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Factors Influencing Association of Intermediaries in the Supply Chain of Consumer Healthcare Brands

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Abstract

Purpose: The rural market in India provides tremendous scope for FMCG consumer healthcare companies to market their products because of a significant increase of rural purchasing power. Many empirical studies in this area highlight the challenges and opportunities for marketers in the FMCG space. Research articles are not in abundance to understand intermediaries' expectations in the supply chain specific to consumer healthcare products. The existing literature did not significantly address the challenges of channel partners in the rural market. The present study aims to determine the retailer expectations from manufacturers and channel members' mutual expectations in the FMCG distribution channel. **Research design and Methodology:** The present study adopted a qualitative research methodology. Fifty respondents from each level of distribution channel such as super-stockist, distributors and retailers in central India were identified and an interview method was adopted to collect the data. **Results:** Nineteen factors were identified to influence the intermediaries for involvement in the business with any FMCG brand. Factors like Profit margin, reverse logistics, credit terms, return on investment, timely payments were crucial for managing the expectations of all intermediaries. This study provides academic as well as practical implications in terms of enabling the industry to align its channel management strategies accordingly

Keywords: FMCG, Intermediaries, Consumer healthcare, Super stockist, Distributor, Supply chain

JEL Classification Code: M30, M31, M39

1. Introduction

The market potential of rural markets is in the limelight since the rise of the economy of the rural sector in India. Companies that have identified this hidden potential and vast opportunities are thereby stepping up to gain a

competitive advantage in the marketplace. The economy of rural market is gradually increasing with respect to change in the lifestyle of inhabitants. Rural sector holds almost 70% of the Indian population. Nearly 68.84% of the Indian population comprises the rural sector, which proves to an excellent opportunity for the FMCG industry to cater. Increased awareness, along with an increase in income level, has influenced the rural marketing environment in the country. The factors which have contributed to the growth of the rural market are penetration of media, rise in aspiration of rural consumers, and revolution in the packaging industry. FMCG industry has emerged as one of the most lucrative option for rural markets in India. According to Nielson, FMCG market in rural India grew to 13.6% in 2018. Moreover, the consumption of FMCG products has grown to 20% by the previous year. An effective rural market strategy must include product variants, product categories, price points, and a robust

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distribution network. This study focuses on identifying and understanding the factors which affect rural distribution and supply chain system for FMCG products in consumer health care.

2. Literature Review

Future is very promising for those companies whosoever can understand the dynamics of rural market and exploit them to best of their advantage. Emotional aspects are linked to the field of marketing. They also infer that tangible, functional values about distribution channel management like information flow, the fulfillment of mutual objectives, cooperation among stakeholders, and skill enhancement impact behavioral aspects in distribution. Tangible, functional values, and emotional factors jointly influence the value-based channel, leading to high value relating to channel-based distribution equity (Bhattachary & Singh, 2016). Sales promotion plays a significant role in market penetration as far as consumer retention and sales enhancement are concerned. The retailers also showcased some critical issues in scheme development and pricing design, which falls under a promotional strategy. Companies can enhance their sales in those regions where product category involvement is shallow, resulting in a higher tendency to switch over to other products. The development of rural India depends on agriculture, health, education, infrastructure, poverty reduction, and employment. Employment generation by FMCG companies like HUL, ITC, Godrej, etc. also contributes to rural development. These companies have generated rural employment through their marketing activities. Their products and brands are being distributed and sold to rural customers by rural people, thereby generating jobs, income, and making goods availability easier (Mishra P, 2016). Consumer behavior in the rural market has changed drastically in recent past. The most certain thing about consumer behaviour in the rural market is that the pace of change in the needs, wants, and desires of the rural market will be even steeper and will also change in the future. The upcoming generations of the rural market will incline towards the brand name, and they will not prefer the brands which are very old in the market. The present generation HUL has been following a sustained approach to tap the vast potential of India's rural market. A variety of changes are on the horizon, which would impact rural distribution plans of HUL. These changes are the technology of digital maps – to study existing rural distribution reach and draw up plans to increase the reach. Maps help for smarter route planning. Improved road infrastructure across the country leading to enhanced access to even remotest of villages. Reach of Television to the rural area has rural consumers

