Research comparing the vendor management strategies of FMCG firms

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ABSTRACT

It is well-known that transportation and the supply chain are the areas where organisations may reduce expenses the greatest. A company's bottom line is directly impacted by the supply chain procedures, not the marketing department. Now that VMI is popular, the suppliers and the techniques in which organisations deal with them are very vital to the supply chain. From a vendor management perspective, this research analysed the supply chains of three fast moving consumer goods (FMCG) businesses based in India. Additionally, we covered how various aspects of the supply chain, including transportation, distribution, and storage, have been impacted by GST.

Keywords—India, GST, Sourcing, Inventory, FMCG, Vendor management, Supply chain

1. **INTRODUCTIONANDMETHODOLOGY**
2. In modern trade cycles, the supplier chain is a crucial component. Due to technological advancements, the traditional supply chain is now obsolete. The integration of Enterprise Resource Planning (ERP) with supply chain management is now the norm for most companies.

3. To fully grasp its function, one must first be familiar with the concept of supply chain. "Supply Chain," according to Margaret Rose, is "the network of all the people, organisations, resources, activities, and technology that go into making and selling a product, from the supplier delivering raw materials to the manufacturer to the person who buys the product." According to Rose (2013) As defined by Will Kenton, a supply chain is "a network between a company and its suppliers that makes a product and gets it to the customer." All sorts of things, including people, groups, data, and instruments, are part of this network. There are several links in the supply chain that ensure a product or service reaches the consumer from its point of origin. In the year 2019,

4. The term "supply chain" has been defined in two ways by industry leaders; together, they form "a network that connects a company to its suppliers and customers that allows the company to get the raw materials and resources it needs to make a product and get them to customers on time." Thanks to this network, resources and information may also be transferred up and down the chain.The first node in the chain is the vendor or service provider. A seller is, in the simplest terms, someone who deals in the sale or distribution of things. Instead of "the person who makes the goods itself," Michael Grant and Julia Kagan define a vendor as "someone who is paid for goods that are provided." On occasion, a dealer may also manufacture and obtain (and sell) goods. Kagan and Grant are A vendor, according to Margaret Rouse, is "also known as a supplier, is an individual or company that sells goods or services to someone else in the economic production chain." in 2015 Rousse

5. A vendor is defined as "an organisation that gives a company that makes products the raw materials they need to make those products on time and without asking for payment." This definition is based on earlier definitions. According to Julia Fournier, managing vendors entails "researching and sourcing vendors, getting quotes with pricing, capabilities, turnaround times, and quality of work, negotiating contracts, managing relationships, assigning jobs, evaluating performance, and making sure payments are made." This article primarily focuses on vendor management. An article titled "What is vendor management?" was published in HCM Works (2015) by Fournier. One of the most recent developments or significant improvements in vendor management is vendor managed inventory. Under the value-based material interchange (VMI) paradigm, the vendor receives data from the product's purchaser and is thereafter liable for maintaining an agreed-upon stock of the material, often at the consumption location of the buyer. The year 2018 James Murray

With VMI, a buyer and seller may collaborate on inventory management in a nutshell. Here, the vendor handles all aspects of inventory management. Thus, the vendor maintains an inventory of the buyer's products and updates it according to the terms of the sale. This strategy has been more popular among companies in recent months. Examining the supply chain management practices of three different fast-moving consumer goods businesses using a Vendor Managed Inventory model is the objective of this article. To begin, we drafted a survey that included both factual and subjective inquiries. A total of three businesses—ITC, PnGz, and HUL—were subsequently requested to fill it out and provide feedback. At long last, we completed the study. In the end, we arrived at the conclusion we did by analysing the literature of five publications.

6. VENDORMANAGEDINVENTORYANDTHEF MCGINDUSTRY

7. Traditional Supply Chain and Vendor-Managed Inventory are two broad categories under which many types of supply chains fall. For fast-moving consumer goods (FMCG) companies, this is a crucial task as supply chain costs account for about 50% of overall manufacturing costs.

