

LEVERAGING DISTRIBUTION NETWORKS FOR COMPETITIVE ADVANTAGE: A CASE OF FMCG CHANNEL MANAGEMENT AT ITC LTD.

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ABSTRACT

This Case based research work was carried out to get an understanding of the distribution process of ITC and also that of its competitors. The distribution process, although being quite similar, differs in the schemes and offers provided to the retail outlets. The tough competition in the FMCG sector makes it important to constantly revise the schemes as per the market conditions. Understanding the taste and preference of the consumers provide the useful insight into the market conditions and helps companies devise their schemes accordingly.

The taste of the consumers change constantly and they need a change or newness in the products that they use. They also look for value for their money and want the companies to provide them with the best deals possible. Little differences in the products make the consumer choose one product over the other and so the companies need to provide their consumers with the best deals so that they increase their customer loyalty towards their product and get more and more consumers to choose their product.

In the biscuit segment the major players are Britannia, Parle, Cadbury and ITC. Britannia and Parle have the advantage of time as they have been in this sector for a very long time and people relate to their brand due to this. ITC is a fairly new company to enter this sector but their products have gained popularity and continue to do so.

KEYWORDS: Channel Management, Distribution, FMCG Marketing

INTRODUCTION

LITERATURE REVIEW

Logistics & Distribution

Logistics refers to the movement of materials, services, cash, and information within a facility and to incoming and outgoing shipments of goods and materials in a supply chain (Stevenson, 2007). Logistics management includes management of inbound and outbound transportation, material handling, warehousing, inventory, order fulfillment and distribution, third-party logistics, and reverse logistics (Weeks, Gao, Alidaec, Rana, 2010).

Logistic systems management in distribution channels is a complex process. Integration is needed on all levels to ensure channel efficiency and maintain high levels of customer service (Haas et al. 2003). The effective management of their distributors remains a major challenge for firms aiming to capitalize on their market potential in a host country (Anderson and Coughlan 1987; Zhang, Cavusgil, Roath 2003). Channel member cooperation exists when parties work together to achieve their mutual, common goals (Anderson, Narus 1990; Koza, Dant 2007). The willingness to be adaptive or adjust in response to changing conditions is referred to as channel member flexibility (Kaufmann, Dant, 1992).

Effective management of distributors can be achieved by designing effective governance strategies (Heide 1994) that simultaneously motivate and control various types of distributors (Griffith and Myers 2005). Governance fit in channel management is of particular relevance to emerging economies because their markets are complex and unstructured (Hung, Gu, and Yim, 2007). Information support is also important in the area of product transportation and routing. Aspects like authorizing, tracking, and handling returns can positively impact both economic and service quality-related performance (Daugherty et al. 2005). Logistics partnerships move beyond transactional exchanges; buyer and supplier strategic information flows positively impact the relationship-specific performance of both sharing and receiving parties. Both gain financially from improved management of assets, reduced costs of operations & enhanced productivity, and operationally from improved planning, control & flexibility of resources (Klien, Rai, 2009).

FMCG Channel Management

Shifting power in distribution channels, advances in information technology, brand proliferation, consumer sophistication and globalization have combined to put pressure on the brand management structure to the extent that its relevance has been questioned in academic and practitioner circles (Hulbert , Pitt, 1997; Panigyrakis, Veloutsou, 2000; Shocker, Srivastava , Ruekert, 1994; Wood, Tandon, 1994). Current state of organizing for managing manufacturer brands in FMCG indicates that the brand management structure still exists as a mainstream option, and the category management structure has become the dominant structure (Chimhundu, Hamlin, 2006). At present, the penetration of Fast Moving Consumer Goods (FMCGs) in rural markets has delineated the new marketing strategies to promote their branded items available in all rural outlets. So, they have started to adopt channel enhancement strategies in Indian rural markets, where availability determines the volumes and market share (Ramanathan, 2007).

