# Designing A Growth Model For Fmcg Foods Categories

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## ABSTRACT

The project purpose is to understand how companies identify opportunities for expansion in terms of focus geographies. Focus geographies can be defined in two ways, markets where SKU performs well and next set of markets where SKU should be expanded. This study aims to design an expansion model that recommends the next set of markets to focus upon and a suitable expansion plan for any SKU or Food Product it is applied upon. An in-depth interview will be conducted for over 24 sales professionals giving insights into which factors they take into consideration to identify focus geographies for their respective food categories. The questions of the study were framed to identify the relevance of the study and the optimal expansion model design to be used by an FMCG company. One part of the findings of the study will reveal what the key approach sales professionals use to determine the scope and feasibility of market growth. From these insights, the study will aim to derive a defined growth model which can be applied to any food category by an FMCG company. The model can be applied to any food category and provide an expansion roadmap to scale up distribution. An FMCG company can use this growth model for the following reasons, scaling up distribution for niche products, optimising sales distribution in saturated markets, identifying new focus geographies for SKUs and subcategories. The main impact of the model is to ultimately improve the sales growth for the food category

**Keywords**
Growth Model, SKU, Distribution, Sales growth, Data Analysis

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## Introduction

In India, the Fast-Moving Consumer Goods (FMCG) industry is the fourth largest section of the Indian economy. Developing a conscience, more accessible options and changes in lifestyle are the key progression drivers for the markets. The urban section (represents 55 per cent of the income) is the biggest supporter of the general income created by the FMCG industry in India. However, over the years, the FMCG industry has developed at a quicker pace in upcountry markets of India as opposed to urban India. Upcountry sections are developing at a fast pace and FMCG items represent half of the total rural spending.
Sales Growth is stalling in developed markets, and the rate of economic activity and per-capita consumption expansion in emerging markets is slowing. Furthermore, the retail industry remains to consolidate, with more wealthy buyers emerging in a range of new arrangements and channels. These changes are straining the prominent players in the segment. The decreasing opportunities for economies of scale for the large players have morphed the competitive landscape. The prominent players in the market have suffered in many categories within its product portfolio, as small competitors with versatile options have penetrated the market with an array of new value offerings. These small companies can now “rent” production capacity, which requires far less financing capital, and can grow their customer base online through e-commerce channels, rather than using conventional retail channels. Companies can also use cheaper and more effective online marketing strategies to market themselves virally, instead of purchasing expensive advertising. (Gell, Gjerstad, Shinall, & Istvan, 2017)
An abundance of FMCG companies is expanding their product portfolios to target emerging markets and distribute new products. Procter & Gamble, who already has a prominent presence in Indian markets, plans to introduce close to the entirety of its product range over the next few years. Hindustan Unilever rolled out its new Dove Hair Oil in an effort to enter the Hair Oil category which is predominantly controlled by Marico and Dabur. Firms are also spreading their presence to smaller, rural markets. In 2013, towns with a census population less than one hundred thousand grew at a faster rate than the urban geographies which had a much denser population. Cadbury India has increased its sales force with more refrigerated vending machines, expanding its reach to more rural and upcountry markets.
Conversely, with a portion of the unorganised sector part of the FMCG sector falling, the growth of the organised sector is expected to surge due to a higher level of consciousness about brands bought by customers, also because of an enlarged growth in modern retail.
An additional key factor driving the demand for food services in India is the mounting youth population, mainly in the country’s urban regions. India has a large demographic of young consumers who make a large portion of the workforce and, due to time restrictions can’t spare time for ancillary activities like cooking. Online platforms are to play an important part in companies trying to enter these focus geographies. The online space has played a key role in, enabling a cheaper, more convenient means to grow the company’s distribution. It is projected that 40 per cent of all FMCG consumption in India will convert to online platforms by 2020. The online FMCG market is projected to reach $45 billion in 2020 from $20 billion in 2017.
FMCG brands use retail channels over conventional grocery outlets to boost sales and target new consumers. The fastest Indian growing conventional trade channel today is chemists and ISS outlets. Chemists and ISS outlets usually provide

more display area and shelf space, attract customers with a different shopper profile, and add credibility to the products sold This insight is critically important for FMCG brands because. Companies like Hindustan Unilever, Procter & Gamble, and other cosmetic and health care producers sold OTC tablets, diapers, female sanitary items and other products through the chemist/ pharmacist channel of trade. The change in the product sales of today's beauty segment and luxury cosmetics is derived from the shift in customer preference from grocery outlets to chemists/ pharmacy outlets. Chemists/ Pharmacy outlets are having a large influence on the sales of premium creams, deodorants, soaps, face wash and shampoo and other personal care items. The Indian enterprise of L'Oreal is driving SKUs of its L'Oreal and Garnier brands through the chemist/ pharmacy channel.

