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Fast Moving Consumer Goods Market in Rurban Bihar (A Fast Changing Landscape)

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ABSTRACT

India is an agro based economy from the time immemorial. Though the contribution of agriculture and allied sectors in national GDP has been diminishing over the years, yet the biggest portion of the labour force is employed here. This has resulted in low disposable income at the hands of the farmers. Bihar being a primarily agrarian state and with the largest chunk of the youngest of the population provides huge customers base with very high aspirational values and immense market potential for Fast Moving Consumer Goods (FMCG), but with very low purchasing power. This is an anomalous situation for a marketer. However, even with economics being at odds, the young generation with modern technology, having better information and capabilities provides an encouraging future prospect of FMCG market. The pattern of consumption of FMCG goods is surely north bound. This has led to the opening of many large format retail stores in almost all Rurban cities of Bihar. The increasing number of retail stores is creating a competitive challenge for retailers and consumers as well. In view of this, the retailers are focusing more on offering innovative products, customized services, which are suitable for specific customer needs. FMCG being the basic daily need products, the retailers will have to focus on understanding customer segments based on economic background, value, variety, and aspirations of the customer. This study finds that the key factors affecting consumption pattern of FMCG products in the rural-urban market of Bihar are hidden in value proposition and offering of everything that's Lux but affordable.

Keywords: Rurban – Rural Locations with Urban Facilities; FMCG – Fast Moving Consumer Goods; GSDP - Gross State Domestic Product; Consumption Pattern; Demographic Profile; Socio-Economic Factors.

INTRODUCTION

Bihar was one of the most prosperous kingdoms of Bharat Varsha during Mauryan and Gupta dynasties. Even till recently (in the late sixties) Bihar was one of the most developed states of this country. However, in the late seventies and throughout eighties Bihar slowed Down on the path of progress. Further, the nineties till 2005 were the worst years for the state of Bihar.

But the people's mandate in 2005 changed all that. For the first time ever since the retail revolution began in the country just over a decade ago, Bihar is now on the lips of every retail major. Retail industry bigwigs made the most emphatic endorsement of Brand Bihar by announcing their decision to make aggressive forays into Patna and beyond. The sunrise state under the stewardship of present progressive chief minister has become a favourite destination for retail industry CEOs.

Importance of FMCG sector is immense in the economy of Bihar. It is the fourth largest contributor to the country's economy and provides jobs to 3 million people. This sector is growing at a very healthy rate for the past several years due to positive changes in the factors that support consumption at Rurban level.

Due to progressive government policies of Government of Bihar (like being the first to implement 7th pay commission recommendations, huge drive for girl child education) the income of the consumers is increasing and the lifestyles are changing. There are many middle-income households in the rural areas who are equally capable of buying aspirational goods as compared to that of the urban areas. The rural marketing in Bihar is growing steadily over the years and will soon surpass the urban market potential for FMCGs.

Bihar has been a pioneer in the country in giving impetus to education at village level by providing free cycles, dresses, books, and midday meal, huge expenditure in rural infrastructure has increased people's income to spend more on FMCG products. With the increased literacy levels and media exposure, people in the rural area of Bihar are also becoming conscious about the quality, quantity, and brand like their city counterparts.

In Bihar, the FMCG market is huge in potential mainly owing to its being the 3rd most populous state having a population of 103.8 million. Further it the youngest state in the country with 58% of its population below 25 years of age. This offers great opportunities to marketers. Around 89 % of Bihar's consumers live in rural areas where significant agricultural and allied income is generated. It is perceived as magnificent opportunities to market both consumer durable and non-durables.