Manufacturers of FMCG products have traditionally relied on sales promotions in order to attract customers and motivate them to buy their products. In doing so many marketers may be missing out on crucial consumer related dimensions such as Value consciousness (VC), Deal proneness (DP) and Price consciousness (PC) (Rao, 2009). Some of the researches are very focused on the application of the social power theory in practice of channel management. Improper control over channel partners may result in to channel conflict (Hunt, Nevin, 1974; Gaski, 1984; Frazier, Summer, 1986; Kale, 1986; Frazier et. Al, 1989). Channel partner's attitude is dependent on channel partner's dependence on marketer and influence used by marketer (Boyle et. al. 1992; Frazier & Sheth, 1985; Payan, Mcfarland, 2005). Indian players, especially players of FMCG, Cement & Durable, are compelled to change their functional operations under this high degree of competitions. Therefore, functional operation like distribution management is considered important in terms of effectiveness & efficiency. For the purpose of effective & efficient

distribution, marketers have to take not only the care of logistics but also they have to take care of behavioral management of channel partners (Mandal, Bandyopadhyay, Roy, 2011).

FMCG Marketing

Marketing of FMCGs (Fast Moving Consumer Goods) plays a pivotal role in the growth and development of a country irrespective of the size, population and the concepts which are so interlinked that, in the absence of one, the other virtually cannot survive. It is a fact that the development of FMCG marketing has always kept pace with the economic growth of the country. Both have experienced evolutionary changes rather than revolutionary changes (Sarangapani, Mamatha, 2008). Consumer behaviour is defined as “the process and activities people engage in when searching for, selecting, purchasing, using, evaluating, and disposing of products and services so as to satisfy their needs and desires (Belch and Belch, 2004).

Several researchers have studied the impact of advertising in terms of improving the sales of products and the living standards of consumers (Surender, 2004). Fast-moving consumer goods (FMCG) advertising is essentially a zero-sum game (i.e. market shares of major brand names don't change much or often); advertisers have to be represented to fuel the sales force and maintain distribution; advertising essentially is a reminder force; the advertising response curve is generally convex and the short-term advertising effects don't last very long. They are commonly replaced by competitors with similar programs in a few short weeks (Ehrenberg, Schultz, 2001). The importance of social and psychological influences in relation to consumer behavior vary according to the situation (Bonfield, 1974). In addition to the purchase behavior, consumers also engage in the evaluation of purchase decision (Ravichandran, 1998).

INDUSTRY OVERVIEW

FMCG industry, alternatively called as CPG (Consumer packaged goods) industry primarily deals with the production, distribution and marketing of consumer packaged goods. The Fast Moving Consumer Goods (FMCG) are those consumables which are normally consumed by the consumers at a regular interval. Some of the prime activities of FMCG industry are selling, marketing, financing, purchasing, etc. The industry also engaged in operations, supply chain, production and general management. Some common FMCG product categories include food and dairy products, glassware, paper products, pharmaceuticals, consumer electronics, packaged food products, plastic goods, printing and stationery, household products, photography, drinks etc. and some of the examples of FMCG products are coffee, tea, dry cells, greeting cards, gifts, detergents, tobacco and cigarettes, watches, soaps etc. Some of the merits of FMCG industry, which made this industry as a potential one, are low operational cost, strong distribution networks, presence of renowned FMCG companies. Population growth is another factor which is responsible behind the success of this industry.

COMPANY OVERVIEW

Vision: ‘Sustain ITC's position as one of India's most valuable corporations through world class performance, creating growing value for the Indian economy and the Company's stakeholders.’

Mission: ‘To enhance the wealth generating capability of the enterprise in a globalising environment, delivering superior and sustainable stakeholder value.’

ITC Limited ITC is an Indian company headquartered in Kolkata, West Bengal, India. Its diversified business includes four segments: Fast Moving Consumer Goods (FMCG), Hotels, Paperboards, Paper & Packaging and Agri Business. ITC's annual turnover stood at \$7 billion and market capitalization of over \$33 billion. The company has its registered office in Kolkata. It started off as the Imperial Tobacco Company, and shares ancestry with Imperial Tobacco of the United Kingdom, but it is now fully independent, and was rechristened to **Indian Tobacco Company** in 1970 and then to I.T.C. Limited in 1974. ITC Limited completed 100 years on 24 August 2010. ITC has a diversified presence in Cigarettes, Hotels, Paperboards & Specialty Papers, Packaging, Agri-Business, Packaged Foods & Confectionery, Information Technology, Branded Apparel, Personal Care, Stationery, Safety Matches and other FMCG products. While ITC is an outstanding market leader in its traditional businesses of Cigarettes, Hotels, Paperboards, Packaging and Agri-Exports, it is rapidly gaining market share even in its nascent businesses of Packaged Foods & Confectionery, Branded Apparel, Personal Care and Stationery. ITC features on the Forbes Global 2000 rankings for 2007 at position 1256. ITC is the only Indian FMCG company that features on the Forbes Global 2000 rankings for 2009 at position 987. ITC also featured on the Forbes World's most reputable Companies List at position 95.