Likewise, ITC is focusing on optimising its supply chain in order to focus distribution to pan plus outlets, tobacco shops that sell FMCG products, to sell other ITC product categories like premium cookies, cream biscuits and premium deodorants and other ITC FMCG products. ITC are pioneers of this strategy which is in stark difference compared to the competitors in the FMCG industry, which mostly sell confectionery goods, snacks and shampoo sachets to semi-urban markets through this channel. Additionally, ITC also provides training to the pan wallahs, pan plus shop owners, in an effort to sell soaps, biscuits and noodles.

The FMCG industry is a vastly expanding landscape with consumer trends shifting and focus geographies of SKUs changing at a rampant pace. To identify and evaluate these changes companies need to use a model that helps gauge the market environment to optimise the sales distribution for different regions, markets and outlets.

## Literature review

For a considerable length of time, the FMCG industry has been the forerunner of the nation's economy. It has effectively met every Indian's daily needs and has additionally made successful brands, paving the way to create brand identities and brand loyalty. The business has been at the cutting edge of development, giving world-class items at moderate costs and making them accessible in the remotest places of the nation. In recent years, however, the industry has slipped into a recession. The FMCG growth rate versus the GDP has fallen to 0.8 from 1.2. This slowdown cannot be completely clarified by external factors, for example, changes in buyer spending power—which has possibly decreased in growth, or by any noteworthy shifts to non-FMCG classes, including the ascent of e-commerce.

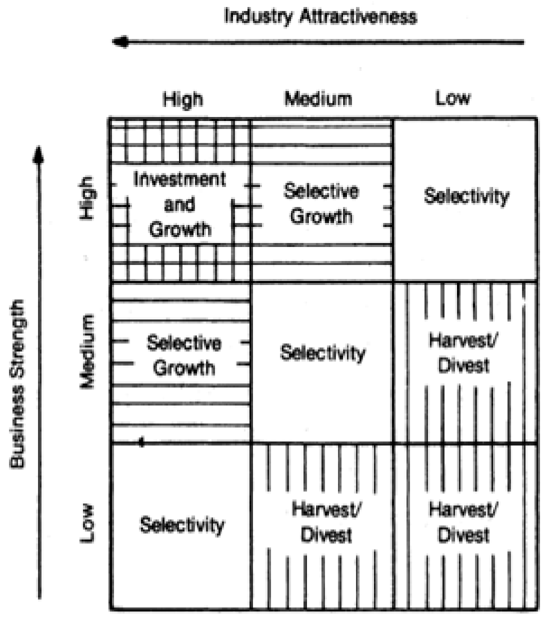



**Fig 1.** Growth Matrix

The overall appeal of the industry in which the firm belongs depends on the external factors which are not controlled by the firm. Some outer components that have proved helpful are market size, market development rate, consistently, competitive model, obstructions to entry, industry profitability, innovation, inflation, guidelines, labour accessibility, social issues, environmental issues, political issues, and legal issues. Similarly, basic internal elements, or basic achievement factors, which are to a great extent controllable by the firm are identified, for example, market share, sales force, advertising, client assistance, R&D, manufacturing, distribution, financial resources, image, product line, quality dependability, and administrative competence. The position that a business accomplishes in these variables, compared with its key rivals, is a measure of the strength of the firm. A significant number of the components (sales, promoting, R&D, customer service, manufacturing, distribution) are administrative functions. Lastly, a strategy for specific multi-functional programs must be defined for each business. once external and internal variables are evaluated every business is positioned in terms of overall industry appeal and business strength on a nine-cell grid (Figure 1). Three classifications (high, medium, and low) are used to classify appeal and strength. Possible strategic actions are expressed in terms of basic thrusts: (Hax & Majluf, 1991)

1. Invest to grow?
2. Selectivity to grow?
3. Selectivity?
4. Harvest or Divest?

In any case, as we search inside the business, during this period FMCG organizations downsized development-oriented investments and moved concentration to support benefits and sustaining profits —all at the expense of the top line. (Ojha, Chugh, and Khandelwal, 2017).

