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Supply Chain Management – Impact of Distributor ROI towards Sales Enhancement in FMCG Sector

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Abstract

Indian demography is one of the most peculiar vis a vis to the demography of any other country in world. This brings in major challenge for the success of any FMCG (Fast moving consumer goods) company in enhancing its revenue through enabling efficient coverage of existing set of outlets and increasing penetration towards uncovered outlets, through selection of appropriate distribution model. FMCG companies in current scenario are aiming high on maximizing outlet coverage as it is one of the major sources for long term growth and sustenance. In this paper an attempt is been made in understanding, as to whether ROI (Return on investment) of FMCG distributors impact on the sales revenue and how far acts as a motivating factor for maximizing the number of outlet coverage. An empirical study is been made with regards to different FMCG company distributors and finally findings and conclusion is reported.

Key Words: **Supply Chain Management, Distribution Channel Management, Return on Investment, Fast Moving Consumer Goods, Outlets.**

1. Introduction

India has a population of 1.31 billion as on Nov, 2015 growing at the rate of 1.25%, with a prediction of being the most populated nation by 2050 reaching 1.6 billion. GDP (Gross Domestic Product) is forecasted to be 7.5% which is likely to cross US$ 2.1 trillion (Rs 128 Trillion) by the end of year 2015. The purchasing power of Indian consumers is growing and the rural India which is about 67% (.88 billion) of the population, spending are surging at a faster pace. FMCG (Fast Moving Consumer Goods) sector which constitutes to 2.5% of GDP is growing by 10% and is buffeted with multiple contradictions, constrain distribution enhancement in the sector. FMCG sector is head winded with challenges towards ensuring availability, visibility and freshness in 88 lakh retail outlets across urban and rural India. Distributors act as a major enabler in the supply chain management who are basically entity that buys noncompeting products or product lines, warehouses them, and resells them to retailers or direct to the end users or customers. Most distributors provide strong manpower and cash support to the supplier or manufacturer's promotional efforts. They usually also provide a range of services (such as product information, estimates, technical support, after-sales services, credit) to their customers. The distributors invest in the company and share its goodwill in gaining trust of retailers and customers against margins on goods sold, which is basically termed a ROI.

2. ROI (Return On Investment)

It is the returns been received by the distributors towards investment made by them in 4 major components. The investment in major instances constitutes to 30 days of designated area sales. The components can be widely classified into Inventory (7 days), Market Credit (7 days), Unsettled Claims (2 days) and initial deposit with the company (14 days, on which majority of companies give interest at par with bank rates). The expenses of the distributors are skewed majorly towards Employee Salaries, Fuel, warehouse rent, Vehicle maintenance Cost, Electricity/Telephone bill, stationary and miscellaneous expenses. Finally the earning for the distributor comes from the margin on sale of products in major and in many instances distributor is entitled for incentives. Therefore ROI is computed constituting all the elements been specified above. The minimum ROI for distributors in the sector is set as 18% which is double the bank returns but a constant attempt by the company stake holders in rationalizing the same.

Formula for ROI

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$$\frac{\text{Net Profit (Revenue – Expenses)}}{\text{Net Investment}} \times 100$$

Research Objective and Methodology

The objective of the study is to try and understand whether the change in distributor ROI leads to change in the overall revenue of distributors and on simultaneously on the motivation towards increasing the number of outlets. Initially data was collected from 10 respondents and changes were made post validity check. Further data is been gathered from 40 FMCG distributors through questionnaire and hypothesis test is computed.