RESEARCH OBJECTIVES

This project was carried out with the idea of getting a clearer and a closer picture of the FMCG industry and the main focus was on the distribution strategies that the major companies follow to keep their market share growing as compared to their competitors. Also how the strategies of different companies differ from each other to keep their sales growing.

RESEARCH METHODOLOGY

The information that was required for this research initiative was the distribution strategies of the FMCG companies and what different offers they give to the retail outlets. The data was collected directly from the distributors and so it would be considered primary for this project. It was first-hand information that was collected specifically for this project. Sample size for this project was four, i.e. distributors of four companies were approached for the relevant information namely ITC, Britannia, Cadbury and Parle. An unstructured qualitative questionnaire was used to gather the needed information. The questionnaire was not filled in by the distributors. It was like an interview and I noted down their views and the information they provided.

DATA COLLECTION

ITC Distribution process

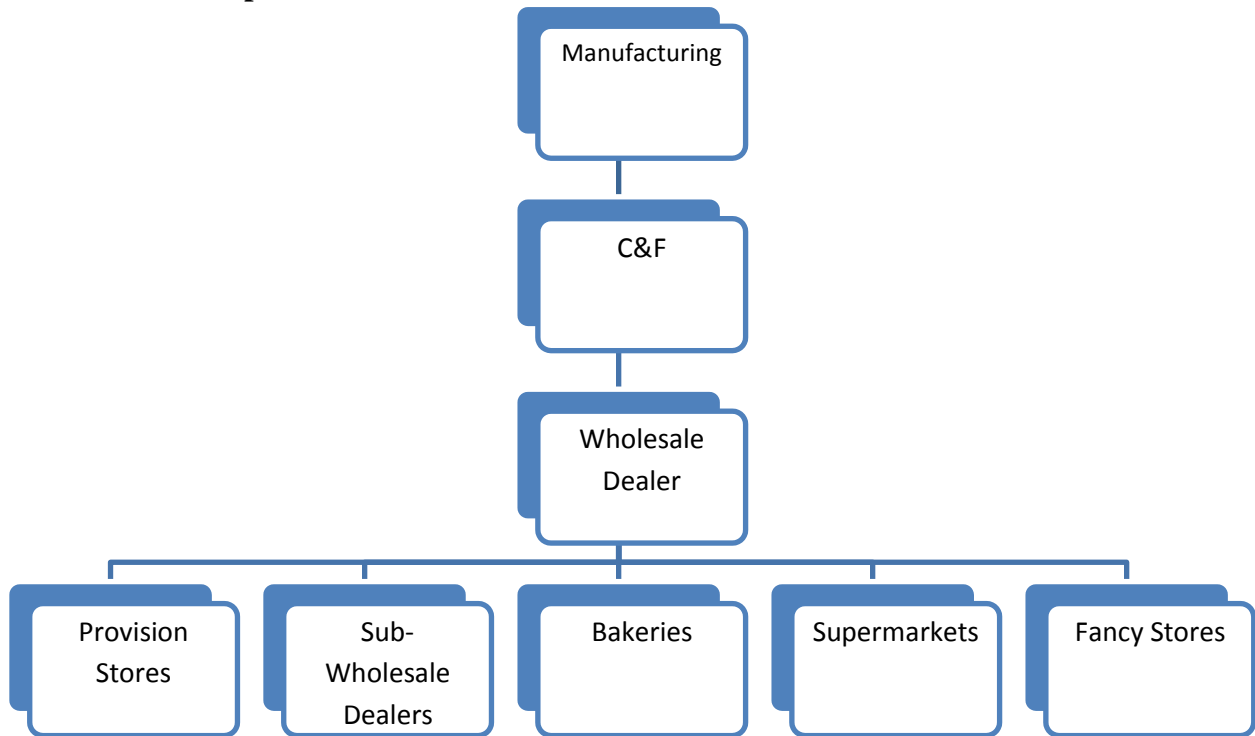


Figure 1 Distribution Process at ITC

The above chart (Ref. Fig. 1) shows the flow of the goods from the manufacturing stage to the selling stage. After the goods are manufactured they are sent to C&F for storage and from there it is supplied to the distributors in various parts of the city to be sold to the various outlets like provision stores, sub-wholesale, bakeries, super markets, fancy stores, etc.