But everything is not hunky dory. Bihar's rural markets have their own challenges. Markets have an entirely different set of problems like road conditions, which though have improved a lot but still requires a lot to be done. North Bihar is still a big problem. The connectivity and transportation pose serious distribution challenges. Other major challenges that FMCG companies face in tackling rural markets are difficult terrain, scattered population, the small size of the majority of markets making distribution unviable and typical varied economic-culture divide. In spite of having huge thrust for education, Bihar is in the bottom of the list of literacy. There are around 7 languages (Hindi, Urdu, Bhojpuri, Maithili, Angika, Awadhi, Purbi) and numerous dialects, diverse cultural ranging from Mithila to Magahi, one of the lowest number of bank branches, inadequate credit facilities, duplicate & spurious products (e.g. Dabur Hair Oil) are some challenges that need to be considered. However, if these challenges are overcome by understanding the diverse needs of the rural consumers, by making products available in every corner of the state, the fast changing landscape of FMCG goods have bright future.

Bihar: Land of Buddha

Bihar is home to Lichhivi, Mauryan and Gupta dynasties. This state is the seat of Buddhism & Jainism. It has a rich and deep cultural heritage. Bihar is the 13 largest state in India and the 3rd most populous state. These characteristics make Bihar a unique marketing destination due to its profound cultural heritage. The largest and youngest (below 25 years of age) customer base of Bihar is lucrative FMCG proposition.

The Gross State Domestic Product (GSDP) of Bihar has grown at a CAGR of 12.14% between 2011-12 and 2016-17. Further, Bihar has witnessed strong growth in per capita net state domestic product. At current prices, per capita, GSDP of the state grew at a CAGR of 10.35% during 2011-12 to 2016-17. This has made Bihar one of the fastest growing state touching GSDP of 17.06% in 2014-15. This provides reasonable disposable income in the hands of customers to buy products. Patna has per capita income even bigger than Bangalore. It is the 3rd largest producers of vegetables & the 6th largest producer of fruits in India.

Agriculture is a strong point of this state. Agriculture contributes 22% to the GSDP, while industry adds 5% and service sector brings in 73%. About 80% of the state's population is employed in agriculture, which is much higher as compared to India's average. The state has become the number one state in the eastern region in terms of agricultural production.

The potential of e-tailing and e-commerce appears to be quite promising with 69.31 million mobile subscriber base as of February 2017. It has the third largest mobile subscriber base among all Indian states. This makes Bihar a favorite destination for FMCG companies as e-commerce has become the preferred choice of marketing by them.

Statement of the Problem

Bihar is one of the fastest growing states in the country. It has the aspirational young generation edging to buy all FMCG goods that they can afford. Rural Bihar where 61% of the population lives with increasing purchasing power, the FMCG companies have been somewhat successful in selling products to the lower and middle income groups. Almost 50% of FMCG sales come from rural areas. Of late, due to cut throat competition in the urban sector and with dwindling sales and growth, FMCG companies are looking with hope to rural markets in order to sustain. This study is an effort to explore the avenues that may be available in the rural market of Bihar, the ways to penetrate, strategies to be adopted and to offer the rural customer value for the money. It is expected that a win-win situation exists.

Aim of the Study

1. To explore and understand the changing landscape of rural markets of Bihar and their potential.
2. To frame measures and create enablers for value delivery to the rural customers and to make aspirational and luxury products affordable.
3. To formulate strategies and submit conclusions.

Attributes of FMCG Sector

Fast-moving consumer goods (FMCG) or consumer packaged goods (CPG) are products that are sold quickly and at relatively low cost. Examples include non-durable goods such as packaged foods, beverages, toiletries, over-the-counter drugs and many other consumables. (Wikipedia).

Any product that is used quite frequently, on the daily regular basis, sells faster from the store self can be classified as FMCG. They are food and groceries, cold drinks, chocolates, candies, bread, butter, soap, toothpaste, batteries, cigarettes, floor cleaner, edible oils etc. FMCGs are essential, relatively low priced, goods of regular consumption and are purchased at regular intervals. They are also called non-durable goods – as against durable goods like car, TV, refrigerator, camera etc.