To navigate the current business climate of the FMCG industry a growth model designed to drive business expansion is often discussed in the literature and numerous endeavours of designing a model have been made.

According to (Zif and Ayal, 1979) the accomplishment of FMCG organizations is owed to the much generally utilized five-factor model for FMCG value creation. FMCG organizations did the following:

- Perfected mass-showcase brand building and product advancement and innovation. This ability achieved credible development and profits that are typically 25 per cent above non-branded players.
- Developing markets were entered into early and effectively developed their classifications as buyers got wealthier. This proved to be a tremendous source of growth-producing 75 per cent of income development and revenue growth in the part over the previous decade.
- Designed their working models for predictable execution and cost decrease. Most have expanded centralization to keep the costs low. This collaboration-based model has kept general and managerial costs at 4 to 6 per cent of income.
- Used M&A to merge markets and make a reason for natural development post-acquisition. After refreshing their portfolios with new brands and classes, these organizations applied their dispersion and strategic policies to develop those brands and classifications.

When market segments are examined within the major national market the following expansion strategies are identified, recommended by (Hax & Majluf, 1991)

Strategy 1 – This strategy focuses on specific segments in a couple of nations and several sectors served. This double concentration is especially fitting when the product or service appeals to a specific group of customers, and the expenses of penetration into every national market are enough with the resources at hand. In order, to be effective with this approach, the markets served must be a significant size and stable.

Strategy 2 – This strategy is described by focus areas and diversification of the market requires a product that appeals to various sections. The procedure will be successful when there are critical economies of scale in the promotion (example: omnichannel advertising) and distribution, and when the business capability of the home market and other national markets served is huge. Under certain circumstances, companies can accomplish goals by focusing on numerous market segments inside a few domestic markets.

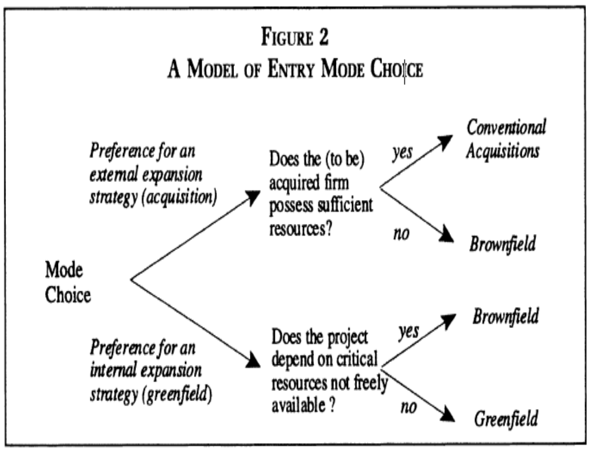



Fig 2. Model of Entry Mode Choice

Markets that consist of local companies that have weak resources or high transaction costs may repress the external expansion strategy. To overcome this, new offerings need to be updated to the firm that has been acquired. These new facilities can be realised at the due diligence stage or if the acquired firm needs major restructuring. The latter requires managers to ensure thorough due diligence before the acquisition. However, in many cases in CCE, incomplete information was provided which led to unsuccessful acquisitions, caused by serious problems faced during restructuring former socialist firms.

Second, since assets have a limiting factor which are domestic firms which inhibit the entry of greenfield projects, brownfield can be supplemented with internal expansion strategies. Firms may have significant transferable assets or favour coordination of the local activity yet at the same time rely upon a basic nearby resource. This can result in an acquisition if the resource cannot be separated from the domestic firm, or if the firm is reluctant to sell its asset. A diverse array of such simplistic assets: a domestic partner with legal permission provided, distribution channels, patents and brand names. The case suggests a critical asset motive greatly influencing the penetrative purchase is at least as pertinent as brownfield as 'second-best' acquisition. Brownfield alternative may become the main method of international growth for companies that merge extremely aggressively sought out resources with important local assets.