There are 16 ITC distributors in Bangalore city. The same distributor supplies all the products like food, personal care and cigarettes to the retail outlets. There are salesmen to collect the order from the various outlets and the order delivery is done the next day with the help of the delivery vehicles. Salesmen get a fixed salary for the month. There are about 350-380 loyalty outlets that provide about 50% of the total turnover for the company.

The MRP and PTR(Price to Retailer) of a few products of ITC is as follows (Data Source: ITC Sales force as on December, 2011):

Atta	MRP	PTR
Aashirvaad Popular		
1 kg	35	30.51
2 kg	68	60.54
5 kg	168	145.01
10 kg	290	222
Aashirvaad Select		
1 kg	38	31.80
5 kg	190	155
Aashirvaad Multi-Grain		
1 kg	42	34.80
5 kg	200	165

Spices	MRP	PTR
Aashirvaad Chili Powder		
500 gms	110	85
200 gms	40	30
100 gms	21	15
50 gms	12	9
Aashirvaad Turmeric Powder		
500 gms	110	85
200 gms	40	30
100 gms	21	15
50 gms	12	9
Aashirvaad Coriander Powder		
200 gms	32	25
100 gms	18	14.50
50 gms	10	7.50

Biscuits	MRP	PTR
Glucose	10	8.93
	5	4.46
	4	3.57
	3	2.68
	2	1.82
Marie Light	20	17.86
	15	13.39
	10	8.93
	5	4.46
Cookies	10	8.93
	5	4.46
Special Creams	10	8.93
	5	4.56
Dream Cream	20	17.86
	10	8.93
Dark Fantasy		
Choco-Fills	30	25.42
Vanilla	20	16.95

Salt	MRP	PTR
1 kg	14	8.41

Noodles	MRP	PTR
	40	36.70
	10	9.17
	5	4.59

<u>Pazzta</u>	MRP	PTR
Pizza	18	15.65
Tangy Tomato	18	15.65
Tomato Cheese	15	13.04
Sauce	15	13.04
Masala	15	13.04
Cheese	15	13.05

OBSERVATIONS AND ANALYSIS

When it comes to a comparison with competition, the distribution process of Britannia, Parle and Cadbury is pretty much the same as that of ITC. Orders are taken daily and the delivery is done the next day. Daily remittances are paid to the company. The credit period allowed to the outlets is also roughly a week. The distributors give training to the salesmen for their better performance. The salesmen are taught how to talk to the outlet owners and how to convince them on buying larger quantities of goods. There are a few stores that get more profit for the companies as compared to the others and they are paid more attention to. Britannia takes order twice a week for them and gives special discounts. Cadbury is focusing on only one biscuit variant i.e. Oreo. It is mainly targeting the kids. Whereas Britannia and Parle have a lot of variants, targeting people of all ages, and they also have 'Nutri Choice' and 'Actifit' which is more of a healthy snack made out of ingredients like Wheat and Ragi. Britannia and Parle also have milk cream biscuits whereas the competitors like ITC and Cadbury do not have milk cream biscuits. The brand 'Britannia' is very popular and the consumers already have a positive perception about it. It is the most popular biscuit brand at present.

Merchandizing is also paid attention to. Promotional banners and posters are an important sales enhancing tool. Companies specially appoint merchandisers to manage the merchandizing part and also pay extra money to the retail outlet owners for a better display of their products. Parle has different creams likeelaichi, pineapple, mango although the other companies have the common creams like chocolate, vanilla, etc.. Parle-G and Hide n Seek are the most popular biscuits of Parle and Britannia's products are driven by the brand name itself. Good-day, 50-50 and Tiger are quite popular biscuits. Sunfeast Dark Fantasy is a popular biscuit and is considered better than Oreo. These biscuits are readily available in the rural areas as well as in small retail outlets and they are highly preferred by those

RESEARCH FINDINGS

There is a tough competition in the biscuit market and ITC is a fairly new entrant into this market as compared to other companies like Britannia, Parle and Cadbury.

The information collected from the distributors, projects that Britannia has a good hold on the market in terms of distribution strategies and also that Britannia has managed to get a good market share in the biscuits category. People also perceive Britannia as a very reliable brand. They provide the retail outlets with better offers and also they have popular biscuits in the healthy snack section.

Parle's glucose biscuits are very popular among the rural population also as they are one of the oldest available glucose biscuits in the market and the glucose biscuits are available at various prices which makes it feasible for a larger population to buy it. The price starts from Rs.2. Parle also has different products like Cheeselings and Sixer biscuits which are different from the snacks that the other companies offer.

