

# **Summer Internship Project**

**A CONCEPTUAL PROJECT BASE REPORT ON “SUPPLY CHAIN AGILITY  
IN FMCG SECTOR”**

**SCHOOL OF LOGISTICS AND AVIATION MANAGEMENT**

**Bachelor in Business Administration  
(Logistics & Supply chain Management)**

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## CERTIFICATE OF APPROVAL

The following Conceptual Project Report titled "**Supply Chain Agility In FMCG Sector**" is hereby approved as a certified study in Supply Chain Management carried out and presented by **Paawan Punjabi** in a manner satisfactory to warrant its acceptance as a prerequisite for the award of **Bachelor of Business Administration in Logistics & Supply Chain Management** for which it has been submitted. It is understood that by this approval the undersigned do not necessarily endorse or approve any statement made, opinion expressed or conclusion drawn therein but approve the Conceptual Project Report only for the purpose it is submitted to the Conceptual Project Report Examination Committee of the Galgotias University for evaluation of Conceptual Project.

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## **ABSTRACT**

During the 1990s, supply chain management and agility have both received great attention. This is due to the fact that the business market place is characterized by being highly dynamic and complex. The Indian FMCG sector is a low-margin business where volume holds the key to success. With domestic consumption close to USD 17 billion, the FMCG sector today is one of the largest in the country and accounts for about 14.5 per cent of the GDP. In current global slowdown, increasing uncertainty in demand and supply, changing customer preferences, and shortening of product life cycle besides rigorous competition from multinational companies, this sector has been forced to reconfigure their supply chain strategy for their survival and growth. The present paper traces the development and trends of supply chain management practices followed by FMCG sector in India and suggest the ways to perfect it in order to remain competitive

**Key words:** supply chain management, supply chain Agility, information sharing, technology, fast moving consumer goods.

## INTRODUCTION

The Fast Moving Consumer Goods (FMCG) industry is a quick, agile industry with a wide range of products (Kumar, 2002). This is confirmed by Unilever (2007:5), a leading FMCG organisation, which stated that '150 million times a day, in 150 countries, people use our products at key moments of their day'.

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, soft drinks, 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&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.

## WHAT IS SUPPLY CHAIN AGILITY?

**At its simplest, supply chain agility is a company's ability to smoothly and profitably respond to external market changes. Those changes themselves are multifaceted and interrelated, involving everything from evolution in consumer preferences to competitor disruption to broader economic and market volatility.**

Supply chain agility is not a company tweaking day-to-day workflows and operations to meet its own internal KPIs. However, **improving manufacturing supply chain agility** will naturally trigger the adaptation of fresh internal processes, most often new enterprise technology usage, data management and even service agreements with third-party vendors.

The goal of supply chain agility mirrors its name — maintain fluid, responsive and data-informed supply chain logistics more primed to navigate inevitable industry change. Whether those changes are negative or positive, your company is in a position to respond.

Successful supply chain agility for manufacturers today relies on these core tenets:

- The understanding that external factors shape your supply chain logistics, no matter how steady things are now.
- The exploration of value chain components most affected by industry disruption.
- The integration of more proactive technology and process workflows to address value chain pain points.
- The ongoing monitoring and analysis of new processes, cross-function collaboration and production cost-savings, continuing to tweak practices if needed.

## **WHAT ARE THE CHARACTERISTICS OF AN AGILE SUPPLY CHAIN?**

Agile supply chains will vary by organization. The movement is not a prescriptive formula for companies to meticulously follow, but rather a guiding vision for how your organization can run.

Inherent in that vision, though, are four key characteristics. Manufacturers practicing these characteristics will find themselves in the agile supply chain success category versus late-adopters and laggards.

### **1. PROACTIVE DECISION-MAKING**

Producers can readily respond to industry aggravations or disruptions, both those on the horizon as well as ones already underway. What's more, those decisions are made based on objective, real-time data informing rapid but insightful operational changes that are clearly communicated and contextualized for everyone in the organization — not just the C-suite.