The consumer behavior towards this category is less attentive and exhibit low concern, consumers tend to spend minimum effort in comparison and buying them. But for marketers, this creates a very difficult situation where consumer behavior is not explicit and designing marketing strategies for these products need a lot of insights and innovative research methods.

FMCGs are broadly divided into 4 segments:

1. Food & Beverages - Health beverages, staples/cereals, bakery products, snacks, chocolates, ice cream, tea/coffee/soft drinks, processed fruits and vegetables, dairy products, and flour, etc.
2. Personal Care - Oral care, hair care, skin care, cosmetics/deodorants, perfumes, feminine hygiene, baby care, shower products, etc.
3. Household Care: Dish/utensil cleaners, floor cleaners, toilet cleaners, air fresheners, insecticides and mosquito repellents, etc.
4. Others: OTC products, Tobacco products etc.

(Source: Indian FMCG Market 2020: ASSOCHAM & TechSci Research)

FMCG sector has typical characteristics compared to other industries. From the consumer's perspective, they are -

- Frequent purchase: these products touch every aspect of daily life, looks to hygiene to the palate.
- Low involvement: the consumer has little or no effort to choose the items.
- Low price: it is a high volume, a low value is driven industry in most categories.
- Short shelf life: usually perishable goods even some with 12 months consumption period.
- Rapid consumption: products are consumed on regular basis and have fast shelf transfer cycle.

From the marketer's perspective, they are:

- High volumes: the volume brings the viability and thus requires large logistics support.
- Low contribution margins: almost all categories have low margin contribution, items sell at a huge discount on MRP.
Extensive distribution networks
- High stock turnover: the turnover is quite high and often on daily basis, sometimes supplies are made twice in a day.

(Source: Wikipedia)

The above characteristics of FMCG business provide an overview of the market, its growth prospects, and challenges, emerging market trends & opportunities, the changing landscape in this segment with specific reference to rural markets of Bihar.

FMCG Market: An Overview

The Indian FMCG market stands at \$ 49 billion in 2016 and is expected to grow @ 20.6 % rate and reach \$ 104 billion by 2020. The consumption expenditure will be \$ 3600 billion by 2020 from the present expenditure of \$ 1500 billion. Thus bringing a sizeable amount of money in the market to be spent.

The Consumer Market, especially Fast Moving Consumer Goods (FMCG) sector in rural and urban India is estimated at 40% and 60 % respectively. In 2016 rural FMCG expenditure is \$ 19.6 billion whereas urban FMCG expenditure is \$ 29.4 billion.

The major expenditure in FMCG segment is on food and beverages at 44%. Personal care forms 24% of the pie, household care forms 15% and others form 17%. The same data can be extrapolated for Bihar.

Some of the most popular consumer goods including fruit drinks, shampoos and biscuits are among the most bought items in rural and semi-urban India and will continue to be so. It also revealed that growth in the FMCG sector in rural India increased 3.5 times from 2000 to 2010, as compared to 3.2 times in urban India.

With a population dividend of 1.3 billion, India is the 3rd largest economy in the world in ppp terms and stands at \$ 9446 billion. The International Monetary Fund (IMF) has projected that India's GDP will grow by 7.4% during 2016–17, making it the world's fastest-growing large economy.

FMCG is the 4th largest sector in the Indian economy and employs around 3 million people. This is about 5% of the total factory employment. The sector is characterized by the strong presence of leading multinational companies, competition between organized and unorganized players, well established distribution network, and low operational cost and low margin.

FMCG sector is estimated to be growing at 21% rate in 2016-20 period, whereas the world average growth rate is 4.4%. This fantastic rate of growth is being driven by both demands as well as supply side factors.

Drivers of FMCG Consumption

The demand side drivers are - growing income of consumers due to more jobs in rural areas; payment of 7th pay commission scale, allied business in education, health & tourism; high aspirational consumption of luxury goods (mobiles, branded clothes, shoes etc.); growing youth population who care less for savings; rise in government grants and subsidies; and increasing brand consciousness.