watching all programmes and ads as in the city. The aspiration to use the same products as city folks is on the rise, and rural consumers' buying habits are changing accordingly (Kaur, 2013). Marketers must be aware of the media selection and proper use of the language, which the rural people understand. Regional language plays a vital role in purchasing decisions, other than this, rural people have started recognizing the brand name while shopping. The rural consumers generally rely on other people who have already used that product; therefore, the marketers need to make a proper marketing strategy. Branding, media, and language usage are the few critical parameters that must be kept in mind while going for rural marketing (Shrama, 2013). Rural India offers enormous opportunities that companies can tap for their growth and development. However, companies face many challenges in tackling the rural market. The rural India population is almost double than of urban India, prevailing such vast untapped opportunities in rural India. But marketers are unable to win these opportunities because of a lack of infrastructure facilities. Since the literacy rate is meager in rural India, people are unable to identify the brand difference. But now the trend has been changed where the literacy rate in rural India is increasing. The number of middle and higher-income households is rising at an exponential rate. Hence there is rapid development in infrastructure, and all the FMCG companies are attracted to target rural markets. With some innovation in distribution and marketing products in rural India, companies in the rural market can earn more profits, market share. The rural market is indeed a more fantastic prospect for the marketers, and there are many opportunities available for them in the rural market (Kumar & Dangi, 2013). Channel managers of FMCG industry must initially need to understand the external environment at the taluka level in rural areas and then do the distribution planning. Managers need to consider rural retailers' buying preferences regarding the quantity and frequency of purchase and credit requirements. It is not advisable to consider rural distribution as an extension of urban distribution (Aithal, 2012). Rural customer trust retailers in the village. Companies must focus on rural retailers and educate them about the modern marketing principle for better performance. Since price influences FMCG's rural purchase, it is recommended to follow a low price strategy in the rural market. Companies should achieve this by not degrading the manufacturing cost, preferably by performing significant marketing activities such as promotion and distribution in a cost-effective manner. Also, rural marketers should design innovative promotional strategies to express messages effortlessly to the villagers and compatible with their education and understanding level. Rural consumers tend to rely on a long-lasting feature. They associate this with the size of the product and the hardness

of the product (Ali, Thumiki, & Khan, 2012). Product planning is critical for marketers to enter the rural market. The non-availability of a specific brand is one of the significant reasons for the change in purchasing decisions. The packaging is another parameter for buying decisions. Packaging should be strong enough to stand rough handling because poor infrastructure facilities and packages should be small. Brand names that are simple, small, and easy to remember and pronounce are likely to be picked by the village consumers. Integrated marketing communication is also required to reach remote villages (ChandraSekhar, 2012). Branded products are now readily available in remote villages, and now the villagers are not supposed to go to a nearby town for such products. The growing power of rural consumers is now forcing big companies to flock into the rural market. But along with it, significant challenges and issues have also been observed in the rural market. In the rural market, customs and beliefs play an essential role in any product's success or failure. As a result, every marketer has to focus on the rural market apart from the urban market. Government plays a vital role in developing the rural economy and enhance the physical channel for the marketers (Kotni, 2012). Rural distribution has posed a challenge to marketers because the market is spread all across the villages. Marketers can reach rural consumers by effectively using the rural retail system. The marketers can lure the rural retail system by using attractive margins, credit, and discount schemes to motivate large outlets in rural areas. Marketers need to supplement their sales through the retail channel. Traditional mobile traders can be used by companies to reach the interior parts of the village. Marketers can use the function of creating awareness, educating the consumers, and thus by persuading them. Marketers need to design a creative solution to surpass the rural market's challenges, such as physical distribution, channel management, and promotion (Ingavale, 2011). Rural markets are different from their urban counterparts on several counts, operations strategy, and marketing strategy for ensured success in these respective markets. There is a broad scope of innovation in processes, delivery, and value proposition. Architectural innovation can be achieved through consistent and accumulated incremental innovation. This can further be used as a platform for value innovation. A combination of architectural innovation and value innovation can be used strategically by the company to emerge as a market driving company and a market leader in the rural market (Chattopadhyay & Sarkar, 2011). FMCG companies will have to deepen their roots in the rural market to achieve much higher growth targets in the future. There is considerable potential and a lot of profitability in rural India, but the smart way to achieve it would be addressing the roadblocks as carefully as possible. The companies that

