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# UNIT 13 PHYSICAL DISTRIBUTION PROCESS

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## Objectives

After going through this unit you should be able to

- describe the physical distribution process in the rural markets
- explain the variations in the point of purchase
- comment upon the concept of place utility
- describe the store choice criteria and brand evaluation criteria for the rural consumer
- describe the criteria considered critical in the rural distribution strategy
- comment upon the marketing implication of the existing infrastructure for the physical distribution function
- Draw insights into rural physical distribution process as followed by leading FMCG companies in India

## Structure

- 13.1 Introduction
- 13.2 Place of Purchase Variations
- 13.3 Physical Distribution Strategy
- 13.4 Marketing Implication
- 13.5 Existing Distribution Pattern
- 13.6 Physical Distribution Strategy: Case Examples
- 13.7 Summary
- 13.8 Self Assessment Questions
- 13.9 Suggested Readings

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## 13.1 INTRODUCTION

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Physical distribution, as you are already aware from your exposure to MS-6, entails physical movement of goods from point of production to the point of consumption. The process involves decisions on transportation choices, warehousing, inventory maintenance and control, materials handling and selling standards of customer service. The rural markets with their attendant infrastructural characteristics of road network and limited choices of modes of transport, present unique challenges to physical distribution planners.

You went through the physical infrastructure scenario in the first unit of this block (Unit II). Against that backdrop, let us look at the various stages in the physical distribution process. A situation typical to villages distribution is that significant amount of purchases get made not by goods moving to consumption locations but by aspiring consumers moving to nearby urban markets to buy them; and it is more than mere lack of availability that motivates such behaviour. A good percentage of rural consumers show a preference of shopping from urban locations on account of wider assortments available, perception of quality or just for the shopping experience. Rural markets show significant point of purchase variation. Consider the following: Ninety percent of consumer durables today are purchased from nearby small towns with 20,000 + population as per the recent IMRB study. The case of FMCG is characterised by direct supply to the feeder towns from where each distributor in turn maintains a supply network of a hundred plus outlets which can penetrate all villages in the 2000 + population strata. While these villages (85,000 of them) account for nearly 40.5% of the rural population, they are responsible for over 60% of all rural consumption. Taking the supply chain network further than these villages is something that corporations would like to consider in terms of incremental costs and incremental returns on account of heightened access. The access, however, has to be qualified by the variable of capacity to pay, which as you have seen through inputs given in Block I may not be uniformly distributed. Let us in this unit, go through the process of creation of place utility, the place of purchase variations and the marketing implication emanating from the same. The unit also brings to you interesting case illustrations of Indian companies trying to solve the rural distribution puzzle.

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## 13.2 PLACE OF PURCHASE VARIATIONS

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We all as urban consumers have this vision of the rural consumer relying almost exclusively to the village retailer for most of his consumption needs. The reality, however, is changing. Not



all rural consumers buy from the same location. It is also true that the same consumer buys from different locations depending on the product and the need.

Distribution is clearly the key to rural marketing. But it's wrong to imagine that it's all that matters. Rural consumers aren't cocooned off from the urban world. As urban areas spread, rural consumers are increasingly getting at least occasional access to markets in towns -- either directly, or through friends and relatives. Rural shopkeepers are also increasing the range of products they buy from urban wholesalers, or even other small retailers. There are itinerant retail formats like weekly hats and mantis, or traveling retailers. Whatever the means, rural consumers are eager to consume -- and if marketers won't help them, they'll find other ways.

There are a few categories where rural distribution is still comparatively low -- or as in the case of toilet soaps and washing powder where, even more interestingly, the range in villages may be too limited for the consumers -- but which is being made up for by consumption sourced from urban areas.

A study on haats indicates that, despite the same product being available in the village shop, 58 percent of the rural consumers visiting the haats preferred to buy these from the haat because of better prices, quality and variety.

Rural consumers do not rely on the local outlets and haats alone, as some of the purchases are made in the urban areas (table 3). This is because there are a few product categories where rural distribution is still comparatively low and therefore the consumer buys from towns. In certain cases, the consumer seeks variety. In the case of toilet soaps and washing powders, the range in villages may be perceived as limited by the consumers.

**Table 13.1: Percentage of Products bought from Nearby Towns**

Category	Percentage Share from Urban Purchase
Shaving preparations	36.6
Bulbs and balms	32.0
Toilets soaps	24.0
Washing powders/liquids	23.4
Iodized salt	14.4

Source: Business World, April 1999. Activity 1

**Activity 1**

Visit some urban market at the outskirts of your town, where there is a possibility of contacting rural buyers. Identify the purchases made by these buyers and discuss with them to gently probe

- 1) The reasons for their buying from an urban market
- 2) General frequency of their visit to the market
- 3) The proportion of their consumption requirements that they visit the urban market for.
- 4) The average expenditure per visit

What are the implications of such purchase processes for the marketer of consumers durables and FI' CG products, seeking to extend their reach to small villages.