### **2. INNATE FLEXIBILITY**

Agile supply chains are far more adaptive to market, vendor and consumer demands, as well as how these shifts inform internal business needs or new strategic priorities. Organizations have the tools and models in place to coordinate high-velocity process tweaks quickly, then follow the down-chain repercussions of those changes in real-time. Data is collected at every step, in turn generating next-phase reports to fuel tomorrow's adaptive evolutions.

### **3. COST-EFFECTIVE OPERATIONS**

Cost-savings is not the main objective of an agile supply chain done right — but it's certainly a byproduct and a significant one at that.

Manufacturers implementing more fluid, flexible processes can “cut losses” quicker during sales or inventory disruptions. Likewise, organizations are far better at predicting potential shortages or interruptions in the supply chain itself, plus have greater visibility over the current process or product waste, such as excessive safety stock.

### **4. PROFITABLE PRODUCTION AND DISTRIBUTION WORKFLOWS**



Combined, the trimmed waste, speedier decision-making, continual data review and better cross-discipline communication create a production environment that's faster, smarter and leaner. This is an innate **approach to increasing business profits**. While at first it may seem easier said than done, implementing a more agile supply chain is pivotal for producers today looking to stay in business tomorrow.

## WHAT ARE THE DIMENSIONS OF AN AGILE SUPPLY CHAIN ?

There are five key frameworks for minimizing uncertainty and owning a competitive supply chain in today's manufacturing environments.

- **Stage 1: Alertness and awareness:** Alert organizations are those best positioned to forecast industry changes, growth opportunities, upcoming disruptions and competitor threats. The more alert and aware an organization is to these realities, the quicker they can respond to shifts in product demand, material procurement, supplier trends, customer feedback, market pricing and much more.
- **Stage 2: Accessibility:** Organizations cannot make changes in the dark. After [spotting an emerging pattern](#) or trend, those alert businesses must then have immediate access to specific industry data and relevant historical logs that all decision-makers can conveniently view, share and co-analyze.
- **Stage 3: Decisiveness:** Decisive organizations are those that quickly and clearly translate noted industry shifts and the accompanying data into an action plan. In other words, it's the organization whose leaders have the tools and ability to execute a quick process change — then communicate the how and why of that change downstream. The most decisive organizations are often the ones with simplified or unified chains of command, sensibly reducing the number of touchpoints necessary to make a swift judgment call.
- **Stage 4: Swiftiness:** Swift manufacturers implement their action plans quickly. There are little-to-no impediments when introducing a process change to relevant value chain functions, as well as few communication silos or enterprise technologies to reconfigure. The swifter changes are made, the more cost-effective the entire supply chain, and the more profitable your business. This dimension also proves the realities

of your agility cycle, since — up till this point — all work has been data-driven and preparatory.

- **Stage 5: Flexibility and adaptability:** Last but not least, flexible organizations have the power and the buy-in to modify ongoing processes when new opportunities present themselves without disrupting the entire business. Those proficient in this dimension understand that action plans are bound to change, even ones initiated under a smooth, data-backed cycle fitting a value chain need at the time. In summary, organizations are not rigid, going at day-to-day operations based on sunk-cost fallacies of what worked in the past.

## WAYS TO IMPROVE SUPPLY CHAIN AGILITY FMCG

### 1. ADJUST YOUR EXPECTATIONS

Successful supply chain agility isn't about reinventing the wheel. It also doesn't start in isolation within your organization, putting blinders on to create shiny KPIs for their own sake.

Instead, true agility is how you respond to changes happening in the broader industry landscape. It sharpens your organization's ability to see what's happening in the marketplace, why it's happening and what you can realistically do about it.

With such a macro lens, some organizations struggle to grasp manageable facilitation of truly agile systems and workflows. Leaders expect everything and anything to change, from labor to inventory practices to product development to third-party logistic (3PL) relationships. Yes, some of these processes will adapt with the investment in supply chain agility — but never permanently, and never without objective data backing its improvement.

### 2. BETTER ENGAGE POINT-OF-SALE-DRIVEN DEMAND DATA

Recent years have seen many manufacturers push themselves to use software for demand planning. Pulling insights from aggregate historical data, many have focused on improving inventory ordering and shipping schedules based on previous cycles, assuming similar patterns in the future.