intend to enter the rural market must practice the above-mentioned strategic stability but not for tactical gains. The reason is that the rural consumer has unpredictable buying behaviour, and only through prevailing commitments can the companies make a stand in the rural market. Finally, the ultimate winner would be the one with the required resources like time and money and, most importantly, innovative ideas to tap the rural market (Raj & Selvaraj, 2007). A research study conducted to determine impact of attributes of mobile shopping ads on the purchase intention of fashion products highlighted that reliability, enjoyment and ease of use were found to have a considerable impact on the shopping flow and purchase intention of the customers. (Byun & Kyung, 2020). Online shopping is become more popular in the recent times. In order to ensure last mile delivery, companies can use advanced technologies. Results of the case study conducted in Bangkok showed that two-phase algorithm with network partitioning and facility location can be used to design a last-mile delivery network (Amchang & Song, Sang-Hwa, 2018). Consumers are also more inclined towards adapting technology. A research study conducted among the University students used the TAM framework to predict the factors influencing student's usage of University mobile application. The results showcased that there were positive associations between perceived ease of use and perceived usefulness with the attitude towards the usage of the University's mobile application (Aljaadi, Bagais, & Sharma, 2020). A case study conducted within the aircraft maintenance, repair and overhaul (MRO) industry in the UAE tried to explore the role of collaborative relationships for improving outsourcing. Results indicated that MROs get many advantages out of 3PL arrangements. In the same line, any kind of gap in outsourcing management results in risks such as reputational, operational and financial losses (Hassan & Annabi, Carrie Amani, 2019). Consumer behaviours has been changing with respect to change in multiple aspects. A research was conducted to investigate the structural relationship among the omni-channel propensity and regulatory focus on the formation of consideration set. The findings of the study elaborated that omni-channel propensity and regulatory focus significantly influences the formation of consideration set (Han, 2019). Consumers are highly interested towards the omni-channel aspects as they are interested to avail the product or service at multiple touch points. Multiple studies were conducted to understand the omni-channel expectations of the customers. Fashion innovativeness, technology innovativeness, and fashion purchase involvement positively affected the omni channel shopping intention of the consumers (Ryu, 2019). Convenience is the most important factor which consumers are attaining because of omni-channel presence. A study investigated the factors influencing customer value at