On the other hand, major supply side drivers for the sector are - easier import of materials and technology reduced barriers to entry of foreign players, new product development, rapid real estate infrastructure development and improvement in supply chain efficiency.

These positive indicators have enthused one and all FMCG big wigs like HUL, P&G, Nirma, Patanjali, Dabur, Marico Ltd, Nestle India Ltd, and Colgate Palmolive India Ltd Britannia Industries Ltd, ITC, Godrej Consumer Products Ltd etc. to be innovative in all the 4 Ps of product, price, place, and promotion for rural marketing.

Compared to world average standards representing the unexploited market potential. Mushrooming Indian population, particularly the middle class and the rural segments, presents the huge untapped opportunity to FMCG players. Growth is also likely to come from consumer 'upgrading' in the matured product categories like processed and packaged food, mouth wash etc. A distinct feature of the FMCG industry is the presence of international players through their subsidiaries (HLL, P&G, Nestle), which ensures innovative product launches in the market from their parent's portfolio. The rural FMCG Market of India is on the verge of registering substantial expansion across the country.

The Indian Rural FMCG market is mostly unorganized and it is generally dominated by small time retailers. The organized FMCG market is only confined to the urban areas of India. Rural India mostly depends on agriculture, directly or indirectly for livelihood. Further, almost 68% of Indian population lives in rural India in around 6, 00,000 villages. Rural India offers tremendous growth prospects for the FMCG industry. Facilitation of better rural infrastructure like roads, telecommunication, electricity, supply chain, and transportation would propel the growth of the Rural FMCG Market of India. The FMCG sector, which offers tremendous growth prospects are food and beverage sector, health care and personal care. Presently, rural India accounts for 34% of total FMCG consumption, but it accounts for more than 40% consumption in major FMCG categories like personal care, hot beverages, and fabric care.

Overview of Rural Market of Bihar

The State of Bihar 13th largest state of the country measuring a geographical area of 94.2 thousand square km. The river Ganga divides it into almost two equal halves North Bihar with an area of 53.3 thousand square km, and the South Bihar having an area of 40.9 thousand square km. It has a population of 10.38 crores and makes it the 3rd populous state of India. The population density of 1102 per square kilometer makes it one of the most densely inhabited market. This huge population and high population density are dividends for consumption and so lucrative for FMCG industries.

Bihar has 38 districts and the major cities are Patna, Gaya, Bhagalpur, Muzaffarpur & Darbhanga. Patna has a population of 20.5 lakhs. All these cities put together constitute 3.5% population of Bihar. It has 28 cities having a population in excess of 1 lakh. Twenty two cities out of these are rural markets with huge potential.

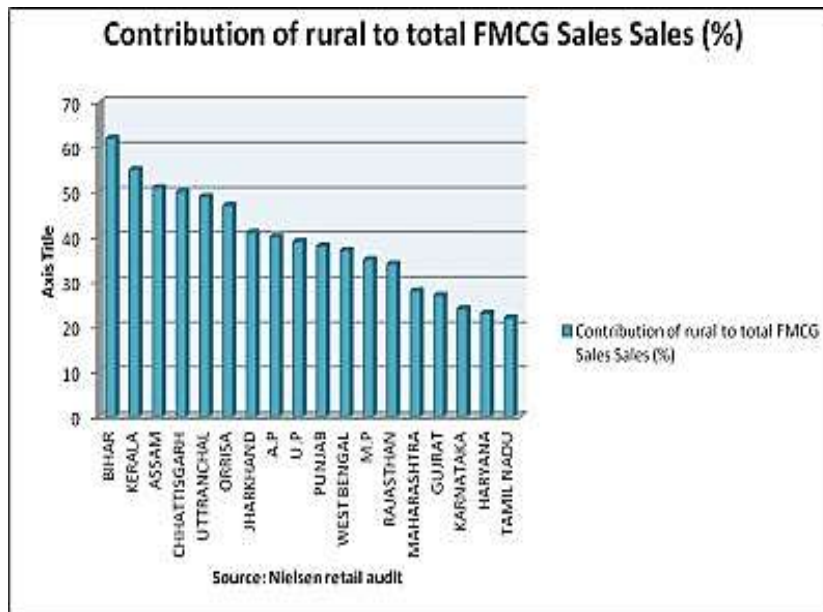
Bihar being majorly an agrarian state, around 81% of the population is employed in agricultural, whereas 47 % of the national population is employed in agriculture. The state is still largely rural based on the low urbanization of 11%. Nearly 89 % of the population lives in rural areas.