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**13.3 PHYSICAL DISTRIBUTION STRATEGY**

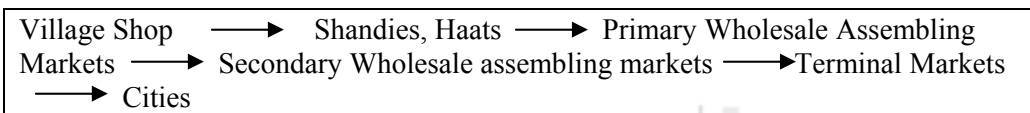
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In order to plan the physical distribution strategy the companies need to study the place utility for different products.



A typical customer has a clear-cut identification of market places for different requirements. A small to medium farmer would visit these markets for different products. For example, the village shop would be used for purchases of goods like tea, beedi, provisions, kerosene, etc. Purchases of cloth, cosmetics, soaps, utensils etc are made at shandies/ haats or melas. Purchases like cycle, radios, ornaments are purchased from primary, wholesale assembling markets. This consumer may not visit the other markets in the hierarchy (refer figure 13.1), whereas a landlord would have a different pattern of purchasing. The understanding of where the consumers wishes to buy his goods (place utility) would provide important directions for distribution functions.

**Figure 13.1: Hierarchy of Markets for Rural consumers**



**Activity 2**

Contact 2 manufactures/managers of consumer goods or seeds or fertilizers. collect information from them to find out

- What are the indirect distribution choices used by them
- Are they considering direct distribution right up to village level ? would you advise them to go ahead? Advise appropriately

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**13.2.1 Place Utility**

Place utility aims at providing the product at the right time (time utility), at the right place (place utility) and in the right quantity (possession utility). Place utility deals with the extent of reach to be provided for the product. The place utility decision needs to be based on the consumer requirements, company capability and competition.

**a) Consumers:** A consumer may not buy a product even if it is available next door, he may prefer to buy from a market, which is further away. For each product a consumer has certain requirements and to fulfill these, the consumer would be willing to travel to a certain distance. A study found that fifty- percent of the consumption of soaps and 70% of the consumption of face creams in rural India is through purchases made in the towns. This trend is not only for consumer products, another study found similar pattern with agricultural inputs. The study showed that 60% of the pesticide purchases are made in towns, though there are outlets selling pesticides in their villages. .

The decision to travel to a distant market is governed by (i) the store decision process and (ii) the evaluation criteria used by the consumer in the brand decision process.

- i) Store decisions: Studies in consumer behaviour have shown that consumers use specific criteria for selecting retail stores. Studies have identified eight major dimensions, which determine the choice of the retail outlet. They are:
- Location.
  - Reputation of the store.
  - Physical characteristics of store.
  - Products offered (range, quality, etc).
  - Prices charged. '
  - Store personnel service (courteous, friendly, helpful).
  - Advertising by the store.
  - Friend's perception of the store.

A study of rural consumers found that the stores perceived to be selling quality products were preferred though they were far away. This could explain the reason for a large percent of people from rural areas purchasing consumer goods in towns. Credit facilities and the prices charged were found to influence the choice of the retailer outlet after the quality related attributes.



- ii) **Evaluation criteria used by consumers during the brand decision process:** During the brand decision process if the consumer wishes to compare different products/ brands he/she would be willing to travel to another market, which will allow him to compare the brands. This is a typical situation in a white goods market where no other competitor is present. A single outlet in a market may not be providing any benefit to the consumer, as the consumer would be denied the opportunity of comparison. So the consumer may still travel to a market, which has other brands to satisfy his requirement of comparison. Textiles provide another situation where the consumer looking for variety would be willing to travel to a market, which provides variety.

Thus, a consumer would be willing to travel to a distant market if it would help him to evaluate the brands better and make a "better" choice.

- iii) Who buys where? For consumer goods the choice of the store would vary with the rural segment. The choice for different segments is summarized in table 13.2.