While this is an essential part of supply chain agility, it's not the only one. Organizations can see equal — and sometimes more — success by balancing demand-driven planning capabilities as well.

Specifically, the demand information cued from real-time point-of-sale systems allows even more granular production and fulfillment responses translated instantly. This, in turn, creates fluid sourcing and procurement functions, as well as smarter planned versus actual inventory levels. By adopting demand-driven decision making across key functions, producers move away from anticipating pure unknowns and closer to the five real dimensions of supply chain agility.

### **3. HARMONIZE PRODUCTION AND SCHEDULING DATA**

A recent P&G industry report found consumer retail and apparel companies have an average ongoing stockout rate of around 8%. In some niches, those figures are even higher.

Even more alarmingly, nearly one in two small and medium-sized retailers still manages production planning and scheduling in separate data systems — and sometimes just on spreadsheets. This is an inefficient and uncommunicative system, one preventing these two innately connected functions from being optimized.

Align production planning and scheduling data systems with demand-driven sales figures to create a more robust, efficient and effective supply chain network. Integrating these databases immediately improves your response times to variable demand cycles, plus reduces out-of-stock issues and improves overall inventory controls.

### **4. FOCUS TRAINING ON KEY TECHNOLOGY**

Thanks largely to technology, the line between knowledge workers and unskilled labor continues to blur in the manufacturing, warehousing and wholesale world. Production workers must be more technologically fluent than ever, familiar with tasks from machine programming and coding to AI robotics.

In fact, industry surveys continually report [the top pain point in implementing an agile supply chain](#) isn't a lack of direction, funds or strategic buy-in — but skilled talent to use the agile technology itself. This mirrors the wider skills gap bemoaning the manufacturing industry and puts the onus on industry leaders to rethink relevant on-the-job training.

### **5. PRIORITIZE AUTOMATED ALERTS**

Automated inventory alerts, such as ones integrated into your enterprise resource planning (ERP) system, make a range of business functions easier.

For starters, an automated inventory alert can generate re-order quantities based on historical system data as well as current demand-driven figures. This orchestrates accurate forecasting and procurement strategies for upcoming production timelines, as well as helps organize better delivery schedules tailored to seasonal cycles as well as geographic demand.

The more extensive your product lines and supply chain networks, the more you benefit from automated reports and alerts — especially those tailored to end-to-end inventory management.

## **6. REINVEST IN INDUSTRY BOTS**

Modernizing your supply chain involves more technologies than ever. From AI-guided picking and packing wearables to blockchain-designed customer order ledgers and machines on the floor connected to the Internet of Things, manufacturers have a list of dynamic yet complex infrastructure to integrate into their ecosystem.

Few technologies contribute as fundamentally to supply chain agility as robotic process automation (RPA). RPAs can contribute significantly to inventory picking and shipping operations, many times improving order fulfillment. More broadly, RPAs can be scaled to communicate simultaneously across systems, make automatic updates and trigger downstream alerts and transactions. This allows employees to move on from menial data entry and communications tasks to value-additive work, such as mediating exceptions or customer service issues requiring human intervention.

## **7. REVIEW GEOGRAPHIC WAREHOUSING**

Cyclical sales calendars and seasonal flux are instabilities for many consumer goods manufacturers. When mismanaged, each eats a significant amount of operating budgets without generating equitable returns.

Analyzing your warehousing and distribution network is a core place to see supply chain improvements. Performing these can reveal serious flux in regional demands as well as seasonal cycles, which directly informs more cost-effective shipping and storage operations. In some cases, it can even show full or part-time outsourcing opportunities far more profitable for your current scale, plus reduce stockouts and improve order fulfillment timelines.

## **8. DON'T FORGET 3PLS**

Third-party logistics providers can manage some of those notoriously cumbersome aspects of the supply chain, such as autonomous dispatching services like last-mile delivery. With their own fleets, their own warehouses, their own forwarders, their own

consolidators and more, these outside partners provide a cost-effective alternative to shouldering every function of the supply chain on your own.