The national Sample Survey Organization (NSSO) defines rural markets as those areas with fewer than 5,000 residents, a population density less than 400 people per square kilometer and at least 75 percent of the male working population employed as agriculturists. Bihar is a densely populated region, with no less than 1102 persons living per sq. km. Thus, by the yardstick of population density whole of Bihar is a non-rural market and qualifies for rural markets. This is an excellent indicator of Bihar's FMCG market potential.

Social indicators of Bihar are also encouraging. The literacy rate is 61.8 % compared to the national rate of 73%. Male literacy is at 75.7% whereas female literacy rate is at 55.1%. The female literacy rate is growing at 20% rate due to huge support for the girl child education by the present government. This is expected to catch up with national average by 2025. As per Census 2011 birth rate (per 1,000 population) is 26.8 against the national average of 20.4. This is favorable from a marketer point of view.

Under the new political regime since 2005 Bihar has seen superb economic growth, reaching a fantastic growth rate of 17.07 % in 2014-15. In 2016-17, Bihar's GSDP at current prices stood at around US\$ 68 billion. The state's GSDP grew at a CAGR of 12.14% between 2011-12 and 2016-17.

Nielsen, in its retail audit (2015) clearly identifies that Bihar is the leader in the rural contribution to total FMCG sales, and Tamil Nadu is the state with the lowest rural contribution.



Nielsen in its report (Sept.2015) says that for FMCG marketers, Madhya Pradesh, Chhattisgarh, Bihar, Jharkhand, and Orissa are low on the priority list because they have lesser disposable income and spending propensity as well as aspiration and awareness. The five states account for 16 per cent of the ₹2.38 lakh crore FMCG market (as of June 2014) and contribute 20 per cent to incremental sales. However, while food drives incremental sales in Bihar and Orissa, non-food categories drive sales in Madhya Pradesh and Chhattisgarh.

The top categories in Bihar are shampoo, biscuits, and soaps, washing powder and hair oils. This widespread consumption of regular-use categories shows that marketers should offer their full portfolio in these state outlets.

Huge investments in infrastructure like road, rail, industry over the past few years has helped rural incomes grow at a quite faster pace. This has led almost 40 percent of Bihar's total consumption to be spent on goods and services. Since 2005 rural Bihar has undergone a rapid change under the present political regime. Companies such as HUL, ITC, Tata, Godrej, and Eveready etc. have completely overhauled their communication and distribution channels, which now address specific Bihari consumers' aspirations. The development of infrastructure leading to better connectivity by road, by phone and access to mass media through television and increased electrification of households has opened up the rural markets for FMCG sector.

Challenges in Rurban Bihar Market

Though the FMCG market in Bihar looks quite promising, it offers some typical challenges and hurdles that have to be surmounted to gain a foothold in the market.

