Improving FMCG Distribution in Peripheral Areas of Emerging Smart Cities: The Case of Gurgaon (*Gurugram*), India[†]

Hardeep Singh and Sanjog Singh Ahuja***

This research paper aims at identifying and describing the improvements in the distribution models followed by FMCG Companies in peripheral areas of Indian smart cities. These mid-sized geographies are believed to be the epicenters of ever-growing consumer demand. Classification of Indian cities by multiple sources was studied. The concept of product life cycle was used to classify cities. This classification helped to realize why emerging markets in smart cities are drawing attention of FMCG companies. Through secondary research, field work and observational research, possible improvements in distribution of products to the unorganized retail outlets were arrived at. The authors have also looked at best practices followed by all the leading FMCG companies in India and have made recommendations to adopt the most efficient models. Best practices followed by all the leading FMCG companies in India were studied and recommendations are made to adopt the most efficient models. The innovations enumerated can help increase the shelf off-take and optimize distribution in FMCG sector. Additionally, an FMCG distribution centric classification of Indian cities is proposed.

Key Words: *Channel partner, Fast Moving Consumer Goods (FMCG), Shelf off-take, Smart cities, Territory planning*

INTRODUCTION

India, with its densely populated villages, growing towns, emerging cities, metros and cosmos, furnishes a maze for Fast-Moving Consumer Goods (FMCG) companies striving to distribute their products in all nooks and corners of this economy. To come up with innovative, cost-saving and optimal distribution network configuration is a perpetual challenge for FMCG companies in India. Companies are constantly renovating their distribution network to match environmental turbulences in logistical variables like transportation costs, head/vehicle load capacity, retailers order size, etc. Sales in FMCG industry are as much a function of efficient distribution as it is of effective marketing.

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* Assistant Professor (Marketing), K J Somaiya Institute of Management Studies and Research, Mumbai, India. E-mail: hardeepsingh@somaiya.edu

** PGDM Marketing Student (2015-17), Batch 15-17, K J Somaiya Institute of Management Studies and Research, Mumbai, India. E-mail: sanjog.ahuja@somaiya.edu

The fast-moving consumer goods sector is the 4th largest sector that contributes to India's GDP. It has grown from U.S. Dollars (USD) 31.6 billion in 2011 to USD 49 billion in 2016 (IBEF, 2017). Its principal constituents are household care, personal care and food and beverages. Growing awareness, easier access, and changing lifestyles are the key growth drivers for the consumer market. The market is expected to maintain a high growth rate as the middle class, semi urban and rural populations are rapidly adopting branded FMCG products.

Distribution is very critical to the success of FMCG companies in India. The variables in distribution management are so dynamic that companies have to constantly experiment and devise better market classifications and route planning methods.

Even after the latest researches undertaken in studying the distribution models of FMCGs in India, there have been frequent changes, innovations in the marketplace when it comes to practice. On seeing limited acceptability of organized trade in smaller geographies, FMCG companies are going rural with innovative approaches. Successful initiatives like HUL's *Project Shakti* and ITC's *e-Choupal* indicate that rural India is at the focus of FMCG companies. Their attempts at tweaking distribution methods are influenced largely by an urge to drive volumes from rural markets and values from their urban counterparts.

However, in this spree to go rural, FMCG companies tend to overlook the erstwhile satellite towns which are in the growth phase. Peripheral areas of smaller cities are often left neglected and underserved as geographical markets. This results in a gap in fulfilling the FMCG demand of the consumers residing in these areas. These are the consumers who thanks to the increased television reach, better electricity coverage and an access to fast and easy internet services over hand-held devices have an updated exposure to the latest and best among FMCG products.

CLASSIFICATION OF CITIES IN INDIA

Cities in India have been classified in multiple ways to understand the market potential they offer. Certain classifications are applicable to the FMCG industry as well. The Reserve Bank of India (RBI) has classified Indian cities and formed four population-group centers. It is used the population data from the Census of 2001 (see Table 1).

Table 1: Population-group Wise Classification of Centers

Area Classification	Population (2001 Census)
Rural Center	Less than 10,000
Semi Urban Center	10,000 and above and less than 1 lakh (100,000)
Urban Center	1 lakh and above and less than 10 lakh (1000,000)
Metropolitan Center	1000,000 and above

Source: Reserve Bank of India (2011)

Their classification is shown as under:

Another classification is more relevant to FMCG companies is from Indicus Analytics, which has conceptualized a classification called the Metro, Town and Rural Skyline of India (MTRS). By this classification, it enabled its companies to improve their market selection and prioritization. Using the MTRS, Indicus classifies the Indian geographies as:

The classifications in Tables 1 and 2 provide a highly valuable input to the FMCG companies to make a decision on the markets where they should focus. This is done by increasing the frequency of beats of their sales force. Given the kind of variety of urban settings prevalent in India, this is a near battlefield for FMCGs. It is characterized by the increasing purchasing power of the service class people from rural areas migrating to areas in and around metros.