What's more, 3PLs employ several of the latest technologies in the industry, investing in these resources as a means to stand apart from their own competition.

Consider the largest logistics pain points currently felt by your organization. More than likely, there are 3PLs dedicated to that function, to manufacturers in your vertical or a specific product niche that could save you time and money.

## **HOW ERP CAN MAKE YOUR SUPPLY CHAIN AGILE IN FMCG**

Enterprise resource planning software remains in the IT spotlight, with over half of businesses naming it a top investment priority by 2022. This same all-important system can also help unlock greater supply chain agility, bringing these benefits.

### **1. STREAMLINED END-TO-END COMMUNICATIONS**

ERP software serves as an informational home base for all parties in your organization. From research and development technicians to customer service agents to distribution managers — and everyone in between — users have a one-stop repository to get the answers they need, right when they need it. Data silos are removed, workflows clarified and decisions made faster — the hallmarks of supply chain agility.

### **2. IMPROVED SUPPLIER AGREEMENTS**

The shareable enterprise data stored in the ERP lends objective insights into current supply vendor partnerships. Those insights relay vendor performance, which manufacturers use to draw up improved agreements tackling data-tracked pain points or issues. Plus, it cuts down clunky paperwork, back-and-forth emails and all other forms of legacy documentation.

### **3. BETTER CUSTOMER DELIVERABLES**

ERP systems can directly cut down on order lead times, plus help resolve open customer service cases by giving reps instant access to the breadcrumb trail of order information, including:

- Order history
- Payment method
- Price
- Inventory

- Stockouts
- Shipping delays
- And more

You practice better customer service, while your agents themselves have a smoother, easier time performing their roles.

#### **4. TIME AND MONEY SAVER**

With ERP software, manufacturers have one central operational and informational system. They know where to log in to review reports, documents, communications and track workflows. They know who to contact with questions or concerns. They know how to access relevant data. As a result, business functions get executed far quicker using resources understood by all, saving everyone time and money.

