Fast Moving Consumer Goods to Rural Area of Bhopal and Hoshangabad
2. To measure the level of satisfaction of rural consumers towards Fast Moving Consumer Goods distribution system.
3. To measure the effectiveness of rural FMCG distribution.

Results and Discussion

Table: Level of Satisfaction for Action Taken Against Channels Complaints

| Level of Satisfaction | X | Distributors (N=11) | | Wholesalers (N=40) | | Retailers (N=60) | |
|----------------------------|---|---------------------|----------------|--------------------|-----------------|-------------------|-----------------|
| | | F1 | XF1 | F2 | XF2 | F3 | XF3 |
| <i>Highly Satisfied</i> | 1 | 0 | 0 | 4 | 4 | 9 | 9 |
| <i>More than Satisfied</i> | 2 | 0 | 0 | 16 | 32 | 10 | 20 |
| <i>Satisfied</i> | 3 | 0 | 0 | 10 | 30 | 32 | 96 |
| <i>Less than Satisfied</i> | 4 | 5 | 20 | 10 | 40 | 9 | 36 |
| <i>Disgusted</i> | 5 | 6 | 30 | 0 | 0 | 0 | 0 |
| | | $\sum F = 11$ | $\sum XF = 50$ | $\sum F = 40$ | $\sum XF = 106$ | $\sum F = 60$ | $\sum XF = 161$ |
| | | Mean=4.55; Mode=5 | | Mean=2.65; Mode=3 | | Mean=2.69; Mode=3 | |



a). Distributors: The values of median and mode indicate high degree of dissatisfaction in regard to “actions taken against channels’ complaints” and also the value of mean is 4.55; it was apparent that 45% of the respondents were less than satisfied and also 55% were disgusted. So the question of more than satisfied or highly satisfied in regard to system did not arise at all. On the whole, response to distributors’ satisfaction with “actions taken against channels’ complaints” was quite significant. Territory jumping by the urban counterpart was not allowed as per memorandum of understanding and such complaints remained unresolved. There was a big conflict between both urban and rural distributors.

b). Wholesalers: The values of median and mode indicate high degree of satisfaction in regard to “actions taken against channels’ complaints” and also the value of mean is 2.65; it was apparent that 40% of the respondents were more than satisfied and 25% and 10% were satisfied and highly satisfied respectively. Only 25% were less than satisfied with the system. On the whole, response to wholesalers’ satisfaction with “actions taken against channels’ complaints” was quite significant. Wholesalers’ complaint was in the form of spurious products entering the supply chain.

c). Retailers: The values of median and mode indicate high degree of satisfaction in regard to “actions taken against channels’ complaints” and also the value of mean is 2.69; it was apparent that 54% of the respondents were satisfied, over and above 17% were more than satisfied and 15% were highly satisfied with the system. On the whole, response to retailers’ satisfaction with “actions taken against channels’ complaints” was quite significant.

During the discussion and interview with distribution channel members, it was learnt that there were many problems perceived by them in distribution of Fast Moving Consumer Goods (FMCG) in rural markets of Bhopal & Hoshangabad districts in MP that are related to the mode of delivery, mode of payment, delay in payments, excessive costs incurred on recovery of credit, excessive lead time, execution of promo-offer & display of products.

The distribution channels also have grievance over the discrimination issue, actions taken against channels request, responsiveness during implementation, meetings with territory in-charge, time taken for query resolution, actions taken against channels complaints, quality of sales-kit, domain knowledge with territory in-charge, attitude of territory in-charge, and credit period for satisfaction of distributors, wholesalers and retailers.

It was unfortunate that customer lodged complaint with retailers does not get immediate response and among them some had taken very strong measure by switching over to other shop (68%) and some of them returned the goods and took money back (32%).



Conclusion

Channel distribution always faces the discrimination as distributors didn't get credit from companies but they had to give some credit period to wholesalers and retailers. There is a prevalence of spurious goods with the same brand name and packing colours and many rural consumers were becoming victims of such menace. Less educated people did not buy branded products and became victims of duplicate products. During the survey it was found that the majority of the families had fewer members in family and also majority of the rural consumers had no investment at all. It was also seen that major brands of FMCG were not available in rural area. Although the good behaviour and courtesy of the retailers had great influence on rural customers and if required branded product was not available at the time of buying, the rural consumers postponed their buying.

In the rural areas of the surveyed districts of M.P, males are meant for shopping. If the rural customers did not find their required products in their respective villages, they traveled to outside the village to purchase these goods. The other reasons to buy outside the village were the variety, the high quality goods of their choice which they did not find in their villages and reasonable prices.

In short, in order to capture the rural market, the FMCG companies need to manage their channel distribution efficiently and to address their grievance immediately. The successful distribution channel leads to the customer satisfaction which in turn leads to the Companies success. In order to make the distribution successful, the Companies needs to accomplished or build the trust, increase their credit period, avoid in delaying the supply & channel discrimination. So, these proactive companies understand that strong long-term profitability can only be achieved by creating and promoting positive relationships, mutual benefit between members of distribution channel.

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