Table 2: MTRS Town Classification at a Glance

Town Classification	Number of Towns	Details
Metros	5	Delhi, Mumbai, Chennai, Kolkata, Bengaluru
Mini Metros	5	Hyderabad, Ahmedabad, Pune, Coimbatore, Chandigarh
Tier 1 towns	39	Population > 10 lakh
Tier 2 towns	29	Population 6 to 10 lakh (1,000,000)
Tier 3 towns	169	Population 2 to 6 lakh
Tier 4 towns	284	Population 1 to 2 lakh
Non-tier large towns	626	Population 50,000 to 1 lakh (100,000)
Non-tier medium towns	1973	Population 20,000 to 50,000
Non-tier small towns	2184	Population 10,000 to 20,000
Non-tier very small towns	2476	Population < 10,000

Source: Indicus Analytics Private Limited (2014)

In this context, International Product Life Cycle is applicable to not just the products which FMCG companies are selling in India but also to the markets in which these FMCGs compete. There is competition amongst FMCG firms for market share, shelf space, number of outlets serviced, etc. Like the FMCG products, the markets where they are sold also undergo a lifecycle from a rural area to a peripheral town then to a smart city and possibly finally to a metro. The underlying assumption is that these markets do not undergo the fourth stage of IPLC that is, “decline”.

While companies try to push their products in markets within the metropolis or city limits through aggressive marketing campaigns and distribution strategies, they tend to leave out peripheral markets for spurious imitation products. It must be understood that shelf space is limited. Thus in each outlet of peripheral areas, genuine products have to compete for shelf space with fake products. As a result, not only is there considerable loss of possible revenues, but also a high possibility of tarnishing the carefully built brand reputation due to the presence of imitation products.

This study endeavors to highlight the necessity for FMCG firms to reach and serve peripheral areas of towns that are classified as cities in the high growth phase. A case of a leading multinational FMCG firm's efforts in this direction is detailed.

LITERATURE REVIEW

In an analysis of 45 rapidly growing profitable firms, Mascarenhas, Kumaraswamy, Day, and Baveja (2002), outlined five strategies for rapid firm growth—product proliferation, mass market development, increasing value to select customers, distribution innovation and acquisition and consolidation. For mass market development, broadening of distribution by using multiple channels of distribution was recommended, and for distribution innovations firms were encouraged to challenge conventional wisdom of existing channels, identify unfilled needs of buyers within the existing distribution framework, identify target customers for new distribution systems, and expand geographies of distribution system.

Stern and El-Ansary (1992)_define distribution channels as a set of interdependent organizations involved in the process of making a product or service available for use or consumption. These organizations could be company warehouses, stockists, distributors, wholesalers and retailers. They together form what FMCG companies term as their distribution configuration. And they work together as channel partners in the process of making the goods reach from 'farm to fork'.

Morris and Sirgy (1985) recommend that channel members frequently alter their functions, adjust their organizations and programs to cope with the changing environment.

Although 2012 witnessed a slowdown, 2013 saw higher disposable income in the hands of rural dwellers because of schemes like Direct Benefits Transfer (DBTL) (Jha, 2013). Their purchasing power is further expected to increase on reaping the success of the Smart Cities Mission. Increasing demand pull in the smaller towns has been noticed to be greater than that seen in metros. Further, the growth of the sales per point of distribution has been higher in smaller towns – 16%, than compared to metros – 11% (Nielsen India, 2012). As a result, the small towns which were earlier only considered as inconsequential dots on maps are now getting global marketing giants and media planners (Anand and Krishna, 2008).

FMCGs are an integral part of human life. Patil (2016) stresses that these products touch every aspects of human life. FMCG products are frequently consumed by all sections of the society.

However, with a near saturation and cut throat competition in urban India, many producers of FMCGs are driven to chalk out bold new strategies (Mano Raj and Selvaraj, 2007).