convenience stores revealed that, convenience was identified to affect the utilitarian values of the customer significantly (Cha & Lee, 2020). Consumer attitude is also significantly influenced by multiple factors. A study conducted on identifying the factors influencing Vietnamese consumer attitude towards smart phone advertising revealed that five main factors such as reduced importance, entertainment, informativeness, credibility, non-irritation, permission and control were affecting the consumer attitude (Gliáo & Vuong, 2020). Advertisements play a greater role in shaping the consumer mind-sets. Significant advertising and branding efforts of an organisation would make the selling efforts of the intermediaries easier by creating a pull factor. Research studies conducted to identify features of social media advertisements on generating ad click and purchase decisions evidenced that social media advertisements have positive effect on ad-click, buying behaviour of customers (Hooda & Ankur, Ankur, 2018). A study conducted for management institutes in India for social media marketing usage has proposed a conceptual framework for the same. The study revealed the fact that businesses will have varying requirements based on objectives and resources available. Businesses should be completely aware of the consumer oriented indicators while designing a social media marketing campaign (Bhandari & Sanjeev Bansal, 2018). Branding efforts by the manufacturer creates a value to the company among the intermediaries as the brands are known to the customers. A research explored the traits such as information variety, communications in various forms, and no limitation in expressing the self affects the brand public engagement (Choi, Wang, & Chen, 2019). Brand engagement and consumer demanding the products in the retailers' counters are highly correlated. Brand image and brand trust were significantly contributing to customer satisfaction and re-purchase intention of the customers (Cha & Seo, 2019). Repurchase intention results in repeated purchases of the customer which in turn would result in continuous business for the intermediaries in the distribution channel. Market dependence in rural India can be understood entirely only if other villager level parameters are also considered. Lower-income group categories in rural India were also found to demand high-status consumption goods, especially in the more visible cosmetics and clothing types. Consumerism has created apparent differences in households' consumption and investment patterns according to their social status, class, and gender (Mitra & Pingah, 2011). Rural markets offer incredible avenues for marketers in terms of revenue and market share but establishing a foothold in a rural area is not a cakewalk. Marketers need to work on the principle of "Partnership for Sustainability," as rural consumers look for loyalty and security in a brand. The overall marketing mix

framework for rural markets must focus on plugging the segments with the right product, value for money pricing, an appropriate channel of distribution, long-term relationships with the customers, and using emotional brands' power. Experience prior knowledge and subjective knowledge are the basis of decision making for the purchase of any product from the manufacturer to the retailers. However, decision effort, choice tactics are driven by the perceived risks associated with the product. Companies must understand the choice-making behavior of rural retailers. Choice tactics may help the local manufacturer, FMCG companies, and the intermediaries involved in the distribution channel in devising the marketing strategies to penetrate the rural market (Pradhan, 2010). There is a different segment of consumers in the younger 18-35 years age group. Such consumers are educated, more mobile, and have urban exposure. They are brand conscious and ask for brands of their choice and preference. Their brand usage and recall rate is comparable to their counterparts in the city. Market access and success factor as far as the FMCG industry is concerned in India are dependent upon several factors such as infrastructure, diversity in channel forms, and regulatory changes. He also inferred that several other sectors face challenges regarding distribution, unlike the FMCG industry. Companies have to think more creatively for overcoming distribution challenges and infrastructure bottleneck. Companies must consider and strategically combine price, product design, and channel into their overall marketing strategy (Mishra, 2008).

2.1. Summary of Literature review

The following are the variables identified through the extensive literature review:

Retailer Margin, Cash Discounts, Secondary schemes, Credit policies, Visual Merchandising, Reverse Logistics, Distributor Margin, Information flow, Timely visit of sales reps, Merchandise on credit, Sales promotion, Market penetration, Digital technology of maps, Permanent Journey Plan, Route Planning, Timely payment from Sub distributor, Security cheque from sub-distributor, Complete KYC from sub-distributor, Supply chain and distribution System, Infrastructure of roads, Real time Merchandise Update, Return on Investment, Adequate sales force, Reimbursement of extra expense, Super Stockiest margin

Source: Secondary Data

2.2. Research Gap

Over the past few decades, many empirical studies have highlighted the challenges and opportunities pertaining to the purchase intention of consumers of the rural market.

Minimal research is done to determine the mutual expectations between the intermediaries in the supply chain of rural markets as far as FMCG consumer health-care products are concerned. The present study addresses the gap by attempting to determine the expectations of the intermediaries from the brand and also among the channel members.

3.Statement of the Problem

For many FMCG companies, product flow between the intermediaries becomes a significant challenge in the supply chain due to non-synchronization within the intermediaries. Channel member cooperation and synchronization becomes essential for FMCG brands to ensure better presence and product availability.

3.1. Objectives of the Study

- To identify the factors essential for retailers to indulge in the business with FMCG/Health-care product companies
- To determine the mutual expectations of the intermediaries in the supply chain of the rural market.

