Contemporary Issues and Challenges of SCM in FMCG Industry

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Abstract: The various issues occur in organizations mainly due to the nature of interdependency among supply chain members. It leads to more formal relationships and an understanding of compatible missions among supply chain members. A supply chain has been found to be integrated in terms of information and processes so that it is coordinated. Coordination in supply chain as seen is concerned with aligning all decisions to achieve global system objectives.Impact of globalization policy India has accepted, many Indian and foreign company's started business in India due to global manufacturing hub. Increasing demand in domestic and international markets is opening a new world of opportunities for the Indian Industry. Indian industries to provide cost effective quality output with stringent delivery schedules. The players in the chain of SCM are suppliers, sub-contract suppliers, in-house product processes, transportation, distribution, warehouses, and lastly the customer. Generally all of them perform mutually exclusive tasks and do not compete directly with each other but complement each other.The current research paper deals with Supply Chain Management is and how it is affecting organizations, what are different challenges and it can be proved as a tool for improving overall performance in today's global competitive environment.

IndexTerms - FMCG, SCM, contemporary issues and Challenges.

Introduction

Indian economy is growing and each and every organization is facing severe rivalry in the market whether it may be local or an international market. The traditional corporate model of organization was based on vertical integration, hierarchy, and functional management. There is a drastic change in the traditional and modern business world, where in the modern world, when demand became unpredictable in both quality and quantity, when the domestic and international markets became too diversified and thereby difficult to forecast, and when there is a dynamic change in the technology which made single-purpose production equipment obsolete, the mass-production system became too costly and too rigid. Emerging technologies now allow for the transformation of assembly main characteristic of the large corporation into easy-to-program production units with product flexibility sensitive to market variations, and process flexibility sensitive to variations in technology.

Due to globalization, it is very mandatory to keep the cost of manufacturing down, they are forced to keep looking to set up production centers where the cost of raw materials and labor is cheap. Sourcing of raw materials and vendors to supply the right quality, quantity and at right price calls for dynamic procurement strategy spanning across countries. With the above scenario you find companies procuring materials globally from various vendors to supply raw materials to their factories situated in different continents. The finished goods out of these different factory locations then pass through various chains of distribution network involving warehouses, exports to different countries or local markets, distributors, retailers and finally to the end customer.

SCM STRATEGY

Supply Chain Management Strategies are the critical backbone to Business Organizations nowadays. Effective Market coverage, Availability of Products at locations that hold the key to revenue recognition depends upon the effectiveness of Supply Chain Strategy rolled out. Very simply stated, when a product is introduced in the market and advertised, the entire market in the country and all the sales counters need to have the product where the customer can buy and take delivery. Any glitch in the product not being available at the right time can result in the drop in customer interest and demand which can be disastrous. Transportation network design and management assume importance to support sales and marketing strategy.

In a worldwideconsequence, the finished goods inventory is held at many locations and distribution centers, managed by third parties. A lot of inventory would also be in the pipeline in transportation, besides the inventory with distributors and retail stocking points. Since any loss of inventory anywhere in the supply chain would result in loss of value, effective control of inventory and visibility of inventory gains importance as a key factor of Supply Chain Management function.

FMCG SECTOR IN INDIA

- FMCG is the 4th largest sector in the Indian economy

- Household and Personal Care is the leading segment, accounting for 50 per cent of the overall market. Hair care (23 per cent) and Food and Beverages (19 per cent) comes next in terms of market share
- Growing awareness, easier access and changing lifestyles have been the key growth drivers for the sector
- The number of online users in India is likely to cross 850 million by 2025.
- Retail market in India is estimated to reach US$ 1.1 trillion by 2020 from US$ 672 billion in 2016, with modern trade expected to grow at 20 per cent - 25 per cent per annum, which is likely to boost revenues of FMCG companies
- People are gracefully embracing Ayurveda products, which has resulted in growth of FMCG major, Patanjali Ayurveda, with a revenue of US$ 1.57 billion in FY17. The company aims to expand globally in the next 5 to 10 years

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&G 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.

Table: The Top 10 companies in FMCG sector

S. No.	**FMCG Companies Name**
1	Hindustan Unilever Ltd.
2	ITC (Indian Tobacco Company)
3	Nestlé India
4	GCMMF (AMUL)
5	Dabur India
6	Asian Paints (India)
7	Cadbury India
8	Britannia Industries
9	Procter & Gamble Hygiene and Health Care
10	Marico Industries

MAJOR CHALLENGES

Complex Distribution System

FMCG industry in India 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) has 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 Domestic Players in the Traditional Fresh Products Market

Domestic 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.

Complex Taxations Structures

There are complex taxation structures; 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. The FMCG companies will see lots of changes in the way they have been managing their supply chains.

Counterfeit Goods

The 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 very 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 infrastructure 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.

Emergence of Third –Party Logistics Provider

Conventionally 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. 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

The 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 stockiest and distributors, so there is a likelihood 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

Project Shakti is an initiative to financially empower rural women and create livelihood opportunities for them. It provides a regular income stream for the Shakti entrepreneurs and their families. Enabling inclusive development through community development: HUL’s ‘Prabhat’ programme reaches 1.38 lakh people. The 'Prabhat' programme – a community intervention initiative of Hindustan Unilever Limited (HUL) has reached out to 1.38lakh people across 27 locations since its launch in December 2013. The programme comprises of community centric developmental initiatives aimed at enhancing livelihood, conserving water and promoting health and personal hygiene.Through Prabhat, HUL aims to impact the lives of one million people by 2017.

Ensure Permanent on-Shelf Product Availability

You need access to accurate information on product flows at all times during product transfer from production plant to warehouse, or to the end customer. Reliability of tracking and alert information is crucially important to uninterrupted goods supply, enabling you to anticipate and implement backup solutions whenever needed. NWCC meets your demanding needs here by offering high-performance information systems and real time supply-chain traceability utilities.

Optimize Costs and Investments

Optimization of costs and investments is a matter of priority and has to be factored in along with your production needs. So you expect your logistics partner to provide advice and strategic intelligence on the organization of your transport plans and industrial processes at logistics sites. You can count on the experience of NWCC to help you optimize your investments and achieve continuous improvement.

Anticipate and Organize During Peak Periods

To anticipate seasonal peaks and achieve year-round operational excellence, especially during promotional offer periods, you need total adaptability. For many years now, NWCC has been addressing this challenge on a daily basis, through optimum management of human resources.

Accommodate environmental and social concerns

Transport plans are designed to allow for environmental impact and maximum attention is given to personnel safety throughout all operations. NWCC implements a panoply of measures and initiatives on environment and safety issues, mobilizing its personnel to ensure due consideration for sustainable development throughout the supply chain and full compliance with applicable standards and regulations.

Conclusion

The clubbing of various SCM practices of Indian FMCG organizations emerged as few exclusive factors through research study, which were different on agreement continuum and adoption continuum from each other. The result of study revealed that supply chain partnership and supply chain networking are considered to be dominating factors for Indian FMCG organizations. Besides that leanness or operational efficiency factors have high degree of agreement but low level of adoption. The reasons behind the same are basically infrastructural bottlenecks and the presence of unskilled and semi-skilled suppliers at backend and distributors at front end of the supply chain. However, cross functionality and strategic outsourcing are leading on adoption continuum. A truly integrated supply chain requires a huge amount of commitment by all members of the supply chain. The focal firm might require overhauling the purchasing process and integrating suppliers' R&D teams directly into its own decision making processes so as to leverage on its own core competency and partners' core capabilities.At last 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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