In a study of both rural and urban consumers of Tamil Nadu, Alamelu, Surulivel, Motha, Amudha and Selvabaskar (2016) found that consumers tend to purchase fake FMCG products mainly due to the availability of such products and the lack of availability of the real product. They further recommend that leading corporate firms should dedicate a separate marketing division for serving rural and urban consumers.

Singh and Dar (2014) in a study on the problems faced by the FMCG Distribution Channels in Bhopal and Hoshangabad districts of MP have particularized that in the FMCG segment the role of an excellent distribution channel is more crucial because the delivery of FMCG product is confined to day-to-day basic. They recommend that in order to survive and thrive in a highly competitive market there should be no problem at any point of the distribution channel.

RESEARCH METHODOLOGY

This research study brings out the findings from a project carried out at a leading FMCG company with global presence in product categories such as food, beverages, confectionary and nutrition to name a few. The duration of this project was from April 2016 to June 2016.

The project revolved around ascertaining gaps in distribution of Stock Keeping Units (SKUs) of all categories in 11 cities of North India from the states of Rajasthan, Uttar Pradesh, Haryana, Punjab, Jammu and Kashmir and Himachal Pradesh. These towns were chosen to undertake the study for they had recently been declared as 'Smart Cities' under the Smart Cities Mission of Government of India and critical areas in terms of their contribution to the company's sales in North India. Smart Cities Mission initiated by Government of India in the year 2015 aims at investing Indian Rupees (INR) 98,000 crores* in 100 smart cities of India in a phased manner till 2017.

For each of the 11 smart cities, the authors used desk analysis and Pareto's 80-20 rule to ascertain the number of retail outlets which have the highest value sales in January-May 2016 for all the categories combined. These sales values are represented in the number of times the outlets order from the company's distributors. As a result of Pareto analysis, the proportion of best performing outlets (ordering twice a week) and least performing outlets (ordering once/twice a fortnight and spread over a wide area) to that of total outlets in the respective distributor's territory was computed.

* 1 crore = 10 million (10,000,000)

During the course of this project, 24 Area Sales Managers, 10 Sales Executives and 12 Sales Officers across 54 Distributors in these 11 towns have been interviewed in person or over the phone. This was done to understand the territory planning done at each of the 54 distributors and the number of different beats based on which the distributors divide their salesmen.

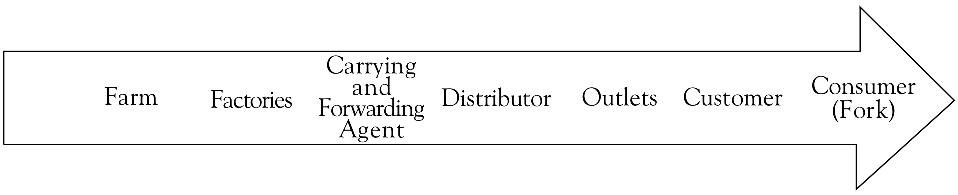
Mapping amongst the competitors was done on the basis of parameters like frequency of servicing retail outlets, presence of devoted model of distribution in peripheral areas of the said 11 towns, distributors' return on investment and robustness of cool chain in the transportation of certain product categories like dairy and chocolates.

Statements were also recorded from one of the residents of Gurugram city in Haryana to get a view on how the areas in and around the city have been brought under the fold of the city over the years.

FINDINGS AND DISCUSSION

There was similarity in the basic framework of all sales and distribution driven FMCG organizations which consist of in-bound logistics, distributor warehousing, territory and route planning and route to market, to name a few (see Figure 1). Field research showed that the Hub and Spoke Distribution is commonly followed by mostly all the FMCG players in India. It works on the penetration principle, since the products have to be made available at all levels till the neighborhood mom and pop stores (*kirana*), companies do not alter the basic channel outline.

Figure 1: Channel Outline of FMCG Companies



Source: Authors' Proposition

In their supply chain, FMCG companies may add certain levels in different geographies or they may separate the channels for organized trade and unorganized/ traditional trade.

Depending upon the product which the companies seek to convey to the shelves, the components of distribution channels vary among grocery outlets, chemists, *paan* shops, large grocery stores, wholesalers and supermarkets. For instance, Mother Dairy sells its products majorly through milk booths and grocery stores whereas ITC sells Goldflake though *paan* shops. The salesmen at the distributors cover the retail stores under these channels in the territories assigned to them by the Sales Officer or the Area Sales Manager deputed at the distributor by the company. They make field visits to different areas all six days of the week or make repeat visits depending on the volume of sales from their respectively assigned retail outlets. These visits to designated territories to collect orders are called 'beats' in the FMCG industry.

