

Competing Through an Optimal Route-to-Market Strategy

Newer channels, widening product portfolios, expanding consumption occasions and emergence of distinct consumer sub-segments have significantly increased the complexity for Indian consumer facing companies. Companies need to be aware of the triggers that help decide when to review their Route-to-Market (RtM). Having the right RtM strategy would help consumer facing businesses gain market share at an optimal cost say Pankaj Gupta, Practice Head- Consumer & Retail and Rajiv Subramanian, Project Leader of Tata Strategic Management Group.

Retail trade in India is fragmented with mom-and-pop outlets accounting for 90-95% of outlets but only 30-50% of FMCG sales. The balance is from higher throughput outlets in traditional retail, modern trade, CSD and wholesale channels. To cater to such a fragmented base, companies in India have historically adopted a multi-layered channel structure to distribute their products/ services.



A Route-to-Market (RtM) for a typical FMCG company in India could comprise a mix of the company-distributor-retailer model in urban markets, the company-superstockist-substockist-retailer model in rural markets and the direct-to-retail model for organized retailers. In recent times companies have innovated in their RtM to give themselves an edge over competition in both urban and rural markets.

Route-to-Market refers to the mix of channels and type of channel intermediaries chosen by a company to facilitate the flow of its products/services from its warehouse / service delivery location to its multiple target customer segments.

RtM Trends in India

Macro economic factors in India are triggering shifts in consumer preferences including place and time of consumption. At the same time competition has also intensified in most product categories. With an unenviable task of balancing market share and profitability, companies are looking to differentiate their RtM. Some trends in the Indian market are:

- **Consolidation of channel members** – Helps create larger, more evolved and more financially sound entities who can partner in channel development
- **Changing role of channel member** – Increasing presence of professional channel intermediaries with retail service orientation
- **Segmentation of traditional retail** – Based on outlet type e.g. grocers, general stores, chemists, paan plus, wholesale and by outlet importance e.g. Class A, B, C
- **Non-traditional rural models** – Led by partnerships with rural focused entities like NGOs, micro finance institutions and self help groups

- **Evolving Role of Modern Trade** – Most leading FMCG companies have added a channel to cater to needs of organized retail like customized SKUs, tailor-made promotions and higher fill rates.
- **Leveraging newer Points-of-Sale and/or Points-of-Consumption** - Especially for food & beverage companies. E.g. convenience kiosks set up at high footfall locations and dispensing machines inside offices
- **Higher use of technology** – E.g. Linking the distributor IT system to the company hub to track secondary sales and taking retail orders on a handheld device. Mobile based technologies could be the next big transformation lever.



Delay in realigning the RtM by a company may allow competitors to gain competitive advantage leaving it to play catch-up which always is an uphill task. A fact based approach is the only way a company should explore the need for reviewing its RtM.

Companies need to stay abreast of these trends and leverage them in the design of their RtM for gaining competitive advantage.

When does a company need to review its RtM?

Tata Strategic research identified multiple triggers for a company to initiate a review of its RtM. These triggers were then rated in decreasing order of importance by a panel of senior sales and marketing professionals from the FMCG sector in India.

1. Acquisition/ Diversification into newer categories
2. Below par market reach as compared to relevant competition (numeric and/or weighted distribution)
3. Higher cost of distribution vis-à-vis industry benchmarks
4. Entry into significantly different price categories

5. Entry into newer geographies with a different market landscape
6. Low rural penetration (especially for players targeting the mass segment)
7. Inadequate range selling
8. Low channel member viability and/or high channel member churn
9. Low sales in high growth/ high potential alternate channels
10. New product failures due to sales & distribution gaps

Select Successful Cases of RtM Innovations in India

HUL's Go-to-Market (GtM) initiative, piloted in Mumbai is being rolled out to 42 cities in India. In Mumbai, operations of 21 distributors were consolidated into 4 to help create larger, more profitable channel members. Delivery of stocks to retailers was outsourced to a logistics provider for better service levels. Increased logistics efficiencies helped reduce channel inventory, freeing up distributor resources. This initiative also included features like upgrading of salesmen.

Tata Tea's *Gaon Chalo* initiative in rural UP is another example of an innovative RtM approach (Figure 1). It combined multiple channels including the super-stockist network, wholesale channel and village haats. This RtM leveraged NGO penetration in rural UP, through which rural entrepreneurs were identified and were asked to supply to rural retailers. Through this initiative, additional 20,000 retailers in

10,000 villages were brought into the Tata Tea fold. This initiative contributed to a significant increase in Tata Tea's market share in UP - from 18.1% in Jan-Mar '06 to 26.6% in Jan-Mar'08.

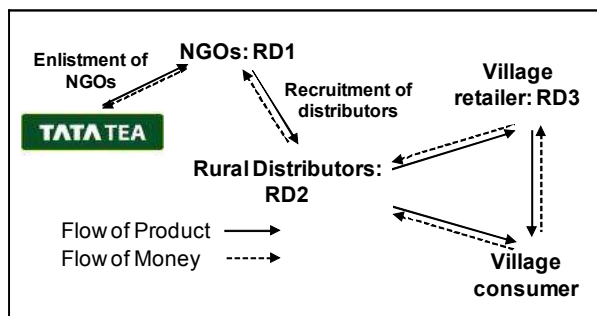


Fig 1: Tata Tea's Gaon Chalo Initiative

Developing the right RtM strategy

The RtM strategy development exercise would encapsulate an in-depth understanding of the As-Is and To-Be business landscape of the company across multiple parameters (Figure 2). This exercise needs to answer critical questions on target customer, competition, channel dynamics, expected market/channel trends and internal capabilities. This understanding has to be overlaid with the company's strategic plans for the next 4-5 years with regard to organic and inorganic modes of growth.