Cadbury has only one competing product in the biscuit category and that is Cadbury Oreo. There are biscuits in the same category in the competitors' pool of biscuits too. ITC has Sunfeast Dark Fantasy and Britannia has its Treat biscuits. However, Oreo is aimed at kids whereas ITC's Dark Fantasy is not aimed at only at kids; rather, it is a product for consumers of all ages.

ITC has a good hold in the market but there are a few categories of biscuits in which they can launch their biscuits like the health snack category. ITC has a good brand image and that is an advantage for the company. The various categories give the consumers a wide variety and more options to choose from too.

After spending time in the market, there are a few recommendations that could be applicable. More promotion and advertising with the help of banners and posters etc. (mainly for cream biscuits). Awareness amongst the people should be increased and there should be ways that people should get attracted to try their products. Competing in the health snack segment with Britannia and Parle. Could start a variant of biscuit which could compete with Britannia's Nutri Choice and Parle's Actifit. Snacks in competition with Parle Cheeselings and Parle Sixer could be launched. Biscuits could be made available in refill packs (maybe of larger than usual quantity) which would come handy for the consumers even for later use. Parle Hide n Seek is a very popular biscuit and so ITC could also launch a biscuit to compete in that category with Parle Hide n Seek and Britannia Tiger Krunch.

After talking to a few customers it came forth that they did not know that Sunfeast is an ITC brand. As customers do not recognize Sunfeast as an ITC brand so steps should be taken for relating Sunfeast to ITC so that people would recognize Sunfeast as more of a reliable brand. There could be better benefits for the outlets so that they provide better product visibility for the company and people would buy more of that product. A catchier tagline, which would make people recall the brand faster would make consumers remember the brand and the product. More flavours could be introduced in the noodles category. At present Yippie noodles has only two flavours whereas the major competitor Nestle Maggi has a lot of new flavours. To create more awareness and gain more popularity free samples in schools could be provided so that kids would know more about the product and would want to try those products. More promotions like giving free gifts with the products or some campaign like 'collect 5 wrappers to get a free gift', etc. Brighter and a little less sophisticated packaging to attract the rural public as they should not perceive the product to be expensive or out of their reach. Outlets under the 'loyalty program' should be given more discounts and their orders should be taken more than once a week as they sell more quantity. Salesmen could be given some sort of training to enhance their speaking and convincing skills. The outlets should be motivated to purchase more quantity with the help of new offers from time to time. There could be provided an option of online order placing for the outlets that have the resource or interest to do so.

Better inventory management to overcome the fluctuating demands of the consumers. The distributors need to estimate the levels of stock so that they don't fall short of the goods and also there should not be excess of any product in the warehouse otherwise it will get spoilt. Better schemes to the outlets so that they get motivated to push the product more and recommend the same to the consumers. The vehicles for the delivery process should be fuel efficient and the route chosen should be the shortest and the least costly. Intensive distribution so that the products are available in all the outlets. To ask the retailers about the buying behaviour of the consumers to know what they prefer and what variant is liked the most.

After the whole study made, we can conclude that the FMCG industry is highly competitive. The major players have captured most of the market share and there is not much scope for a new entrant to make a mark in the market.

ITC was already a well-known name in the market and so the products they launched in the various categories like food, personal care, snacks, etc did gain a lot of popularity. Although there was a perception about the company that they are a cigarette manufacturing company and so the company is trying hard to change that perception in the consumers' mind. There are still consumers who are not aware that Sunfeast is an ITC brand and it could take more time for ITC to establish their individual brands like Bingo, Sunfeast, etc. .

ITC could take further initiatives to increase their market share. They should closely monitor the strategies of their big competitors like Britannia, Cadbury, Parle, etc and make sure to be able to come up with better strategies.

ITC has a lot of potential and scope to grow in the FMCG sector and get more and more consumers to choose their products. Bingo chips are available in various flavors that cater to the Indian as well as the western tastes of the varied population of our country. Biscuits are also available in various categories and they are sold at such prices that even the rural population is able to enjoy those products.

Distribution strategies play an important role because the retail outlets are the ones that are in contact with the consumers and so it is necessary that the outlets do not have low stock of a company's products. Also, the image of the product should be good in the salesmen of the outlet also as they could influence the consumer's choice to some extent.

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