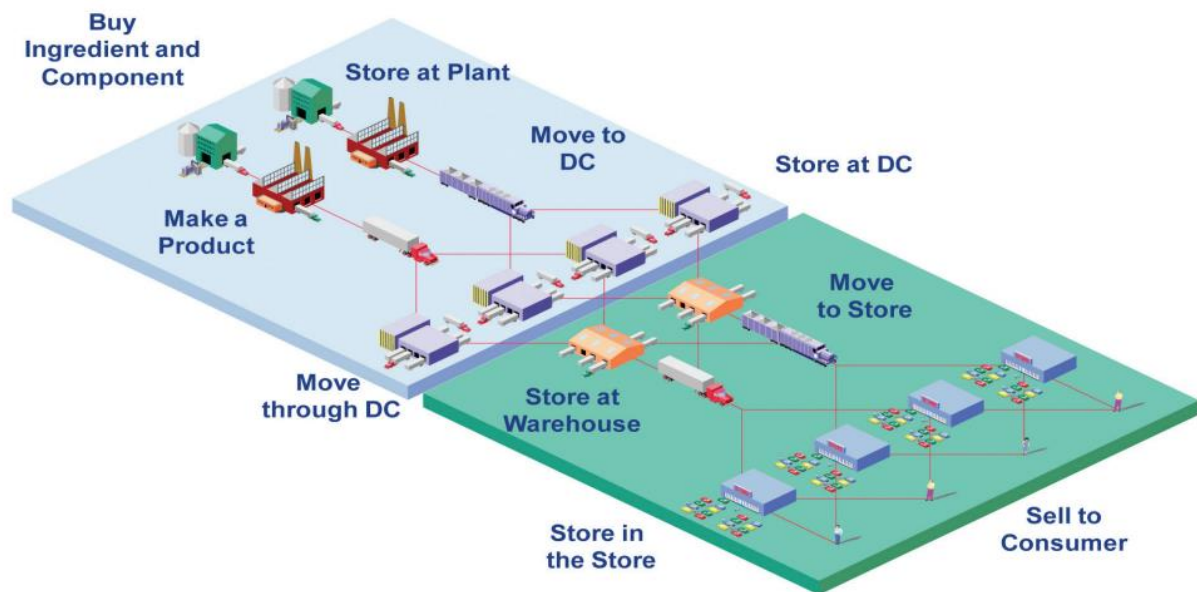
### **FAST MOVING CONSUMER GOODS INDUSTRY SUPPLY CHAINS**

The Confederation of Indian Industry (CII) (2005) defines the FMCG industry as one of the largest industries in the world. It comprises consumer non-durable goods and caters to the everyday needs of the consumer. The product characteristics are unique to the industry as they are non-durable, branded, packaged and consumed every month directly by the end consumer. The main segments of the FMCG industry are: personal care, packaged food and beverage, household care, spirits and tobacco. The published SWOT (Strength, Weakness, Opportunity and Threat) analysis for the FMCG industry indicates well co-ordinated distribution networks as its strength, while low technology initiatives as a weakness and irregular tax structures and imports as a threat to the industry (Deloitte, 2009; Kumar, 2009). 25 Supply Chain Performance Attributes for the Fast Moving Consumer Goods Industry .

In turn, agile and rapid responsiveness, as highlighted by Fisher, Obermeyer, Hammond and Raman (1994), are the key differentiators of the FMCG industry. Cheng and Choi (eds.) (2009) also identify rapid response as one of the strengths of the FMCG industry. Joerg (2006) highlights an efficient customer response (ECR) approach as one of the main requirements for the FMCG industry.

The FMCG industry, with its own unique set of characteristics and attributes, is governed by the constraints and interfaces among its internal business functions (procurement, manufacturing, logistics, customer service, etc.). Similar constraints have also been identified among the components (suppliers and customers) of the

supply chain. Kumar (2002, 2004) states that buying and selling are the key functions of FMCG organisations; while making, moving and storing are less important functions that are normally outsourced. The activities of a general FMCG organisation across the supply chain landscape are shown in Figure 1.



**Figure 1:** Supply chain activities in a consumer goods supply chain (Kumar, 2009)

Figure 1 shows that FMCG industry supply chains represent a structure of simple manufacturing processes but complex distribution networks. This study, therefore, is inevitably more focused on identifying issues within the distribution networks of the FMCG supply chains.

## **SUPPLY CHAIN COSTS IN FMCG SECTOR**

The total cost structure varies considerably across the sectors. For instance, in the FMCG sector, which has higher volume and vast network characteristics ranks the highest in cost of material and logistics activities. Undoubtedly, this is primarily the result of the usage of highly critical and technology intensive components used by the industry .

On an average, the transportation costs (inbound, outbound and secondary/tertiary) account for 6.7% of the total supply chain cost. Storage & Warehousing cost, which account for 3.86% of the gross sales, follows closely behind the transportation costs. The Table 1 gives a clear picture of the various components of supply chain costs and their total share in the gross sales of the Indian FMCG industry.

In order to have a more detailed understanding of the supply chain costs, it is important to estimate the capital blocked along the supply chain in the form of inventories – raw material, work-in-process and finished goods. The capital blocked is also a measure of the responsiveness of the supply chain to market demand. The inventory, expressed in terms of number of days of sales, at any point of time determines the time taken to introduce a new product in market and hence indicates the number of days the firm is removed from the market. In the language of supply chain, this is known as the Time-to-Market and is expressed in terms of the average number of days of inventory in the entire supply chain – from supplier's supplier to customer's customer.

