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A Study on Supply Chain Management of Unorganized FMCG Retail Stores in India

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*Abstract

Supply Chain Management (SCM) has emerged as a crucial component of successful business operations. One of the most crucial areas for development in order to fulfill the demands of globalization is SCM. Stable networks and a shared relationship between input suppliers, producers, processors, traders, and retailers are the results of efficient and just supply chains. In recent years, networks and supply chains have experienced significant growth. One of the main industries going through upheaval is retail. India's retail industry is mostly unorganized. In India, the enormous market is still largely untapped. India offers enormous business possibilities for modern organized retailing. The traditional "Kirana" or "Mom & Pop" store format predominate the Indian retail market.This paper will highlight the SCM of Unorganized FMCG Retail Stores in Ancient and Current India.

****Keywords**- Supply Chain Management, FMCG, Unorganized Retailing*

Introduction

Fast-moving consumer goods (FMCG) are non-durable consumer products that are used often or on a daily basis. The industry includes a broad range of goods, including cigarettes, toothpaste, shampoo, cream, and deodorant, as well as food items, sweets, beverages, and toiletries. A consumer typically purchases these items at least once every month. Although individual goods

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are of little worth, all FMCG products taken as a whole represent a considerable portion of the consumer's expenditure. Given that many of these products are perishable, the consumer only keeps a small supply on hand and prefers to buy them frequently as needed. Consumers rarely check for technical specifications and spend little time considering their purchase decisions. Purchase decisions may be influenced because the majority of their demand is driven by internal requirements.

The capacity to create, develops, and maintains a strong distribution network is one of the most important success criteria in the FMCG sector. Due to the low unit value and frequent purchase of most products, accessibility to the consumer is essential for greater penetration. The consumer purchasing locations where products are offered are referred to as the distribution network. Building a chain of stockiest, merchants, dealers, etc. takes a significant amount of time and work, as does increasing their efficiency and effectiveness. Product, customer, and channel partner loyalty is a worry for the organizations in a changing market. The management of this scenario is quite challenging.

Objective

To know the Supply Chain Management of Unorganized FMCG Retail Stores in Indian Context.

Research Methodology

This study is descriptive in nature. The required secondary data was gathered from a number of websites, including those run by the Indian government, magazines, journals, and other publications.

Unorganized Retail

The unorganized retail industry in India is made up of a lot of small businesses, such as neighborhoodkirana stores, independently owned general stores, pharmacies, clothing and shoe stores, paan and beedi stores, etc. India has the largest global retail store density (i.e.11 stores for

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every 1000 people. However, only 4% of them have an area larger than 500 square feet. Under this heading of "Unorganized Retail," street vendors, pavement vendors, hand cart sellers, and hawkers also make up a sizable portion. There are around 10 million street vendors in India, according to the Ministry of Housing and Urban Poverty Alleviation, including 250,000 in Mumbai, 200,000 in Delhi, more than 150,000 in Kolkata, and 100,000 in Ahmadabad. Most of these are foreigners or terminated employees who are working. The main characteristics of this type of retail business are the minimal necessity for education or skills, the small initial investment (capital, labor, and land), and the availability of self-employment. Also, The unorganized retail market has little barriers to entry. The unorganized retail industry is broken down into many market categories, such as fruit and vegetable vendors, kirana stores that sell beverages, baked goods, cereals, pulses, and spices, as well as home and personal care items. This group also includes stationary stores, furniture and hardware stores, as well as small and disorganized clothing and footwear stores. The retailing of FMCG is particularly important to the global retail industry.

Evolution of Retail

In India, the barter system is regarded as the most traditional method of conducting commerce. Then there are the retail formats that were a part of the Indian landscape during the Middle Ages: Haats, Mandis, and Melas. The majority of goods were sold for centuries in these retail settings at the weekly operation of the neighborhood market. Consumers had to rely on regional suppliers for perishable foods because the trip was too long and slow. Customers travelled great distances to purchase specialty things, nevertheless, and traders imported them from abroad. Since the beginning of time, international trade has flourished. In addition to these local markets, peddlers journeyed great distances to provide commodities to areas where there was a shortage of supplies.

India was extremely poor and had a low per capita income at the time of its independence in 1947. Instead of focusing on luxury goods, retail was more concerned with meeting basic needs. Kirana stores thus served as the foundation for the development of retail in India. These

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businesses provided for the local communities' basic human needs. India's retail industry has developed over many years to meet the specific demands of the country's diverse population, size, and complexity. Kirana stores were sometimes referred to as multifunctional department stores that were situated in residential areas. They carried a variety of goods and served as handy places for customers to make purchases close to their homes. The rationing system implemented by the British during World War II served as the basis for the development of the PDS (Public Distribution System) of Grains in India. With the aid of the Khadi& Village Industries Commission, numerous indigenous franchise businesses eventually arose thanks to the government's backing for rural retail. In the 1980s, the economy started to open up, which changed the retailing industry. Raymonds, S Kumar's, and Bombay Dyeing are the businesses that introduced retail chains in the textile industry. In the organised retail sector, Titan later opened retail showrooms.