- Costly logistics: Bihar is a large state with comparatively poor connectivity leading to high distribution costs.
- Financing of business: Businessmen find it difficult to garner requisite finance due to poor collateral capability.
- Green food preference: Bihari rurban populace still favour unpolished, unpackaged commodities sold loose. Packaged or manufactured foods are abhorred and considered unhealthy.
- Dealer network: Sales network is not professionally managed and complaints of cheating and dishonesty are quite prevalent Wholesale and dealer network problems
- Marketing communications: There is huge communication problem at rurban level due to low literacy level, poor media reach and multiple languages and dialects.
- Market data unavailability: Not much research work has been done on consumer buying behaviour and the propensity of consumption.
- Poor infrastructure: Though of late roads, bridges, industrial hubs have been created, the majority of markets are not easily reachable.
- Populace dispersal: Bihar is a large state and has difficult riverine belts which every year loses its roads and infrastructure due to recurring floods, leading to dispersal of population.
- Overall low GSDP: Bihar's GSDP is growing at a very fast rate but in absolute terms, it is at a lowly \$ 68 billion. Low per capita income puts less disposable income for expenditure.
- Living standard: Typically Bihar is a rural economy and thus standards of living are basic. Aspirational and upgraded expenditure is low.
- Culture: Social, economic and cultural backwardness of the rural masses is evident and create impediments to FMCG adoption.

Advantage Bihar: Opportunities

The government of Bihar has prepared a vision document 2022 for guiding the policy matters with regard to the growth of the economy. The major areas to be strengthened are:

- **Tourism:** Knowledge and religious hubs to be built & will attract 100,000 tourists per year by 2022. Construct mega religious theme parks (Buddhism & Jainism). Eight centres for educational, cultural & religious tourism plan. Planned roadmap for improved connectivity; luxury hotels to be constructed in PPP mode. Tourism service centres to be set up.
- **GSDP Growth:** Agriculture to play a significant role with opportunities in food processing & agro-based industries. Use quality seeds & fertilisers & upgraded technology. Provide institutional credit & crop insurance. Develop infrastructure with a focus on roads & energy sector.
- **Health:** Build medical institutions, create awareness & bring about technological advancements. Introduce radiology & pathology services in every district. Government hospitals across 36 districts to be provided with CT scan services. All government hospitals likely to commence dialysis services.
- **Education:** Achieve zero dropout rate in secondary education. Increase spending on building schools and colleges with easy access and upgraded infrastructure. Launch policy initiatives to ensure compulsory enrolments. Open vocational training institutes.

(Source: Govt. of Bihar website: <http://gov.bih.nic.in/>)

Bihar has ushered on the path of high economic growth with flourishing industries. The per capita GSDP of Bihar increased at a CAGR of 10.38%, between 2011-12 and 2016-17. Favourable policies have been formulated for fast track clearances for industries of food processing, dairy, sugar, manufacturing & healthcare. Existing companies like Sudha Dairy, Cobra beer, Mcdowell are some of the well-established and growing industries in the state. The state has planned initiatives for the development of other sectors such as education & tourism also.

Policy incentives have been formulated like the women empowerment policy which would, in turn, lead to increased contribution from women in the development of the economy. In May 2017, the state government has given around 3.65 lakh government employees & 6 lakh pensioners a revised pay scale from the month of May as per the 7th pay scale recommendations. This is a real surplus to splurge on FMCGs.

Bihar has been a major supplier of labour to all the states of Punjab, Delhi, Mumbai, Haryana etc. The rich labour pool of the state has a large base of cost-effective industrial labour, making it an ideal destination for a wide range of industries. The state has institutes of national importance such as Bihar Institute of Technology, National Institute of Technology, Indian Institute of Technology, AIIMS, IIM Bodhgaya, IGIMS, PMCH, DMCH, NMCH, CUB, Nalanda University and others which provide trained manpower to the manufacturing industries, health and education sectors.

Bihar has a tremendous and unique location specific competitive advantage because of its proximity to the vast markets of eastern & northern India, access to ports such as Kolkata & Haldia and to raw material sources & mineral reserves from the neighboring states of Jharkhand and Orissa.

These initiatives are expected to provide impetus to the economy and create more employment opportunities and bring more disposable income to the consumers. For this, the FMCG companies are waiting in the wings.