**Table 13.2: Choice of Store for different Rural Segments**

<b>Direct factors</b>	<i>Villages within a radius of urban center</i>	<i>Villages connected by public transport</i>	<i>Remote village (not connected by public transport)</i>
<b>Indirect factors</b>			
Traditional landlords	Super premium / premium products of consumer durables non durables from towns	Consumer Durable brands promising for money from towns and premium non durable brands village outlets.	Cheap varieties of Consumer durables from the towns and premium to moderately priced consumer non from village outlets.
Neo rich -	Consumer Durable brands promising value for money from towns and premium consumer non durable brands from village outlets.	Cheap varieties of Consumer durables from the towns and premium to priced consumer non durables from village outlets.	A market for small packs of national brands of consumer non durables and alike (duplicates). Purchases are mainly from the haats.
Other farmers and agricultural labour	Cheap varieties of Consumer durables and premium to moderately priced consumer non durables from village outlets.	A market for small packs of national of consumer non durables and 'look alike' (duplicates). Purchases are mainly from the haats.	Not a market for the consumer goods manufactured in the organised sector.

- b) **Company:** From the company perspective, reduction in transportation expenses would be essential especially in the context of rural markets. Direct delivery of goods to even the top' one percent of villages costs twice as much as servicing urban markets. "It is physically impossible for a company to cover all the three million outlets in the country," said Sachin Gopal, Vice-President, marketing, Gillette India Limited. "At best a company can cover 700,000 outlets, which is barely around 20 per cent of the rural market."

Lack of proper communication and distribution facilities, logistics, storage, transport and handling in smaller villages complicate the situation further. It therefore makes economic sense to reduce the locations to which the manufacturer should be directly involved in ensuring supply of material.

In this context the company should explore the possibility of taking advantage of the "natural flow of goods". If the company could ensure that the goods could move to interior markets without the intervention of the company then it would save a lot of expenses.

The natural flow of goods does benefit a lot of FMCG companies, which are marketing in the rural markets. If demand were created for a brand then the rural retailers would themselves ensure that the brand is available in the village to satisfy the consumers demand.



- c) **Competition:** The extent of reach provided by the competitors need not be the only guiding factor to determine the place utility. The level of differentiation between the competing brands would determine whether to follow the competitors or not. As seen above acts of individual competitors need not be replicated in a highly differentiated market as the consumer may wish to visit a distant market. On the other hand, if the products are not differentiated then the extent of reach attained by the competitors would determine the reach to be attained.

**Activity 3**

Looking at the store choice patterns of rural population, what segmentation strategies for physical distribution would you suggest for

- a. Manufactures of white goods
- b. Nationall sold brands of detergents, target soaps and toothpaste
- c. Oral rehydration therapy packs

Refer to the table above to attempt this activity.

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**13.4 MARKETING IMP'LICATIONS**

In view of the physical distribution scenario and the type of indirect distribution possibilities available, the following marketing implications seem to emerge for rural distribution:

- 1. Proper selection criteria for intermediaries should be developed so that outlets with good image are selected and the company does not loose due to stocks being present in stores, which would not be patronized by the customers.
- 2. Build brand pull to reduce the evaluation criteria during brand decisions. In such situations the companies would gain even if the competitors open an outlet in a new market.
- 3. Create a demand in the rural markets and try to take the benefit of the natural flow of goods.
- 4. Reach should match the competitors if the products cannot be differentiated. In case the product can be differentiated then the companies should increase the pull for their brand (in other words reduce the criteria during decision making).

**Physical distribution: A summary**

<u>Criteria</u>	<u>Non durables</u>	<u>Durables</u>
<i>Consumer – maximum distance the consumer is willing to travel for the product.</i>	Not willing to travel far	Willing to travel for a longer distance
<i>Company – Natural flow of goods</i>	Present	Absent
<i>Competitor – Extent of differentiation.</i>	Low	High
	<u>Implications</u>	<u>Implications</u>
	Differentiate the product by developing a unique positioning. Then the company should create a demand and take advantage of the natural flow of goods.	Availability of the product/ brand can be restricted to important markets as the consumers would be willing to travel to these markets.



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### 13.5 EXISTING DISTRIBUTION PATTERN

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The existing pattern of marketing activity in the rural market consists of stock points in the feeder towns, and the retail points at the village level. The stock points may belong to the manufacturer himself, or of a stockist appointed to cover specific areas. In all cases, the feeder town is the key to distribution in the rural market.

Under this system, stockists are appointed by the manufacturers in feeder towns, and entrusted with the task of financing, warehousing and sub-distribution of goods. Retailers, residing in and around the feeder towns are also appointed and are attached to the stockists. Over a period of time, some of the retailers grow in stature and get elevated as stockists of the second generation. The main advantage of this system is that penetration in the rural market becomes easier as the manufacturer is not required to open direct stock points.

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### 13.6 PHYSICAL DISTRIBUTION STRATEGY: CASE EXAMPLES

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#### Physical Distribution Strategy of HLL

Hindustan Lever Limited (HLL) initiated a scheme called 'Operation Harvest' to extend their distribution system to smaller villages also, which offer a sales of at least Rs. 2,00 per visit. This sales volume has probably been fixed by taking into account the distribution costs.