Since the markets in metros are comparatively more mature in terms of product availability and distribution, FMCG companies aim to increase the frequency of outlet servicing (shelf replenishment) in erstwhile untapped markets. These untapped markets are those geographic areas that were earlier considered economically unfeasible to be covered by existing distributors of urban areas. A robust mechanism is needed to distribute the products such outlets.

To avoid these markets to be left underserved, to curtail the take-over of these markets by spurious products, and to reach the intricate peripheries, FMCG firms are now implementing long tailed distribution trails leading to the smallest of the outlets in peripheral areas circumscribing emerging cities.

Judging this as an opportunity in the markets of the smart cities, FMCG companies use innovative ways to replenish stocks at the far flung outlets. As a result, they pursue their distributors to increase outlet servicing with a special focus on untapped markets. In turn, FMCG company distributors with an entrepreneurial approach alter the stock replenishment process followed. Their innovativeness not only brings about a positive spirit of competition amongst the company's distributors in a town but also helps in their growth as an entrepreneur.

Innovations noticed on field during the project were as follows:

E-rickshaw: The far flung traditional outlets are spread over a large area and order in small quantities. Thus, it makes sense not to 'break the bulk' at the distributor of the goods but in the marketplace so that the traditional '*cyclewala*', who services far flung outlets gets incentivized to sell the bulk he carries to the market. In addition, it increases the palette for the retailer to make choice of SKUs and quantities from. Thus, distributors at various FMCG companies are increasingly using a motorized cart called an E-rickshaw to replace the '*cyclewala*' which can carry more and sell more. This innovation is gaining more popularity across industries. In 2016, Gayam Motor Works (GMW), a startup based out of Hyderabad, has started selling e-rickshaws to e-commerce players like Swiggy and Big Basket (Bansal, 2016).

E-invoicing Handheld: Traditionally, Police departments use these instruments to fine the offenders on road and electricity departments use them to print the electricity bills of the households. These days, such methods are increasingly becoming the best practices of the FMCG industry where the salesmen give invoices from the handheld they carry to the retailer when they take the orders and one copy of the same invoice to the warehouse manager at the distributor the next day. This relieves the salesmen from running the hassle of coming back to the distributor after taking orders from the field. This facilitates that the salesmen is on the field for a longer time and making the entire process more efficient.

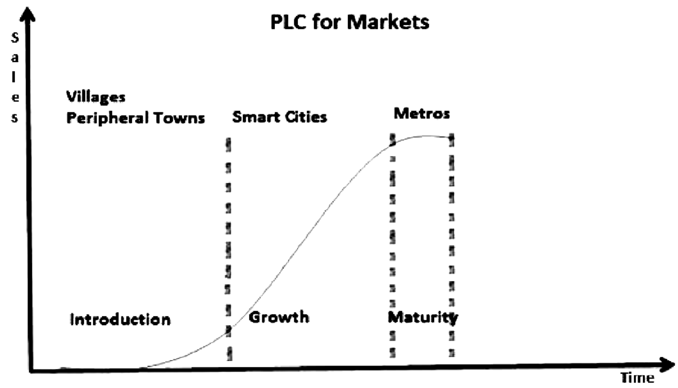
Territory Acquisition Model of Distribution: This is another innovative way to venture into previously unraveled markets like those of the peripheral towns. It involves enabling an individual to become self-employed and popularizing the product to drive orders from the nearby outlets in the market place. The individual is given a movable stall/ kitchen on lease and has to procure the raw material from the mapped distributor only. For example, a distributor of a company manufacturing coffee leases out a stall in a market which is not performing up to the mark in terms of the volume of orders from the outlets. Placing a stall in such a market and giving the self-employed individual the discretion to sell the cups of coffee/variants at whichever price he wants to motivate him to expand his sales and earn higher profit. He bears the expenses in the form of rent of the stall, price of raw material (coffee) and utensils he uses to make. In return, company gets to brand the stall in its name and the number of footfalls which the leased stall generates increases the footfalls at the outlets in the same market to buy the coffee of the company. It can be called an Indirect Testing/Demonstration.

Food Trucks: Greater control can be exercised by the FMCG companies dealing in food and beverages by using a company operated food-truck. In most cases, the companies outsource promotional food trucks to third parties or hand over the project to their product activation teams. Such food trucks help to sell food cooked with company's products as ingredients. Just like a stall, it also helps in demonstration. The advantage which food truck carries over a stall is that it can be used to venture into new markets when one markets' shelf off-take improves.