## **SUPPLY CHAIN STRATEGY**

By elevating supply chain management to the heart of decision-making in the boardroom, and uniting corporate and supply chain goals, companies can boost profitability and growth and substantially increase the shareholder value. The challenge is to take supply chain to a more strategic level within the firm, and not just



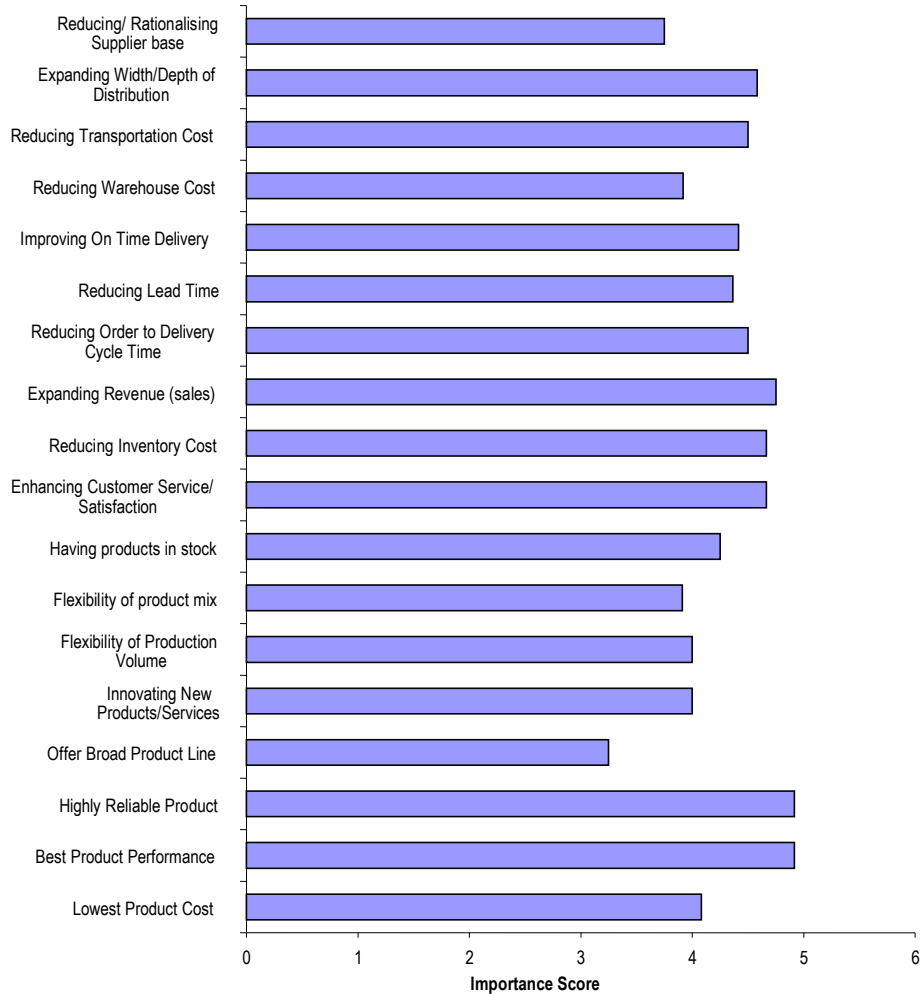
be content with managing it. Strategy represents the overall actions or approach to be taken to achieve the firm's goals and business objectives.

## **SUPPLY CHAIN OBJECTIVES**

Today's business world is defined by change. Externally, there are powerful and global competitors, influential customers demanding more complex and varied services at less cost, and the increasing implications of mergers and acquisitions. Internally, there are stock-holders requiring a constant increase in returns. The future success of an individual company depends on its ability to weather and manage the forces of change. When a company finds itself struggling to maintain profit margins, a renewed focus on supply chain strategy becomes the optimal way.

Expanding Depth and Width of Distribution, Offering Broad Product line and Expanding Revenue are the prime focus of FMCG Industries in contrast to Enhancing customer service / satisfacti

on, profit and other objectives. At the same time, reducing lead-time, reducing transpiration cost and reducing inventory cost follow closely in terms of supply chain priorities. Undoubtedly, all the these objectives stated above are the most vital and basic criterion for any supply chain management strategy to produce tangible results, which is well understood by the top management. Improvement in these metrics have a direct effect on the bottomline of the organization (Figure 2).



Further the weighted scores of various supply chain objectives were analysed and grouped by their level of importance. The scores on supply chain objectives were then compared to scores on business objectives. The business objectives and the supply chain objectives could be broadly classified under three focal areas as listed in the Table 3.