Hypothesis

1) Null Hypothesis (Ho) – There is significant impact on sales with an impact on distributor ROI
2) Alternative Hypothesis (H1) – There is no significant impact on sales with an impact on distributor ROI

Profile of Respondents

Annual Turnover Of Distributors	Number	Percentage		Number Of Years in Business	Number
50 Lkhs – 1 Crore	15	33%		1 to 5	12
1 Crore – 1.5 Crore	28	62%		5 to 10	18
1.5 Crore – 2 Crore	2	4%		10 t0 15	7
				Above 15	3

Paired Samples Test

		Paired Differences					T	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Sales Of Distributors - ROI Of Distributors	.550	1.694	.268	.008	1.092	2.054	39	.047

Therefore the null hypothesis can be accepted as the value is below level of significance

Literature Review

- Mr Kaushik a blog writer in his blog which can be found through gate way of "gyaanokplease" in June 14, 2012 has explained in detail how the distributor ROI is to be calculated. He also gives tips how to leverage on few important points as to justify healthy ROI from employee point of view. He also addresses a distributor a weasel who is going to try different permutations and combinations to get the better of company employees. Do this properly with the distributor, and he will respect the official forever. In this blog Anupriya suggests that if he has then his actual capital investment is actually only to the extent of his own money, rest is interest which is part of expenses. A lot of distributors conveniently miss out this part of the equation and for big distributors this makes a big difference in ROI.
- How is the return on investment calculated for FMCG distributor? By Dharvesh Ks in Quora.com, shows the calculation of ROI for a FMCG distributor. He in his

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article gives a comparison of ROI with that of returns gathered from deposits in banks.

- From the website "allinterview.com" a structured questionnaire is created which enables in understanding the calculation of ROI in much structured manner. An attempt is been made to understand what is ROI and explanation in detail with all calculations with proper example. Instance of ROI for a FMCG distributor is been considered.
- Marketingresearch.org gives the theoretical background as to why ROI has to be computed and difficulties in calculating ROI. Few of the challenges mentioned are - Marketing Research Can Produce a Return Only If Someone Acts On It, The Same Marketing Research May Lead to Different Actions, In Some Instances, the ROI Is Not Worth Calculating and Marketing Research May Be Used As an Input to Many Decisions.
- Tips have been suggested at telecomreseller.com towards ROI calculation. The tips are You don't need to go overboard in calculating ROI, Shift your thinking from a quality mindset to an impact and results mindset, Calculate ROI continuously so you always know how much benefit your program is generating, Build your case for ROI step by step, The more data points you have the better, ROI isn't just about money, Be as conservative as possible in your ROI calculations, Know the investment outlay, Communicate the story behind the numbers and Don't be discouraged by low ROI numbers. The author explains that – "You may think that measuring ROI is hard. However, if you follow these fast, hard rules, you'll be on your way to proving your learning program has measurable impact".

Findings and Suggestions

- It is found that there is significant impact on sales with an impact on distributor ROI, so it can be considered as one of the key parameter for companies to be considered in their sales maximization strategies.
- On an average there has been a quick settlement of primary and secondary claims of distributors and there is no much pressure on the distributors towards increasing their secondary credit limit. One of the important component of ROI is paid inventory and it been found that there has been unnecessary primary inventory billing to distributors which can be optimized in order to enable sustainable supply chain management practices as the non movable stocks are been disposed later as market returns or damages.
- Majority of the distributors are keeping a track of their ROI on regular bases but there is no or less initiation been levied by the company officials. The companies have to take initiation and standardized formats for ROI have to be fixed. Regular duration has to be fixed for the detail submission of ROI for distributors in order to maintain regular track.
- Beat alignment is one of the most effective tools towards sustainable supply chain management. In the study it's been found that there is no focus on beat alignment and realignment or towards structuring of outlets. This will further increase the expenses in delivering of products to retail outlets and which will also have an impact on the availability, visibility and freshness aspects.

Conclusion

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The aspects of research substantiated with theoretical and pragmatic background can act as an enabler in in the area of rationalizing concept of supply chain management system like - To develop a comprehensive model for SCM with regards to ROI, Study SCM with help of empirical data collected from different stake holders and to do a cross country empirical study.

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enhancing the focus on ROI by the distributors and companies. This also gives scope for further research

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