| Attractiveness Criterion | Weight | Rating | Weighted Score |
|---|---|---|---|
| Size | .15 | 4 | .60 |
| Growth | .12 | 3 | .36 |
| Pricing | .05 | 3 | .15 |
| Market diversity | .05 | 2 | .10 |
| Competitive structure | .05 | 3 | .15 |
| Industry profitability | .20 | 3 | .60 |
| Technical role | .05 | 4 | .20 |
| Inflation vulnerability | .05 | 2 | .10 |
| Cyclicality | .05 | 2 | .10 |
| Customer financials | .10 | 5 | .50 |
| Energy impact | .08 | 4 | .32 |
| Social | GO | 4 | - |
| Environmental | GO | 4 | - |
| Legal | GO | 4 | - |
| Human | .05 | 4 | .20 |
| | 1.00 | | 3.38 |

**Fig. 3** Attraction criterion

The factors are classified into two groups to assess the market. In one group, are factors, which affect all firms competing in the industry in similar ways, like total market, market growth rate, and industry benefit. In this case, we use the average investment opportunity open to a firm as the basis for comparison. Our thinking is that the degree of appeal will, at last, decide the investment strategy of the firm. Thus, a business with a higher appeal will be allocated with more resources than one with a lesser appeal. At the point when the five-point scale in the profile outline is characterized on this basis, the "Even" or "Natural" point distinguishes a level of allure for each factor equal to that of the normal investment opportunity open to the firm. The second group is made out of elements that influence the firm and its rivals in different ways. For instance, external elements can influence worldwide enterprises differently when the standard firms are situated in various countries, where money equality, inflationary patterns, segment factors, and labour supply are altogether different. To survey this group, we use competitive evaluation, and the firm could utilize its most important rival as a premise of examination. For this situation, neutral will mean that the factor affects firm and its competitor in the same way. The resulting examination is dependent on judgement, which requires managerial insights. Assessing external factors is a systematic process that imposes order on the subjective judgment's managers provide in an overall diagnosis of a business. Surveys, market researches and external data sources, acquired by external sources or the internal staff, can prove to be valuable to enrich the database to provide a thorough analysis of the industry. In either case, efficiently collecting the thoughts of supervisors proves to be a better way to acquire information at low costs as compared to a blind hunting strategy. The last step is grouping the attractiveness of the business as far as the three classes of the matrix: high, medium, and low. One method assigns a weight to each factor (standardized to 100 per cent), and a numerical evaluation from 1 to 5 (1 being very unappealing and 5 very appealing). The final score of the business appeal is determined by the weighted average of the numerical grades. This cardinal estimation will allow exact positioning of the business unit in the matrix (Table 2) This quantitative approach although is highly questionable as it hides the complexities of quantifying very subtle issues. (Hax & Majluf, 1991)

Considering the vulnerabilities related with foreign entry, it tends to be proposed that, in the automotive business, actual market size alone doesn't give adequate data in regards to the possible appeal for another brand in a foreign market. (Townsend, Yeniyurt, & Talay, Getting to global: An evolutionary perspective of brand expansion in international markets, 2009)

The FAME model market appeal as far as three main factors derived from a limited number of industry specialists. These factors are

1. the compatibility between the company's product and market factors
2. the competitive and industry landscape
3. the strategic value of the market to the firm.

These three factors are steady with the four phases of analysis suggested by (Sarabia, 1996) for marketplace assessment and selection. (Calaghan & Morley, 2002) found that the strategic value of the market to the firm includes profitability and sales volume are very important to managers to select target markets. Finally, the three key factors in the FAME model expand on the cooperative energy impacts recognized in Levy and Yoon's choice structure for worldwide market penetration by overtly considering main marketing selections in the region of promotion, packaging, pricing, placements and distribution. This internal assessment of each aspect of the marketing mix provides information which can be used to decide if a market is selected. The FAME framework uses expert insights on these three key elements. The FAME model, in this way, explicitly perceives that a firm's capacity to compete inside a market is dictated by the distribution, pricing and marketing needed for the product, a favourable market scenario, strategic value to the firm along with a competitive product. (Shipley, Johnson, & Yankov, 2007)

## Research Methodology

The research collected for this study used qualitative analysis in the form of in-depth interviews. They were conducted telephonically and answered by a sample population that consisted of 24 professionals who work in sales roles in the FMCG industry. The questions of the study were framed to identify the relevance of the study and the optimal design of the research model.

**A. The primary research had to major aims:**

a. To establish the importance and relevance of the study
b. To establish the design of the expansion model from the insights of 24 FMCG sales professionals
c.