3.2. Conceptual Framework

The conceptual framework, which is the proposed interrelations of factors and variables for each intermediary viz retailers, super stockist, and sub-distributor, has been developed through a review of the literature and a pilot study

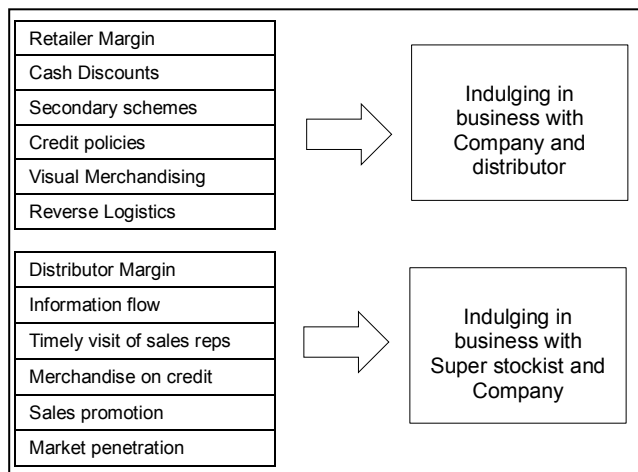


Figure 1: Factors influencing channel partners to involve in FMCG/Healthcare sales

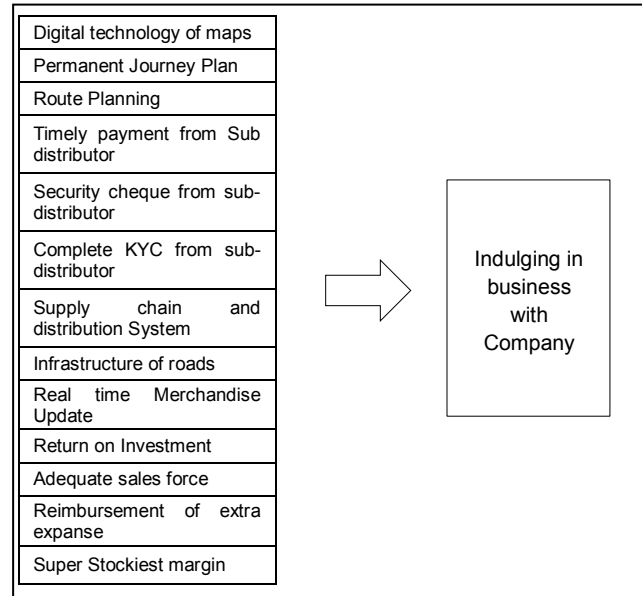


Figure 2: Factors influencing super stockiest to involve in FMCG/Healthcare sales

3.3. Research Methodology:

Qualitative research design was adopted. Semi-structured interviews were conducted among 50 respondents from each intermediary category, such as retailers, sub-distributor, and super stockiest. A set of questions were asked to the respondents, and the respondents were asked to respond to the items in a 5 point Likert scale ranging from 1 to 5. 1 being strongly disagree and 5 being strongly agree.

4.Data analysis and Interpretation

4.1. Retailer expectations:

The below table is the frequency distribution of 50 retailers' specific factors for indulging in business with the company. From the study, it is apparent that retailer margin, reverse logistics, and credit policies are the most important factors which they look for indulging in business with an FMCG company.

Retailers predominantly look for profit margin primarily as it defines profitability. If the company provides a significant profit margin to the retailers, they look upon the other aspects the company offers. Reverse logistics emerged as a substantial factor for retailers in business with any FMCG company. Reverse logistics refers to the reverse product flow from the retailer to the manufacturer once the product expires on the retailer's shelf. The ideal frequency of reverse logis

tics should be at least once a financial quarter. Retailers also look upon the distributor's credit terms to pay the merchandise for each lot of orders. Greater the credit term of the order, the higher the retailer's chance to get associated with the company's distributor.