8. Vendors are individuals or businesses that provide products and services to a collective. The 2015 edition of Fournier's What is Vendor Management A company is not limited in the number of suppliers it may work with, and those suppliers can provide the same or different products in various locations. One of the most important reasons for a company to treat its suppliers correctly is this very reason. A firm's partner base refers to the aspects of its supply chain that are actively managed by the company itself. Communicated via KB Manage: One aspect of vendor management is locating suppliers that give the best deals. An organization's methods for dealing with and maintaining positive relationships with its suppliers evolve as it expands. (In the future, Hao) This encompasses the whole process, from identifying potential suppliers to maintaining ongoing connections with them. In order to complete the process, you must gather quotations, determine the vendor's capabilities in relation to the deadline and quality criteria, negotiate contracts, oversee payment and delivery, and assess performance. "What is Vendor Management?" according to Fournier (2015).

9. A company's bottom line is directly impacted by vendor management, which is essentially the same as risk management. The goal of effective vendor management is to maximise output per unit of input by implementing optimal processes. A corporation may save money, improve quality, and strengthen relationships with its suppliers via effective vendor base management.

Maintaining cordial connections with one's vendor base requires careful attention to a number of details. The process begins with selecting a vendor and continues with risk assessment, contract negotiation, recruiting, and finally, performance management and risk mitigation. next year with SAP Ariba Among India's most vital industries is that of fast-moving consumer goods (FMCG). With an economic impact of almost US$52.75 billion in FY2018, it ranks as the fourth largest sector. Food and drink, health care, and personal care/household goods are the three main categories into which fast-moving consumer goods (FMCG) fall. Half of the space is devoted to household and personal care products. Healthcare accounts for 31%, while food and drink account for 19%. (Recently, from the India Brand Equity Foundation) The fast-moving consumer products industry saw an increase in sales of almost 8% over the previous year. At its predicted 27.86% annual growth rate, the sector is projected to reach a value of 103.7 billion US dollars by the conclusion of the next fiscal year. The fast-moving consumer goods industry has expanded by 15–16% in rural markets but by just 12–13% in metropolitan ones. Last year, sales in rural regions accounted for 45 percent of the total revenue produced by India's fast-moving consumer goods business. Due to the increasing need for high-quality and diverse products in outlying regions, the fast-moving consumer goods (FMCG) industry has potential for expansion. These businesses have seized the market share because they have optimised their delivery routes and supply chain management. Along with this, the Goods and Services Tax (GST) has played a much larger role. As to the India Brand Equity Foundation's statement in 2019, Many products' retail prices have altered as a result of GST; some have seen an increase in tax, while others have seen a decrease. We would want to focus on the impact of GST on manufacturing enterprises' transportation networks more specifically, given delivery costs account for around 2-7% of overall costs. The implementation of GST has allowed the companies to reduce their transport expenses by 1.5 percent. Professional (2017) In the current year, Adel Hussain Ali For fast-moving consumer goods companies, the IGST (Integrated Goods and Services Tax) is a boon. The federal GST and the state GST combine to form this. In the current year, Adel Hussain AliCompanies now face fewer transportation-related issues while acquiring products, according to IGST, which has altered supply chain management. The IGST allows for the free and expedited movement of goods throughout the country's states. In 2017, it was cleartax. People no longer have to wait nearly as long at highway checks. Because of this, vendor managed inventory (VMI) has improved, and corporations now need to have much less backup stock on hand due to the decrease in delivery time.