Actionable Plans & Strategies for Bihar's Rural Market

The basic strategies of Product, Price, and Place & Promotion shall be adopted for meaningful marketing in rural markets.

Product Strategies

- **Small is beautiful:** Design small offerings with affordable pricing – Rs 5 to 10 range, for products like shampoos, biscuits, pickles, toffees, talcum powder, paste etc.
- **New is novel:** New product specific to needs and values of the rural market can be offered. Patanjali has offered Gaunle – a floor cleaner based on cow urine which is considered very sacred in villages.
- **Strong is good:** Design sturdy products as rural people's life deals with rough and tough handling. Mopes, floor blades should be rust proof and should be durable.
- **The brand is status:** Though the rural consumers are more concerned with the utility of the products, the brand is their aspiration. Gillette uses and throws shaver, Dove, Nivea all are preferred over local brands.

Pricing Strategies

Pricing strategies are integral to product decisions. They may be:

- **Low cost/value for money product:** By offering various smaller package sizes, cheaper packaging material, the price can be kept low.
- **No flashy packaging:** Flashy packaging create fear in the mind of customers who are very simple and earthly, of being costly and may dissuade them from buying. Sudha milk packaging is stout yet simple and attractive.
- **Reusable packaging:** This reduces overall uses cost and at the same time quality is assured. Liquid shops, tea jars etc.
- **Value engineering:** Develop new raw material for same benefits, new process to reduce production cost. New plant source for sugar free.

Placement or Distribution Strategies

- Use multiple channels of distribution: Design integrated distribution system integrating milk co-operative societies, PDS, self-help groups, gramini bazars, markets/mandi, bazar samite, shetkari sangathan etc depending on the nature of the product and their perishability.
- Use e-chaupals, mobile connectivity for channelling information of dispatch and receipts.
- Apps can be developed for delivery and sourcing of articles and can be really cost effective.

Promotional Strategies

- Media: Use rural cinema halls, print media – local newspaper inserts, local FM radio
- Televisions: National channel can be used for big bang launch and communication to masses at large. State specific channels can be used for target rural customers with specific contents in the local language.
- Hoardings: Hoardings at chowks, petrol pumps, haat, melas can be used to convey the message.
- Wall paintings: Can be an effective medium on the road side empty walls of houses, boundaries etc.
- Promotional vehicles: Small Tata/Mahindra trucks can be branded and used for advertising with hand bills and booklets, posters, stickers, banners of the schemes. They can even offer free samples for initiating for buying the products.

CONCLUSION

In this study we have tried to achieve the stated objectives to “Understand changing landscape of rural market of Bihar” through “FMCG markets: an overview”, “Attributes of FMCG sector”, and “Overview of rural markets of Bihar”; “To create enablers for value delivery” through “Drivers of FMCG consumption”, and “Advantage Bihar” and “To formulate strategies” through “Strategies and actionable plan for Bihar’s rural markets”.

In our country and more so in case of a state like Bihar for decades the nearby grocery store has been the best place where people purchased FMCG goods for their household uses. In rural Bihar, almost all day to day use goods are retailed through unorganized retail sector. However, with survival being at stake for FMCG companies in the urban areas due to the cluttering of market and stagnating demands, these big houses have set their eyes on the rural markets. Though the urban markets have a major share of total FMCG revenue, the rural market is fast catching up. The brand penetration is still low in the rural area and there is a huge untapped market. The rural FMCG market is expected to grow at a CAGR of 17.7% to cross US\$ 100 billion by 2020. The FMCG retail scenario is changing very fast all over the country and more so in the state of Bihar.

However, with the increasing income in the agro sector the performance of modern retailing is bound to jump immensely and the prospect is brighter than ever in this state of Bihar. Prospect of FMCG retailing in Bihar is bright even if the socio-economic indicators of the state are not at par with other states. However, increasing GSDP and per capita income of the people, huge young population, and forward looking government with business friendly policies are bound to propel this state in the league of top FMCG markets.

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