**B. The questions in the interview were as follows:**

**Questions about the importance and relevance of the study:**

a. What kind of data sets should be used and the time period of data required?
b. What are the types of recommendations that constitute an expansion plan?
c. Which parameters do companies use to identify target markets and target SKUs?
d. How does market size fit into the expansion model and what parameters are considered?

**Questions about the design:**

a. What are the reasons a company would want to scale up distribution?
b. From a sales perspective, what is the approach taken by the company to identify areas of opportunity in markets?
c. Do companies use a model that recommends what their expansion plan should look like for a food category?

**C. Question Framework to gain insights and build the design of the expansion model**

**What kind of data sets should be funnelled into the model?**

The kind of data that will be analysed and funnelled into the model is important as it directly affects the nature and specificity of the recommendations.
Distribution levels of data

i. **Market level data**

Data contains the sales figures of markets over a period of time

ii. **Distributor level data**

Data contains the sales figures of distributors in markets over a period of time

iii. **Outlet level data**

Data contains the sales figures of outlet orders within each market over a period of time
Food Product Levels of data

i. **Category level data**

Category refers to a group of subcategories that fall under the same bracket. An example of a category can be deodorant or personal care.

ii. **Subcategory level**

A subcategory is a product that falls under a particular category. For example, Aashirvad Popular Atta is the subcategory that falls under the Atta Category for ITC. Another subcategory under ITC's Atta category is Aashirvaad Select or Aashrivaad Multi-Grain. Subcategory level data means that sales figures will be received

iii. **MSKU level**

Market Stock Keeping Unit is a classification that falls under the subcategories. MSKUs are different types of products sold under subcategories distinguished by its weight. For example, the main MSKUs of Aashirvaad Multi Grain Atta is MultiGrain 5kg and MultiGrain 10kg.

**The types of recommendations that constitute an expansion plan**

This study aims to create a model which recommends the best way to expand the distribution of a Food Product in markets. Therefore, this objective is important to identify the various components that encompass an expansion plan. 24 sales professionals from different FMCG companies were asked what comprises of the recommendations for an expansion plan and their answers were compiled and analysed. A few examples of components of the expansion plan are:

*a) Target SKUs: The identified SKUs that a firm has chosen to expand distribution for.*

*b) Target Markets: The geographic markets that have been identified as the place to drive the Target SKU.*

*c) Target Outlets: The outlets inside a target market that have been identified by the model as the best place to drive the identified target SKUs.*

*d) Outlet Cutoffs: Outlet Cut offs are a threshold calculated for a particular outlet type and*

*e) SKU pairings: Subcategory products that are bought together by outlets and have similar sales cycles. SKU pairings are identified by analysing sales data and performing factor analysis or any relationship analysis to identify SKUs that have a high sales correlation. For this study, a correlation above 75% is considered an actionable recommendation.*

*f) Target Distributors: The distributors which serve the outlets of a target market that have been identified by the model as the best distributors to drive the identified target SKUs.*

**Parameters were chosen by companies to assess market performance**

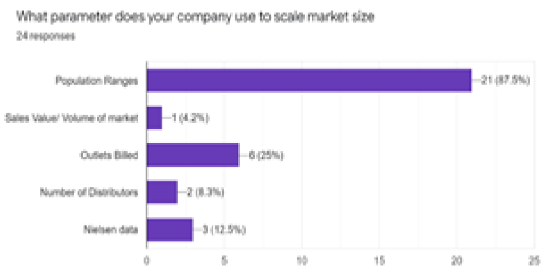
The objective of asking this question is to understand how companies assess the performance of the markets they sell in, and how companies identify emerging markets of potential to scale up distribution. These parameters are specific to FMCG and will be the major determinant that decides the depth of the data required for the model.