Table 1: Retailer Expectations from FMCG/Healthcare companies

Factors	1	2	3	4	5	Avg
Retailer Margin	0	0	5	34	11	4.12
Reverse Logistics	0	0	17	23	10	3.86
Credit policies	0	0	13	34	3	3.8
Secondary schemes	0	0	25	24	1	3.52
Visual Merchandising	0	10	35	5	0	2.9
Paid Visibility window	0	19	31	0	0	2.62
Cash Discounts	0	25	22	3	0	2.56

Note: 1 – Strongly Disagree, 2- Disagree, 3- Neutral, 4 – Agree, 5- Strongly Agree

The company's secondary schemes also make a significant impact on the retailer for getting them engaged in business with the company. However, the company's visual merchandising efforts do not significantly affect the retailers as they believe it merely occupies the shelf space and does not offer much benefit to the business. Most retailers do not demand cash discounts from the distributor as they generally opt for credit in the product.

Table 2: Retailers' Intention to Associate with FMCG/healthcare Brands

Final Intention	1	2	3	4	5	Avg
I will associate myself with the distributor of the company if the profitability is achieved.	0	0	5	34	11	4.12
I will associate myself with the distributor of the company once the in-store promotion activity is met.	0	0	17	23	10	3.86

Source: Primary Data
 Note: 1 – Strongly Disagree, 2- Disagree, 3- Neutral, 4 – Agree, 5- Strongly Agree

Most retailers look upon the profitability and intend to get indulged with the FMCG company if they get adequate profit margins. Many retailers look for in-store promotion of the merchandise to get associated with the company.

4.2. Mutual Expectations of the Intermediaries

The below table is the frequency distribution of 50 sub-distributors specific factors they consider relevant before indulging in business with the company.

Table 3: Retailer Expectations from FMCG/Healthcare companies

Factors	1	2	3	4	5	Avg
Distributor Margin	0	0	10	25	15	4.1
Sales promotion	0	0	10	32	8	3.96
Timely visit of sales reps	0	0	18	28	4	3.72
Merchandise on credit	0	8	10	24	8	3.64
Market penetration	0	12	7	22	9	3.56
Information flow	0	5	20	25	0	3.4
Cash Discounts	0	25	22	3	0	2.56

Source: Primary Data
 Note: 1 – Strongly Disagree, 2- Disagree, 3- Neutral, 4 – Agree, 5- Strongly Agree

Sub-distributors predominantly look upon the profit margin as it defines profitability. If the company provides a significant profit margin to them, they look upon the other aspects that the company offers to them. Sales promotion, timely visit of sales representatives, and credit terms emerged as the significant factor for the sub-distributors indulging in business with any FMCG company. Once the super-stockiest/company appoints a sub-distributor, the sub-distributor expects the sales representative to promote its name as goodwill in the entire village and inform other retail shops in the town about the distributorship. He also expects the sales representative to boost sales in the market by making retail shops to order the products. Apart from the sales promotion, the sub-distributor expects the sales representative to visit his store regularly. The ideal frequency of the visit varies from a week to a fortnight. Also, the sub-distributor looks upon the distributor's credit terms. Greater the credit term of the order, the higher the chance of sub-distributor to get associated with the company's super-stockiest

Most of the sub-distributors look upon profitability and intend to indulge with the FMCG company if they acquire adequate profit margins. Many sub-distributors look for in-store promotions and marketing activities like sales promotion for indulging in business with the super-stockiest / company.

The below table is the frequency distribution of 50 Super - stockiest specific factors that they consider relevant for indulging in business.