UnorganizedFMCG Retail Supply Chain in Sanatan Time Period

The FMCG (Fast-Moving Consumer Goods) retail supply chain was generally disorganized and lacked the sophisticated processes and technologies that are common in present times during the fictional Sanatan time period. A general description of the FMCG retail supply chain during the Sanatan period is shown below:

1. Procurement: Farmers, craftspeople, and producers would have brought their wares to local markets to sell, which would have served as the primary means of acquiring items. There may have been some variation in terms of price and quality, and the majority of transactions would have relied on bartering or straightforward money exchange.
2. Transport: Manual labour, animals, and simple carts or carriages would have been used for the transportation of products. With a lack of infrastructure, such as roads and bridges, long-distance travel would have been labour- and time-intensive. Longer lead times and greater chances of perishable commodities being damaged or spoiling as a result would have been the outcome.

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3. Storage buildings or rudimentary sheds may have served as warehousing facilities in the past. Inventory management may have been crude, with little visibility into stock levels and expiration dates, and there may not have been any standardized storage practices.
4. Distribution: There would have been few regional or national networks, and most of the distribution of goods would have been localised. Small-scale distributors might have delivered items to nearby retailers or to customers directly. It's possible that there weren't any sophisticated procedures for tracking and tracing, which made managing order fulfillment and delivery difficult.
5. Retail: Small stores or stalls selling a variety of FMCG products would have been used by retailers to operate in local marketplaces. Retailers may have relied on establishing personal connections with customers and using their local knowledge to draw customers because there may not have been standards for pricing, packaging, or branding.
6. Demand planning and forecasting: There may have been little to no demand planning and forecasting. Producers and merchants may have estimated demand based on past performance and regional market conditions, which made it difficult to manage inventory levels and satisfy customer expectations.
7. Technology and data: Since there were no sophisticated supply chain management systems, data analytics, or real-time supply chain visibility during the Sanatan era, technology and data would have been restricted.

   The FMCG retail supply chain would have been generally disorganized throughout the Sanatan era, with little standardization, technology, and player coordination. Basic supply chain management procedures and problems including spoilage, inventory control, and transportation concerns might have been common. However, in the absence of sophisticated supply chain techniques, local market expertise and interpersonal connections may have been vital in enabling trade and commerce.

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FMCG Retail Supply Chain in India

There are both organized and unorganized firms in India's FMCG retail supply chain. Although organized merchants have recently increased their market share significantly, the unorganized retail sector still dominates India's FMCG distribution system.

The informal and dispersed network of small dealers, wholesalers, distributors, and mom-and-pop shops, often known as "kirana" stores, typically characterizes India's unorganized FMCG retail supply chain. These kirana establishments, which are dispersed throughout numerous regions and neighborhoods in both urban and rural areas, are frequently family-owned or run by small company owners.

The unorganized FMCG retail supply chain in India, however, suffers a number of difficulties, such as a lack of standardized procedures, a slow adoption of technology, ineffective logistics, and inadequate infrastructure. These difficulties frequently lead to problems like stockouts, overstocks, expensive inventory holding, protracted lead times, and reduced service levels. In addition, factors including varying demand patterns, price sensitivity, seasonality, and regulatory compliance requirements have an impact on the unorganized FMCG retail supply chain in India, which further increases the supply chain's complexity.

Due to its extensive presence, solid local connections, and comprehensive knowledge of regional consumer preferences, the unorganized FMCG retail supply chain in India continues to prosper despite these obstacles. However, the organized FMCG retail sector is increasingly adopting technology and contemporary supply chain practices, which is boosting the supply chain's efficiency and efficacy.

Indian Market Perspective

MNCs were permitted to operate in India at the time of independence (1947), but the country's market was too tiny to draw in large multinational corporations. Several MNCs established production bases in the nation in the early 1960s. The government's protective measures

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persisted, continuing to be socialistic in design and placing a great emphasis on self-sufficiency. As a result, economic growth was subpar (about 3.5% pa, or what many economists referred to as the Hindu rate of growth), and India's contribution to world commerce was minimal (it is still around 0.6% today). Major setbacks brought on by drought in the late 1960s and oil shock in the early 1970s exacerbated slow progress.The 1991 foreign exchange crisis (caused by the Kuwait War) turned out to be a blessing in disguise, as the IMF proposed reform process.