Table 1:GSTimpactonFMCG products

Product	Previously taxed at	Currently taxed at	Companies impacted
Detergents	23%	28%	HUL, P&G, Jyothy Laboratories
Shampoo	24-25%	28%	HUL, P&G, Dabur, Himalaya, Patanjali
Sanitary napkins	10-11%	18%	P&G Hygiene and Health Care
Skincare	24-25%	28%	HUL, Dabur, Himalaya, Patanjali
Hair dyes	23-28%	28%	Godrej Consumer Products
Ayurvedic medicine	7-10%	12%	Dabur, Emami
Toothpastes, soaps, hair oil	22-24%	18%	Colgate-Palmolive, HUL, P&G
Paints	25-26%	28%	Asian Paints, Berger Paints, Nerolac
Branded paneer	3-4%	5%	Nestle, Mother Dairy
Butter, ghee, cheese	4-5%	12%	Amul, Nestle, Mother Dairy

Another aspect of transportation that has altered significantly since GST was implemented is storage. The storage fees have been reduced by 25-50% by the firms. The Goods and Services Tax (GST) allows them to keep goods in closer proximity to their point of production or inventory requirements. They used to have to worry about securing tax incentives regardless of their location. In the current year, Adel Hussain Ali Warehouses in locations that are strategically important for delivery and are adjacent to manufacturing sites are thus a primary target for corporations looking to reduce warehouse pricing. Inventory management and demand forecasting will become much simpler as a result of this. Prior to GST, decisions on multipart storage were necessitated by the convoluted structure of sales tax and VAT in many states. These factors led to the practice of stockpiling stuff to the point where there was either too much or too little on hand. The difficulty in keeping track of supply led to an increase in expenditures. (Holiso, 2017) As a result of GST, opportunities have expanded for India's 4PL (Fourth-Party Logistics) firms as well. In terms of transportation, FMCG companies have some of the most demanding requirements. One example is the role of 4PL firms. They provide innovative solutions to firms' supply chain management problems or perhaps take over the task entirely.The retail business has benefited the most from the collaboration of four-party logistics (4PL) firms. Using third-party logistics providers (3PLs) or logistics companies (4PLs) allows the fast-moving consumer goods (FMCG) business, which accounts for a significant portion of retail sales, to concentrate on their core competencies. Transportation requirements are handled by third-party logistics providers that businesses use. In addition to managing resources, technology, infrastructure, and even other 3PL firms, 4PL organisations provide comprehensive supply chain solutions. a few while ago, tradegecko With the addition of 3PL or 4PL, vendor controlled inventory (VMI) is clearly on the rise. More services are available as a result of providers' attempts to strengthen ties with their customers, particularly big organisations. Thus, VMI is born. Upon establishing a VMI, the responsibility of monitoring inventory levels and replenishing them as required falls on the dealer or 3PL provider. You may be certain that reordering and timely delivery are likewise their top priorities. 2014 through Lutheran Using VMI is a smart move that will help you reduce stock. With its help, companies may implement JIT inventory management. When JIT and VMI work together, the seller only pays for the inventory as it is used, and it remains their property until it is gone. Reducing operating expenses in this manner is highly recommended. July 19, 2019— Additionally, this is an excellent tool for monitoring the operational capital and cash flows of the business in the near future. The capacity of the supplier/3PL firms determines VMI's performance.

10. COMPARATIVESTUDY

11. The article's subject matter informed the creation of the questionnaire.Supply chain managers from the India offices of ITC, Hindustan Unilever Limited (HUL), and Procter & Gamble (P & G) were surveyed by telephone. The answers to these questions provided valuable insight into the state of vendor management information (VMI) within these organisations and their approaches to vendor management.We are able to analyse the performance and vendor management of each organisation thanks to the construction of a scorecard. The three largest firms in India's fast-moving consumer goods (FMCG) industry are ITC, Hindustan Unilever Limited (HUL), and Procter & Gamble (P & G). Innovations in supply chain management are often acquired by one of these corporations.

11.1 VendorManagement atP andG

12. 6.2 Procter & Gamble Hygiene and Health Care Limited, an Indian consumer products firm, has business nationwide. As a consumer goods company, it primarily caters to the personal care and home care markets. (Refer to, not too long ago) The majority stake is held by Procter & Gamble Overseas India BV, a Dutch holding firm. It owns 68.73% of the business. In addition to its five in-house operations, it also has over nine throughout India that produce goods for other parties. Oral-B, the country's number two mouthwash brand, is owned by the firm.

