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Supply Chain Challenges for the Indian FMCG Sector

Management

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ABSTRACT

This paper reviews the supply chain in India especially to FMCG sector, about what are the different challenging factors for Indian national players as well as global players and how some of the companies could manage it effectively some extend. Logistics is one of the areas where many companies are neglecting this area. Until recently not many firms made a concerted effort to improve the performance of their respective supply chains.

Introduction

The fast moving consumer goods (FMCG) sector is the fourth largest sector of the economy with the size of about more than Rs 500 billion.FMCG sector generally includes a wide range of frequently purchased consumer product such as soaps, dairy products, confectionary ,softdrinks,fruits and vegetables and batteries.FMCG products usually have a low unit cost but large volumes. Top ten FMCG companies in India consist of both global players such as HUL, Nestle, Cadbury, P&gG and Indian companies such as amul, asian paints,dabur etc.

In the FMCG sector the supply chain performance is a key-factor.The FMCG industry is characterized by complex distribution network and intense competition forcing firms to constantly work on supply chain innovation. Companies with better supply chain system will perform well, whereas those with poorly managed supply chains will find it tough to even survive in the competitive market.

Some of the major challenges are the following:

Managing availability in the complex distribution Set Up

The Indian FMCG sector has to work with very complex distribution system comprising multiple layers of numerous small retailers between company and end customer. for example a company like , Marico has to ensure reach to 1.6 million retailers spread throughout the country. As the number of SKUs (Stock keeping Units)have been increasing exponentially ,just ensuring availability at the last stage of distribution has become a nightmare for companies. Standard solutions applicable in developed countries are not suitable for a country like India.

Working with smaller pack Sizes

Unlike in developed countries ,where companies have been trying to work with large pack sizes(reduction in transportation ,handling and packaging costs for large pack sizes can be passed on as price cuts to price sensitive customers),in India the trend is in the opposite direction. To increase market penetration, Indian companies have realized that they need to reach out to consumers present at the lower end of the economic pyramid. This consumer base can be tapped in to only by offering small pack sizes. However smaller pack sizes mean higher packaging and transportation costs for the companies. Eventually companies will have to find innovative ways of balancing market penetration and logistics cost

Entry of National Players in the Traditional Fresh Products sector

National players want to market “fresh” products that have been traditionally handled by local players in each region. For example, ITC wants to make inroads in the market for ‘ATTA’ and Nestle for yoghurt. In these items, the freshness of the product is an important requirement from the consumer’s point of view. Traditionally national companies have worked with centralized plants, where they can manage quality and also enjoy big economies of scale. As freshness is one of the most important criteria from the customer’s point of view, national players will have to work with decentralized manufacturing plants. Balancing quality, freshness and cost is a major issue for national players. The following is an important case of AMUL where a local firm has successfully managed the complex tradeoffs by building superior supply chain capabilities

AMUL

Milk is a perishable commodity and poor farmers from rural India had no means of storing excess milk. The farmers were forced to sell milk through middlemen and had to settle for very low prices. To improve the returns a cooperative society was set up in each village. As each village level society would not have enough volume to justify setting up a milk processing plant ,all the village cooperative societies in a district formed a union ,which in turn collected milk from all the societies and processed it in a centralized processing plant and liquid milk and milk products were marketed to customers all over India even though Amul came into existence in 1946 ,over the years Amul has setup a very efficient and effective supply chains in the rural areas of Gujarat and more than 5 lakhs retailers who make Amul products available throughout India

Dealing with complex taxations structures

Because of the complex taxation structure, it is difficult to treat India as one market. Varying local tax structures across states encourage traders to indulge in the smuggling of goods across states, leading to the creation of grey markets. Experts are of the view that smuggled goods account for about 15 percent of the total goods flow. Such activities distort the plans and activities of FMCG companies. Further because of the tax on the interstate sales, companies can never ship goods to customers located outside the state. They first have to transfer goods to the state level warehouses on a consignment basis and then supply the goods to the customers. With the introduction of VAT, harmonization of taxes across states and the possible removal of tax on inter-state sales, FMCG companies will see lots of changes in the way they have been managing their supply chains

Dealing with Counterfeit Goods

According to recent study conducted, counterfeits accounted for loss of sale worth more than Rs 300 billion for the FMCG sector every year.P&G found that various counterfeit products of Vicks Vaporub raked in sales equivalent to 54 percent of the original. To prevent such losses, FMCG companies in India have to ensure that they exercise greater control over their distribution channel and not just leave it to the market forces