**TABLE 3: MAPPING SUPPLY CHAIN OBJECTIVES WITH BUSINESS OBJECTIVES**

FOCAL AREA	BUSINESS OBJECTIVES	SUPPLY CHAIN OBJECTIVES
High : Customer service	Maximise Customer Satisfaction	Enhance Customer Service/Satisfaction (4.93) Highly Reliable Product (4.76) Best Product Performance (4.65) Improving On-time Delivery (4.53)

Medium : Profit Maximisation	Maximise Profit Deliver value to shareholders Increase turnover (sales) Increase Return on Investment	Expanding Revenues (4.35) Reducing Inventory Costs (4.53) Lowest Product Cost (4.53) Reducing order to delivery cycle time (4.13) Reducing Lead Time (4.24) Reducing Transportation Costs (4.00) Reducing Warehouse Costs (3.24)
Low : Operational Excellence	Increase Earning Per Share	Flexibility of Production Volume (4.13) Flexibility of Product Mix (3.88) Innovating New Product/Services (3.33) Reducing/Rationalising Supplier Base (4.19) Expanding Width/Depth of Distribution (3.4) Offer Broad Product Line (3.27) Having Products in Stock (3.18)

## **ISSUES FACED BY FMCG SUPPLY CHAINS**

**SOME OF THE MAJOR CHALLENGES ARE THE FOLLOWING**

### **1. 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

## **2. 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.

## **3. 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

## **4.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 interstate sales, FMCG companies will see lots of changes in the way they have been managing their supply chains.

## **5.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.

## **6.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.

## **7.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 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

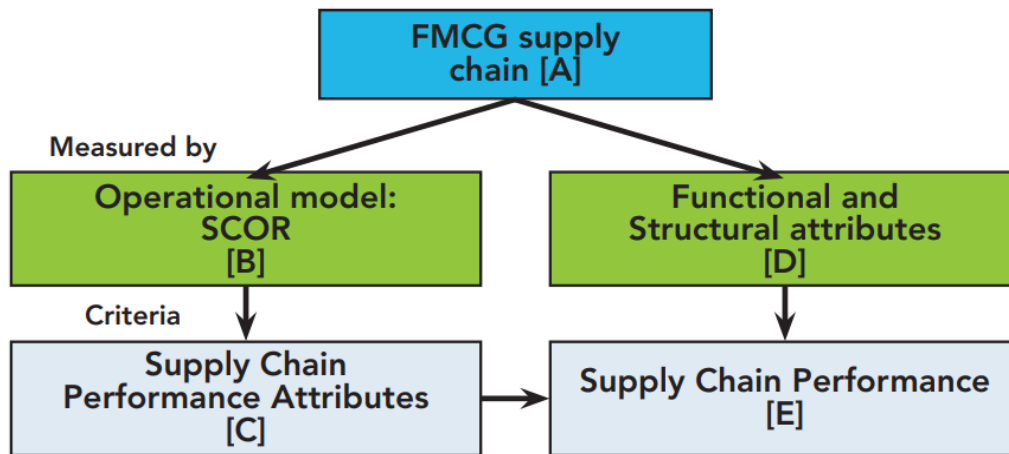
## **8.HUL'S INITIATIVE**

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.

Hence, there is a need to identify performance attributes for the FMCG supply chains that could manage holistically the above risks and the supply chain performance

## **PRODUCT CATEGORIES IN THE FMCG INDUSTRY**

Not all FMCG organisations handle the entire range of product segments. A Deloitte report found that among the leading 250 global consumer goods firms, six of the top 20 FMCG organisations (Nestle, Procter & Gamble, Unilever, Pepsico, Kraft Foods and CocaCola) – based on net sales in financial year 2007 – are involved with only two product segments in common, i.e. 'dairy' and 'packaged food'. In addition, these two product segments have been identified as universal product segments and the challenges faced by these product segments are independent of natural and geographic conditions. Therefore, the probability of obtaining worthwhile results when comparing the supply chains of these two product segments between different countries is high.



**FIGURE 2: INVESTIGATIVE APPROACH**

**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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