Multiple RtM options need to be generated based on a company's product portfolio, geography, town profile and retail segment. These options should be exhaustive and should incorporate learnings from successes and failures in India and similar emerging markets.



Fig 2: Developing the RtM Strategy

To arrive at the optimum RtM strategy, the short listed options need to be detailed and assessed on qualitative and financial parameters. For each of the options stakeholder roles, key processes and performance measurement systems would need detailing.

While the qualitative parameters would focus on the strategic fit, ease of implementation and the risks attached to the RtM options, the financial assessment needs to estimate the profit addition coming from the corresponding RtM option. This profit addition needs to be vis-à-vis the current RtM being followed. This exercise would help prioritize the right RtM strategy and initiatives which a company should adopt (Figure 3).

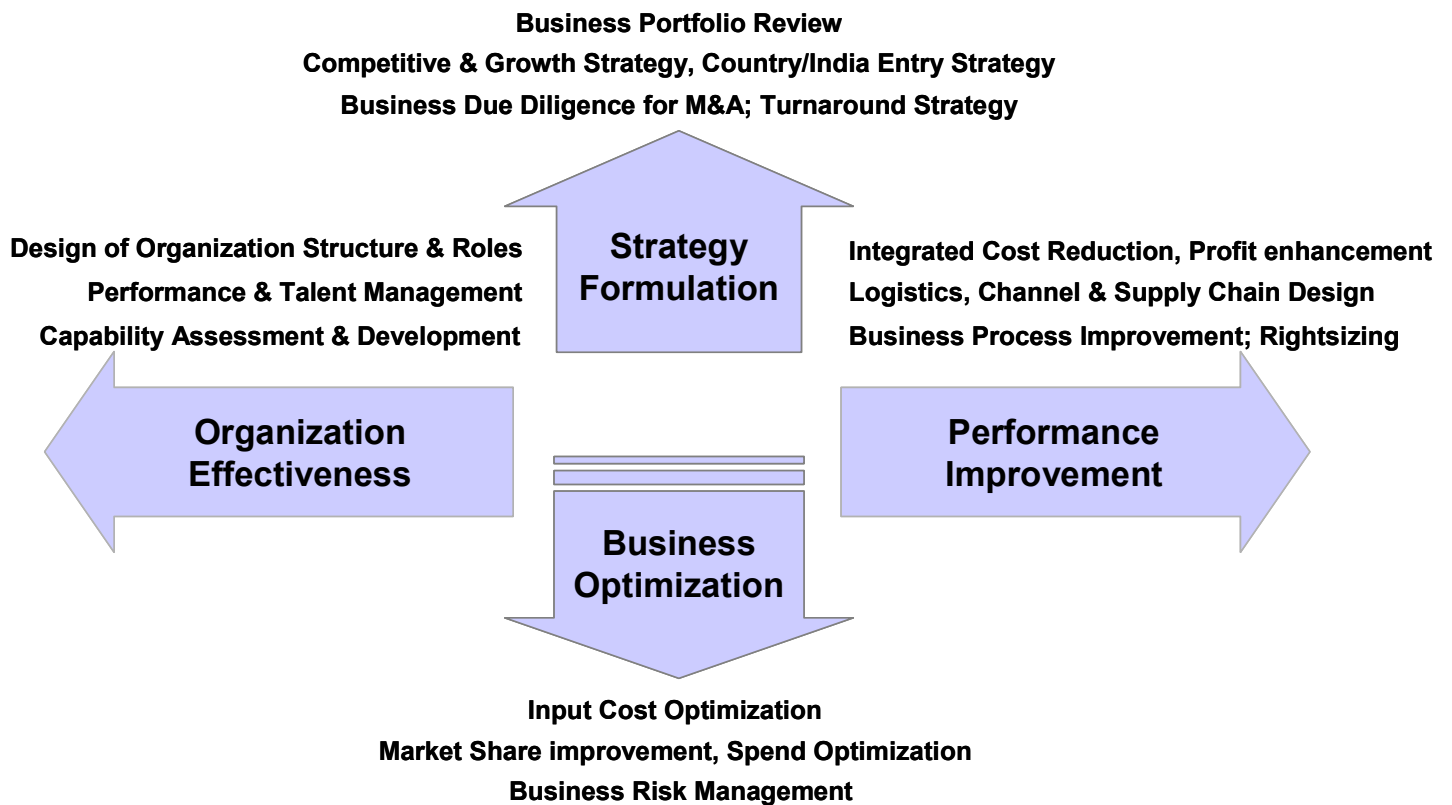


Fig 3: Prioritizing the RtM options

A comprehensive approach developing and executing the RtM strategy is expected to result in larger and more effective market reach for consumer facing companies in the diverse Indian marketplace. This would enable them to maximize sales at an optimal cost – the ultimate objective of any sales system. The important outcomes along the way would be viable, motivated channel intermediaries and retailer loyalty. This initiative is sure to give consumer facing companies a significant head start over competition.

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