13. 6.3 A fully integrated computer platform has been used by Procter & Gamble for Vendor Management. They utilise SAP Enterprise Resource Planning to manage their suppliers. The Vendor Managed Inventory method is not used by Procter & Gamble when they outsource the production of their completed products. However, they do utilise VMI correctly when purchasing raw supplies. As far as I was aware, Procter & Gamble has always been receptive to novel supply chain concepts. When all links in the supply chain are integrated, from sourcing raw materials to shipping completed items, this is known as end-to-end coordination. 6.4 Keeping connected to the market is crucial to P&G since it allows them to be close to their clients. Reduced wait time is a result of this. There are three primary considerations for Procter & Gamble when deciding where to locate their factories:

14. 6.5 • Expenses: Transportation fees, taxes, and other related expensesSixthly, the lead time and the purchase time

15. 6.7The storage strategy used by P&G is an internal one. P&G monitors capacity, product sales, trends, and indicators throughout the year to ensure they have sufficient stock throughout fluctuations. That they employ the Just-in-Time strategy rather than relying on guessing to boost productivity is evident from this. Important components, such as sodium lauryl sulphate in shampoo, are subject to P&G's policy of limiting their supplier to a single vendor.

16. 6.8To maintain tabs on inventory and its specifications, P and G depend on records kept by the seller. This is because in-house production makes use of Vendor Managed Inventory for raw materials. On the other hand, P&G maintains a sizable inventory of the manufactured goods and places fresh orders according to demand via the Contract Manufacturing model.

16.1 VendorManagementatITC

17. An Indian multinational holding company with interests in four sectors—fast moving consumer goods (FMCG), hotels, paper and packaging, and agriculture—ITC Limited was formerly known as Imperial Tobacco Company of India Limited and India Tobacco Company Limited. It has since diversified its business away from tobacco.Branded packaged foods, stationery, and agricultural commodities including soy, coffee, and spices are among the many things it sells. The title of most valuable fast-moving consumer goods company in India (as measured by market value) was recovered by ITC in March. Integrating ITC's supply chain with their Management Information System is key. ITC has also incorporated SAP as the ERP

platform for CRM, following in the footsteps of Procter & Gamble.The typical time it takes to bring a new ITC product to market is around 18 months. ITC has complete control over their inventory as they have not yet included the Vendor Managed Inventory model into their supply chain. Now let's talk about where the factories are. ITC has a strong belief in locating their manufacturing units close to where their raw materials are sourced. Here are the reasons why this is justified:

- Lowprocurementtime
- Cheaperprocurementlogistics
- Feasibleforperishable rawmaterials

Now, comingtothewarehousing;ITChasoutsourceditswarehousingto athirdparty, inorder toincludespecializationandlower employment costs.According to our source at ITC, there was no scarcity of goods in the Maharashtra marketplaces during the 2019 floods because of the stockpiles that had built up before the logistics were fully stopped. Production ramps up for bathing items like soap and shampoo in the summer, and for cosmetics in the winter for weddings and festivals (January–February, April–May, November–December). The production department knows the demand and patterns, so they automatically ramp up production throughout the season.When it comes to vendor exclusivity, ITC takes a hybrid approach. While keeping a backup source on hand, ITC has retained exclusive suppliers for crucial substances. This aids them in making sure there are no mistakes while yet keeping the product's quality high.

17.2 VendorManagementatHUL

18. As the biggest fast-moving consumer goods (FMCG) company in India, Hindustan Unilever Limited (HUL) is responsible for products that almost 90% of Indian families use on a daily basis. With 35+brands in 20 diverse categories, it caters to every section of the fast-moving consumer goods market. Its two brands, Pepsodent and Closeup, account up 16.8 percent of the oral care industry's revenue. As a wholly owned subsidiary of Unilever, which owns 67.19% of HUL, the company employs over 18,000 people.
Similar to major rivals Procter & Gamble and ITC, Hindustan Unilever Limited utilises SAP for its ERP system. Optimal Vendor Management is made possible by SAP for Hindustan Unilever Limited.