FMCG firms consistently brainstorming, learning from their experiences and experimenting with ways of reaching their target customers that is retail outlets. For the retail outlets these companies aim to reach, shortage of cash to purchase stocks from distributor is not a major challenge. Retailers find it difficult to keep the stocks they purchase from distributors such that there is no breakage, rat cut and spoilage. They generally do not face a cash crunch but space crunch. They manage this crunch by constantly striving to achieve quick shelf off-take. This shelf off-take is a direct function of merchandising and packaging (a sub set of that product's marketing mix).

IPLC curve was used to classify towns throughout their life-cycle. On the X-axis, time through which villages grow into towns by coming into the fold of peripheries of major towns is depicted. Sales overtime from these towns represented through orders from the outlets placed with company distributors is shown along the Y-axis (see Figure 2).

Figure 2: Suggested IPLC Based Classification of Cities



Source: Authors' Representation

The International PLC Model can be applied to geographical markets by using classification done by RBI and Indicus and mapping it with the current growth scenario of different categories of cities in the country (see Table 3).

Table 3: Suggested Nomenclature of Indian Cities

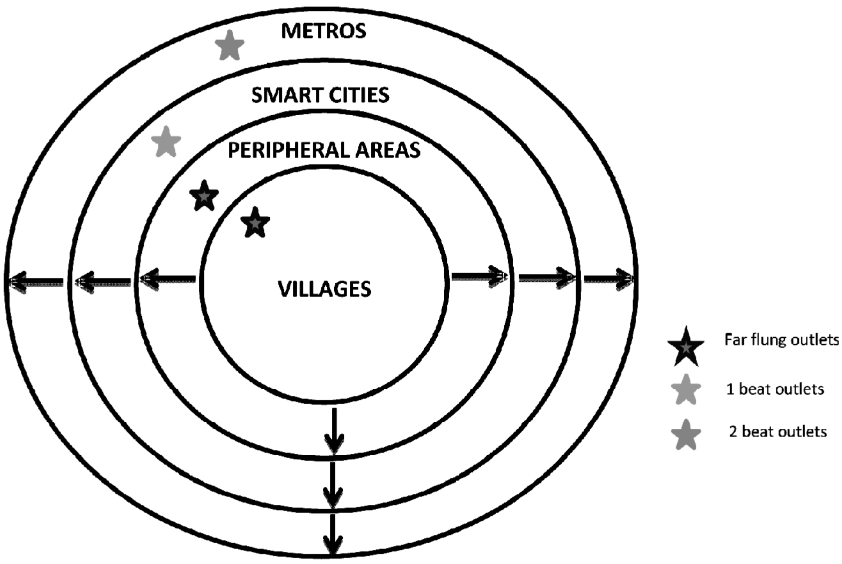
Suggested Nomenclature	Population
Metros	>10 lakh
Smart Cities	1 lakh <= 10 lakh
Peripheral Towns	10, 000 < = 1 lakh
Villages	< 10,000

Source: Authors' Proposition

AN ASSESSMENT OF GURGAON *(GURUGRAM)*

As far as mapping this analysis with the current scenario in the Indian market is concerned, this hypothesis is observed in the case of Gurgaon (*Gurugram*) in Haryana which was earlier merely a town peripheral to the Delhi NCR. Over recent years, Gurgaon has grown into a mini metropolis of its own witnessing an increase in the number of shopping malls, IT companies, residential complexes, call centers and modern format retail stores. In fact, district Gurgaon has sprawled wider to cover Sohna, Manesar and Pataudi. "In 1999, the Government started acquiring land which belonged to villages like Jharsa and Tikdi for sector planning. Only the outer regions like fields and other areas are cut as sectors, not Lal Dora, which is residential area of a village. Similarly, Village Ghadi Harsaru is part of Sectors 98, 99, 99A and 100 in Gurgaon" said a resident of Rewari Village in Haryana, who was interviewed for this study. Once a village, Silokhra is now a part of Sectors 30 and 31 in Gurgaon. These areas were once insignificant villages as against growth-driving markets of today on which FMCGs have their eye on. The traditional trade in the form of large grocery stores and private supermarkets has also grown significantly. This is a direct consequence of large scale migration over the years. Such a migration is largely in search of employment. However, it may be: (i) Rural-to-Urban; or (ii) Urban-to-Urban (see Figure 3).