Table 4: Sub-distributors' Intention to Associate with FMCG/healthcare Brands

Final Intention	1	2	3	4	5	Avg
I will associate myself with the super stockiest of the company if the profitability is achieved.	0	0	0	27	23	4.46
I will associate myself with the super stockiest of the company if the in-store promotion and marketing activity is done by the company.	0	0	9	33	8	3.98

Source: Primary Data

Note: 1 – Strongly Disagree, 2- Disagree, 3- Neutral, 4 – Agree, 5- Strongly Agree

Table 5: Super stockists' Expectations from FMCG/Healthcare companies

Factors	1	2	3	4	5	Avg
Return on Investment	0	0	4	37	9	4.1
Timely payment from Sub distributor	0	0	10	32	7	4.04
Reimbursement of extra expense	0	0	11	32	7	3.92
Super Stockiest margin	0	0	12	32	6	3.88
Security cheque from sub distributor	0	0	17	22	11	3.88
Complete KYC from sub distributor	0	2	14	25	9	3.82
Real time Merchandise Update	0	0	19	21	10	3.82
Adequate sales force	0	7	11	28	4	3.58
Supply chain and distribution System	0	3	20	24	3	3.54
Route Planning	0	6	17	25	2	3.46
Permanent Journey Plan	0	8	26	15	1	3.18
Digital technology of maps	0	22	16	12	0	2.8
Return on Investment	0	0	4	37	9	4.1

Source: Primary Data

Note: 1 – Strongly Disagree, 2- Disagree, 3- Neutral, 4 – Agree, 5- Strongly Agree

Super-stockist predominantly looks upon the return on investment he gets for involving in the business. Super stockists mainly focus on timely payment from the sub-distributors on or before the credit term gets over by the super stockiest. If the sub-distributor breaches the super stockist's credit term, it may lead to a loss for super stockist. Super Stockist also expects the company to reimburse the extra expenses incurred during the sales promotional activities. Before activating a sub-distributor with the company, the super stockist expects the potential sub-distributor to provide a blank cheque as a token of security. Super stockist expects the sub-distributor to provide complete KYC initially, and then activation takes place. The super stockiest expects the company to have a real-time merchandise update system that will indicate the warehouse's inventory level. Accordingly, order can be placed efficiently and effectively.

Table 6: Super-stockists' Intention to Associate with FMCG/healthcare Brands

Final Intention	1	2	3	4	5	Avg
I will associate myself with the company if the profitability is achieved.	0	0	3	26	21	4.36
I will allow a new sub-distributor to be activated only if all the KYC norms are duly filled by him.	0	0	5	42	3	3.96

Source: Primary Data

Note: 1 – Strongly Disagree, 2- Disagree, 3- Neutral, 4 – Agree, 5- Strongly Agree

Most of the super stockist look upon the return on investment for associating with the FMCG company if they acquire adequate profit margins. Also, they want to activate the reliable sub-distributors for seamless business transactions.

5. Findings

- Retailers predominantly look for profit margin, reverse logistics facility, and credit terms provided by the distributor or company for indulging in business with any FMCG company.
- In-store promotion does not have a significant impact on retailers of rural markets.
- Sub-distributor predominantly looks for profit margin and profitability achieved for indulging in the business with the company.

- Sub distributor also looks for the timely visit of sales representatives and sales promotion support provided by the sales team.
- Merchandise sold with good credit terms plays a vital role in a sub-distributor associating with the FMCG company.
- Sub distributor looks for in-store promotion done by the sales representative.
- Super stockiest predominantly look for Return on Investment, and timely payment from the sub-distributors on or before the credit term gets over.
- Reimbursement of extra expense plays an essential role in the super stockist getting associated with the company.
- Super stockist expects a blank cheque from the sub-distributor as a token of security of merchandise provided on credit.
- The super stockist expects complete KYC from the sub-distributor.

6. Recommendations

- The distributor should timely replace the retailers' expired product so that their shelves can be stocked with the fresh inventory.
- Sales reps must visit the sub-distributor in the rural market weekly and adhere to their permanent journey plan.
- FMCG companies must ensure that adequate sales promotional support is provided to the sub-distributor in the rural market to increase sales.
- FMCG companies must provide a credit term of a minimum of seven days to the sub-distributor.
- Timely reimbursement of extra expenses should be done by the company to the super stockist to invest in the rural market effectively.
- FMCG companies may install a desktop in the super stockists' office, which should have company-owned software for real-time inventory update systems.

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