Over the past couple of years, the reforms have persisted. After the Indian government's efforts to globalize and privatize the economy since 1991, industry has abruptly changed to become more customer-focused. Customers who have options grow pickier and want particular goods and services. A significant increase in the number of goods and services available as a result of the situation has had a significant impact on the whole supply chain. All of the company's operational procedures—from customer order management to distribution and all the way up to production and purchase planning—fall victim to this proliferation, leading to a startling increase in operating costs, a gradual narrowing of the available service options, and almost no customer care infrastructure.

The FMCG market is anticipated to increase by 4-5% per year in established categories and by 8–10% per year in emerging categories with an average economic growth rate of 5-6% per year and a consistent rise in demand and purchasing power of the Indian market. However, factors like low rural penetration, weak monsoon rains, consumers who are price sensitive, and growing competition could lead to declining profit margins in the business. Future opportunities as well as fresh competitors are both present in emerging markets. The laws of domestic economic and trade relations are being redefined by information networks and technological convergence. Therefore, in order to continue a reasonable growth during the current slowdown, companies must examine their strategies, product lines, and competitive advantages. The corporate environment in India is almost monopolistic.

The idea of collaborating with the appropriate business partners (suppliers, customers, and service providers), encouraging trust amongst them, and building the appropriate system to offer

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value to the customer is virtually ever appreciated. And the numbers support this. The FMCG industry in India spends an extraordinary amount on logistics—more than 15% of its total sales. Over $4.1 billion in total sales, or over 25% of total sales, are related to stocks throughout the whole country's supply chain network. This finished goods inventory of almost 4 weeks poses a significant problem to the organizations. This sector must use the idea of supply chain management to forge strong connections with its business partners in order to prosper now and in the future.

The unorganized FMCG (Fast-Moving Consumer Goods) retail supply chain in India is still facing difficulties and changing as of 2023. Observations on the current situation are as follows:

The FMCG retail supply chain in India is still quite fragmented, with a large number of small firms operating on their own, frequently with poor integration and coordination. This causes inefficiencies and a lack of process standardization, which leads in delays, inconsistent results, and higher expenses.

Limited Technology Adoption: In India, the unorganized FMCG retail supply chain has been slow to adopt automation and technology compared to organized retail. For inventory management, order placement, and fulfillment, many small merchants and wholesalers still use manual and conventional procedures, which can be time-consuming and prone to error.

Lack of Transparency: A recurring problem is a lack of transparency in the unorganized FMCG retail supply chain. Throughout the supply chain, there is frequently a lack of insight into pricing, margins, and incentives, which creates an informational imbalance that middlemen may exploit. Small merchants and wholesalers may see a decline in profitability as a result of this.

Inefficient logistics: In India's unorganized FMCG retail supply chain, logistics continues to be a problem. Delays, stockouts, and higher costs can be caused by inadequate infrastructure, constrained transportation alternatives, and inconsistent last-mile delivery. This may affect consumer satisfaction and the supply chain.

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Price fluctuation: In the unorganized retail supply chain, price fluctuation, particularly for perishable FMCG products, is a significant concern. Raw material price fluctuations, a lack of risk management tools, and shifting demand trends can cause pricing instability and reduce profit margins for small retailers and distributors.

Limited Credit Access: It can be difficult for small retailers and wholesalers to obtain credit from traditional financial institutions in the unorganized FMCG retail supply chain. Their capacity to obtain loans may be restricted by a lack of credit history, documentation, or collateral, which would affect their working capital and growth prospects.

Consumer Preferences Are Changing: The unorganized FMCG retail supply chain in India is being impacted by shifting consumer demands and preferences, such as a greater emphasis on health and wellness, sustainability, and e-commerce. To stay competitive, small retailers and wholesalers must adjust to shifting consumer preferences and behaviors.

Despite these difficulties, attempts are being made to enhance India's unorganized FMCG retail supply chain. For instance, an increasing trend in technology adoption includes the creation of e-commerce platforms for small shops and the usage of mobile apps for ordering and inventory management. Additionally, in order to increase the general effectiveness and competitiveness of the unorganized FMCG retail supply chain in India, the government and industry organizations are attempting to standardize, make transactions transparent, and provide small retailers and wholesalers with credit.

Conclusion

Although there are certain difficult problems, such as ineffective supply chain management, obtaining government approvals, adopting new technology, and E-commerce, there is still room for growth in the unorganized retail industry. Among the unorganized retail sector's primary worries were variety, promotions, home delivery, setting, and cost. As a result, even with some

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significant obstacles, the retail industry is expected to increase substantially. By seizing the chances that are present, retail can overcome these difficulties. Even though the cost of transportation might be slightly higher, the inventories would be further decreased significantly if third party logistics were used. Therefore, it can be concluded that the FMCG industry has extremely good potential for increasing supply chain efficiencies. To improve customer service and achieve a competitive edge, the companies in this industry need to reconsider their strategy and align with the chain partners.

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