HLL have one or two Carrying and Forwarding Agents (C&FAs) in each state, depending upon the size of the state. C&FAs are assisted by Redistribution Stockists (RS), who are actually responsible for physical distribution of HLL products. Each RS is allotted a specific area for distribution of HLL products. Most of the RSs have vans for physical distribution of the products. These vans also cover the rural areas around the location of the RS. The coverage of rural areas by a RSs is called Indirect Coverage (IDC). The IDC is taken up by the RS with a view to increase the sales volume and consequently their incomes. Presently the villages which give substantial business to extent of about Rs. 15,000 per visit are covered every week and others once in a month. It should be mentioned that the RSs do not get any special assistance from the Company for covering rural areas under IDC. While this is the normal practice, a new experiment was initiated in IDC. This was called as 'Operation Harvest' meaning Harmonise All Resources in Villages to Enhance Sales and Turnover. Under this scheme, HLL assisted the RSs in extending their distribution network beyond the Villages already covered. A van was sent out to villages hitherto not covered on a fixed itinerary. The van covered six villages a day, 36 villages a week or 144 villages in a month. This cycle was repeated a couple of times in the same villages. The villages covered under this scheme were those with a population of at least 2,000 people and connected by all weather roads. These vans had a public address system, so that this can be used for promotion work also. Among the villages covered under the scheme, those villages which generated a consistent sales of at least 2,000 during the visits were included in the regular distribution programme under IDC. Thus, HLL was able to identify and select villages with potential and include them in their regular distribution network.

In villages beyond the reach of the distribution system, the shopkeepers make their own arrangements for procurement. Most of them commute to the nearby town to get their supplies. But the expenses incurred resulted in the village shopkeepers charging the consumers more than the maximum retail price. Generally, the rural shopkeepers invest their funds in purchases and rarely ever get credit facilities, which if made available are for a very short duration only. Since the quantum of purchases by the village shopkeepers is very small, the margins are also very meager. The ultimate consumer price of the product reflects the lack of distribution network. The prices are normally higher by 5 to 10 per cent in these village shops. If distribution system can take care of such small villages also, the sales will increase.

#### Operation Streamline

Operation Streamline is one of the major initiatives undertaken by HLL in recent times to penetrate the rural markets: In the case of Operation Streamline, the goods are distributed from the C & F Agents to the Redistributors, who in turn pass it on to the Star Sellers. Being a cross-functional initiative, the Star Seller sells everything from detergents to personal products, etc. You will read further on operation streamline through the case study on HLL included in Block 5



### Strategy of Colgate

Operation Jagruti, which is a consumer awakening programme undertaken by the company to highlight the benefits of better oral care habits, is a three-pronged programme.

The company is reaching out to millions of households across the villages, to also generate product trials and seed products in village outlets. The company has exploited shandies/haats and unconventional rural media to maximise impact of this rural promotional drive.

The company, which was also experimenting with non-compete competing so as to increase its penetration in one rural area, is taking this move forward to other areas as well. The idea is to restrain the cost from going higher as the actual distribution cost is shared between the companies.

This initiative is being conducted for the under-2000 population areas in rural India. The company was servicing this strata through van operations, haats and shandis. Out of 2.8 million outlets, Colgate is present in about 2.4 million outlets, which makes the brand one of the deeply penetrated ones.

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### 13.7 SUMMARY

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This unit presents to you, against the background of the rural physical infrastructure, the imperatives of creating place utility in the context of the purchase behaviour of the rural population. You are now aware of the seasonality of purchase behaviour of rural consumers. The marketing implications of this seasonal purchase behaviour create variability in stocking pattern and make the rural retailer a key participant in stock turnover patterns. This unit also provides you an exposure to two case illustrations to help you understand fully the physical distribution process in the rural market.

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### 13.5 SELF ASSESSMENT QUESTIONS

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- 1) What are the different place utility preferences that rural consumers display? Do these preferences vary across product classes? Discuss the implications for their preferences for marketers.
- 2) How do socio economic profiles of rural consumers affect these shopper behaviour. . Discuss in detail.
- 3) Explain operation harvest and operation streamline, the physical distribution processes followed by Hindustan Lever Limited. What are the lessons that you would derive from these illustrations.

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### 13.9 SUGGESTED READING

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1. Rajshekhar M, "Quest for the rural rest, Advertising and Marketing, March 31, 1999
2. Vijayraghavan Kala and Rath, Anmika, "FMCGs find rural treasures trove tough, 'The Economic times December 15,2000.
3. Jha, M. (1999), "Rural marketing: Some Conceptual Issues, Rural Scan vol 1, no. 2 April, 1999.