Figure 3: Diagrammatic Representation of Radius Expansion of Cities



Source: Authors' Representation

With the increasing importance of more towns like Gurgaon and the burgeoning purchasing power of their residents, the Government of India, in 2015, initiated the Smart Cities Mission. It aims at investing INR 98,000 cr in 100 cities of India. These cities are called Smart Cities. A smart city is meant to be a replicable model, the policies of which will act as guidelines to other aspiring cities. In India, the smart city narrative has been synonymous with new 'greenfield cities, which now arguably form the new urban utopias of the 21st century (Datta, 2015). The market viability aspect is what the FMCG companies look at as carrying great significance.

RECOMENDATIONS

Certain key suggestions that the authors wish to make are as follows:

The outlets which contribute 80% of the sales from their respective city should be put under such a beat wherein salesmen take their order multiple times a week. For the outlets in these towns which order less than INR 6,500 per month (say), the salesmen (*cyclewala*) are sent on a cycle with ready-stock. For all the rest of the cities, taking order once in a week that is, four times in a month suffices.

For achieving a dual objective of visual merchandizing and dealing with space crunch at the retail outlets, FMCG companies place their Point of Sale Equipment (POSE) at the stores. For instance, Beverages refrigerators, Potato Chips racks, Counter-top Chocolate boxes, confectionary visi coolers and open deck chillers are commonly seen occupying space in stores.

Rather than placing these POSEs to worsen the space crunch, FMCGs like chocolates should be packed in such a way that it can be hung along the edge of the billing counter at the outlet rather than placing it at the shelf. In this way, it not only matches the eye level of the child which enters the store but also saves space and promotes impulse buying while checking out.

For FMCGs requiring a cool chain throughout their supply chain like dairy products and chocolates, hand pulled carts could be considered to be given to the distributors. When placed in areas of high family footfalls like residential societies and tourist spots, it will remove the myth that only ice-creams can be sold through hand pulled carts. This can also accrue benefits of large scale sampling.

To provide a quick service to the retail outlets in the smart cities which embody high demand as a result of high disposable incomes, it is recommended that all the distributors in these cities follow a '1-2-3 beat pattern'. This means, that the salesmen should persuade the outlet to order twice a week if already ordering once and thrice a week if already ordering twice.

Under the '1-2-3 beat pattern', all salesmen serving their set of assigned outlets in the territory mapped to them by the distributor should be teamed, trained and incentivized based on the frequency of their outlet servicing. This will help in collective query handling and in driving higher volumes.

The best warehouse is where the products remain as fresh when dispatched as they were at arrival. Distributors should be motivated and rewarded for efficient warehousing practices.

FMCG Companies have certain schemes and visibility agreements for the retailers wherein they incentivize the retailers to provide prominent space for its products and in return receive a discount on the next order he places with the company. These programs should be reviewed periodically to ascertain which outlets are performing better in sales as a result of being enrolled in such programs and thus should be promoted to a more rewarding program or removed from the existing program as the case may be.

Distributors of FMCG companies are primarily concerned on their Return on Investment (ROI). As a result, suggestions from the company for altering the distribution model, say the fleet of distribution vehicles, requires convincing the distributor of the profit from that change in approach for them to readily adopt it.

mPOS Payment: The day is not far when as a result of e-governance and in a spree to go cashless, traditionally groomed distributors will become tech-savvy handing over their salesmen a handheld to a retail outlet not just to punch in their orders but also to collect payments by means of a Unified Payments Interface (UPI) which will accept and remit all payments from all participating banks thereby making collection an incredibly favorable task for peripheral outlets catered through ready-stock selling once or twice in a fortnight.

IMPLICATIONS FOR PRACTICE

As proportion of peripheral outlets increase due to horizontal expansion of the city, there is a probability on missing out potential growth in sales in case there is no tailor made distribution model to efficiently take orders from those peripheral markets. To avoid such losses, companies come up with optimum alternatives of distribution.

Logisticians in the traditional retail landscape of India, need not necessarily always to look beyond the existing horizon, but look deep within, to observe the routine and simplify the complications that largely ail the long tailed distribution trail of Indian FMCG industry.

Implementing innovations in silos usually do not help a company grow. Such improvements have to be methodically scaled up to all geographies in the country for FMCGs to witness sustainable growth.

The edges of a town's geography are naturally going to be an extended part of the main town in the times to come. Managers striving to achieve sustainable volume of business from these areas can win the battle is won by making their products available at the vicinity by means of smart and frugal innovations in distribution. Only through consistent availability brand loyalty and brand equity will be indelibly etched across the bottom of the pyramid in a rapidly revolutionizing rural India.

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