Opportunistic Games played by the Distribution Channel

It is a common notion in distribution that only 50 percent of the promotion actually reaches the final customer.this is due to the fact that many distributors work unscrupulously. Rather than playing the role of the facilitator, they try to grab a significant part of the promotion budget for themselves. One FMCG company found that it ended up paying significant amounts as rebate to its trade channel because of illegal printing of coupons by some wholesalers and distributors. Some of these distributors also indulge in the illegal movement of goods from one market to another during local promotions. Due to which companies lose control of the sales of their products (the company may want to target a specific market but the distributors might divert the goods to different region). Thus, FMCG companies end up wasting a significant part of their resources on these issues, which do not really add any value to their customers.

Infrastructure
Poor roads and unreliable transport systems have an adverse impact on costs and uncertainties. Non-availability of infrastructure, like cold chains affects certain product categories significantly .even if the cold chain is available, power problems add to the uncertainty. For example in the ice-cream business, if the ice-cream melts even once because of the non-availability of power, the quality in general and the taste in particular, of the ice-cream are adversely affected. Most Indian cities face power problems in summer and ice-cream manufacturers have to live with these problems in their distribution network. In general FMCG companies have to take these issues into account while planning their supply chains.

The Dabbawalas of Mumbai case
The Dabbawalas of Mumbai deliver home prepared food to the middle class office workers. on every working day they collect more than 175,000 lunch boxes (dabbas) from the customer's house between 7:00 and 9:00 am and deliver the same to the respective offices by 12:30 pm .the empty lunch boxes are picked up by 3:30 pm and returned to the homes of their respective customers by 6:00 pm.the dabbawalas have developed ingenious systems that use a very simple but effective coding system to sort the lunchboxes, on both the forward and the reverse journey's. the extensive use of public infrastructure in Mumbai (local trains) helps keep the operation costs low. The use of local trains and an ingenious coding system allows them to manage their supply chain remarkably well, which translates in to high quality service, at an affordable cost for the customer

Emergence of third –Party Logistics provider
Traditionally most companies have been managing all logistics activities themselves so far the logistics sector in India has lacked professionalism. The new players are still to learn a lot about Indian conditions and also are not in a position to offer economies of scale. Hence they will be of value only to new MNCs and FMCG players who operate in the mid volume high variety segment of the market. Established FMCG companies like Nestle and HUL are unlikely to use their services as logistics solution providers as they are not likely to be cost effective. The problem gets compounded further because most Indian FMCG companies have skewed sales patterns that place huge demands on service providers in the last week of month. Thus service providers are not in a position to manage their resources effectively. Over a period of time these 3PL companies will develop an understanding of the Indian market and also the relevant capabilities necessary to handle these markets. This will enable them to bring down their costs and to provide cost effective services to even large players like HUL

Emergence of Modern Retails
In the west large departmental or discount chains have managed to grab huge market shares and have clout with FMCG companies. On account of their bargaining power, they are able to demand huge discounts from FMCG companies. Like developed markets, modern retailers in India have been trying to extract higher margins from FMCG companies so as to offer better deals to their customers. Unlike in the west margins in distribution are traditionally quite low in india.hence in India the FMCG sector finds it difficult to offer the kind of deep discounts that the modern retailers have been demanding. On one hand FMCG companies will have to bypass their existing stockists and distributors, so there is a likelyhood of channel conflict.on the other hand they also have to examine the impact of higher discounts to modern retailing on the overall distribution system. Further modern retail chains are also likely to introduce private label brands which will pose a considerable threat to the existing manufacturers

HUL's Initiative
A significant part of India lives in rural areas not well connected by road. Most FMCG companies have not been able to penetrate these rural areas.HUL has launched a new initiative called project-SHAKTHI to increase its penetration in rural areas in a cost effective manner.HUL has partnered with self-helping groups(SHG) to extend its reach to rural areas particularly those areas where there are no established HUL distribution networks because of lack of connectivity. A SHAKTHI dealer is a member of an SHG ,who works as a direct –to-consumer HUL Distributor selling primarily to villages in her neighbourhood.HUL also provides sustainable livelihood opportunities to underprivileged rural woman

Conclusion
Indian economy as a whole and the manufacturing sector in particular, need to improve supply chain performance considerably if Indian firms are to compete globally.indian firms need to learn from progressive firms in developed economies, which have managed to improve supply chain performance considerably. The companies whether it is a national or global, give importance to supply chain management system to enhance the business and to become the competitor as well as leader in the market.

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