HindustanUnilever Limitedcontrolsitsinventorywhollyandsolelyandhasn’tintegratedVendorManagedInventorymodelinits system yet.

Traditionally, a new product development cycle at HUL lasts for about 18 to 24 months, which is similar to industry standards. When it comes to factory locations, HUL believes in placing their factories closer to the source of raw materials. The reason for placing factories closer to the source of raw materials is:

- Cheaperprocurementlogistics
- Lesser procurementtime
- Better connectivitywith vendors
- TaxLiabilities

19. As the biggest fast-moving consumer goods (FMCG) company in India, Hindustan Unilever Limited (HUL) is responsible for products that almost 90% of Indian families use on a daily basis. With 35+brands in 20 diverse categories, it caters to every section of the fast-moving consumer goods market. Its two brands, Pepsodent and Closeup, account up 16.8 percent of the oral care industry's revenue. As a wholly owned subsidiary of Unilever, which owns 67.19% of HUL, the company employs over 18,000 people.
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Likeitscompetitors,HULtoofollowsthepolicyofmaintainingexclusivevendors,whilemaintainingback-ups,incaseof emergencies.

HUL’s policy on inventorymaintenance isfixed.The procurementof rawmaterials is pre-decided based on the quantity required, which is fixed based on the production plan.

Table2:Score CardComparison

Criteria	ScoringofCompanies(out of5)		
	Procter and Gamble	**ITC**	**HindustanUnilever Limited**
IntegrationwithManagementInformationSystem	4	4	4
VendorManagement System	4	3	3
VendorManaged Inventory	3	2	2
InnovationsinSupplyChain	3	2	2
ResponsivenesstoSeasonalFluctuations	3	2	4
Warehousing-intermsofconvenience	3	4	3
Warehousingintermsofcosts	4	3	4
ProximitytoMarketplace	5	3	3
Proximitytothesourceofrawmaterials	3	5	5
ExclusivitytoVendors	5	4	4
Total	37	32	34

**Source:Basedonthetelephonicinterviewundertaken*

20. The table shows that the Procter & Gamble supply chain is the most efficient in terms of vendor management. But it's worth noting that just because P&G has the most efficient supply chain doesn't mean it's the most cost-effective. The three FMCG behemoths are all on an equal footing when it comes to integrating Vendor Management with IT, and all three of them have their own Vendor Management Systems. Out of the three firms, only Procter & Gamble had a greater level of vendor managed inventory.Procter & Gamble's supply chain advances were more apparent from the replies. The level of response of Hindustan Unilever Limited to seasonal changes is greater.Although it's a touch on the pricey side, ITC has outsourced its warehouse, making it more convenient. Conversely, P&G and Hindustan Unilever Limited both have their storage in-house, which allows them to save money.To reduce lead time, FG logistics, and other preparatory expenses, Procter & Gamble has moved its operations closer to the market. Conversely, the proximity of the raw material sources to the factories of ITC and Hindustan Unilever Limited makes their acquisition of raw materials more cost-effective. Procter & Gamble is once again at the front of the pack when it comes to vendor exclusivity, since it treats its suppliers like royalty. With this information in hand, it is clear that Procter & Gamble, Hindustan Unilever Limited, and ITC all rank well in terms of vendor management efficiency in their supply chain processes.

21. CONCLUSION

22. 13. Procter & Gamble's Vendor Base Management was determined to be the best in the industry after the review and observations. The fast-moving consumer goods (FMCG) industry is presently dominated by these three corporations. We may get a better understanding of the supply chain in the fast moving consumer goods (FMCG) sector as a whole by analysing a key component of this process at these three organisations.

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