**How does market size fit into the expansion model and what parameters are considered?**

This objective of asking this question is to understand how companies consider market size when assessing the performance of a market. The reason why market size is an important factor is that markets of different sizes will be unfair to compare when deciding their performance.
Different parameters are used by companies such as:
*Population Ranges: Population Range is a range between an upper and lower threshold of population. Each Population Range contains markets that fit within the upper and lower thresholds of it. For example, a population range can be 51k-100k population, OLP (One Lakh Population Groups) and FLP (Five lakh population groups). In this case, market size is determined based on the number of people that live in that particular geographic area.*
*Outlet Billed: Outlet Billed is the number of outlets that have billed orders for SKUs of the Food Product. The outlets billed gives an idea as to how*
*Distributor Strength: Distributor Strength refers to the number of distributors that distribute product volumes to outlets in a particular market. In this case, the number of distributors will determine the size of each market.*
*Sales Volume/ Sales Value: Sales volume/ Sales Value refers to the unit sales of a single/multiple subcategories for a particular market. In this case, the sales volume or value of the focus subcategories or SKUs determine the size of each market. This method is usually taken when markets are matured or saturated.*
*Using Nielsen data as benchmarks: Nielsen data gives a macro-level perspective of the business environment for a particular SKU or subcategory, by allowing firms to benchmark their performance against competition and determine market performance based on both industry and industry leader standards. Population Range, Outlet Billed, Distributor Strength and Sales Volume/ Value can be judged at a macro level using data provided by Nielsen. This provides a total industry outlook on market performance.*

**Question framework to determine the relevance and importance of the study**

What are the reasons a company would want to scale up distribution?**-** The various purposes and functions of this model can serve for companies is highlighted. To be more specific the aim of this question is to understand when a company might want to consider expanding its portfolio and tells us how versatile the model needs to be.




From a sales perspective, what is the approach taken by the company to identify areas of opportunity in markets?- This is to understand what the best approach behind the model design to expand distribution. The question aims to collect responses from FMCG professionals about the various approaches used by their companies and identify the best approach out of all of them.

Do companies use a model that recommends what their expansion plan should look like for a food category?- To determine the prevalence of expansion models whether in the FMCG industry and determine if it would be an effective addition to the tools used by a company to determine its growth strategy. 24 sales professionals from different FMCG companies were asked if a model was used in their respective companies to identify growth opportunities for SKUs and their answers were compiled and analysed..

## Interview results

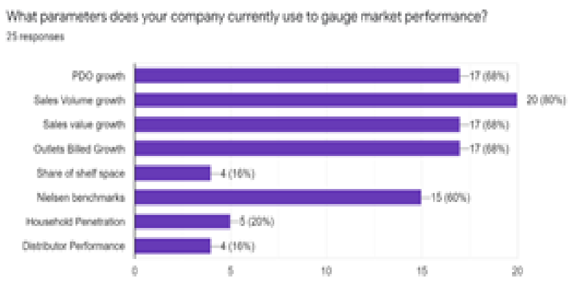



Fig. 4 Interview Question 1

According to 25 professionals currently working in FMCG sales, the following parameters were chosen as the most important to assess market performance:

a. PDO Growth
b. Sales Volume Growth
c. Sales Value Growth
d. Outlets Billed Growth
e. Nielsen Benchmarks

According to the interviews, Population census data is the most prevalent parameter used to scale market size, with over

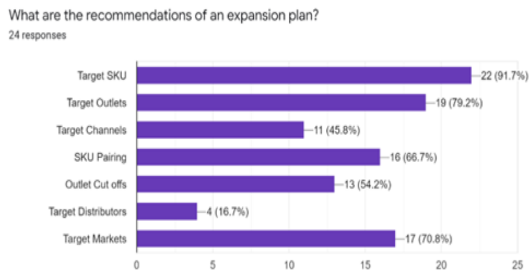



**Fig 5.** Interview Question 2

87.5% of respondents choosing this answer.

The expected recommendations from an expansion plan for an SKU in the FMCG industry according to the interviews of sales professionals are:

a. Target SKUs
b. Target Outlets
c. Target Markets
d. Outlet Cut off
e. SKU Pairing

This means that the model design must be built in such a way to have the output in a framework given above.

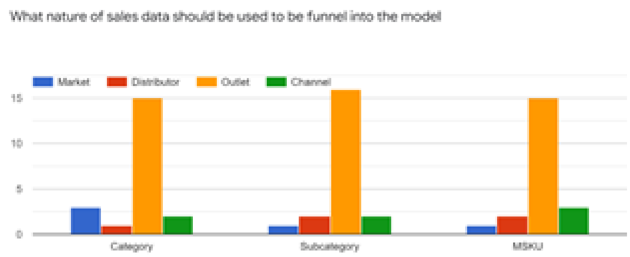



Fig 6. Interview Question 3

According to the interviews the data should be analysed at an outlet level when the model is applied on a Category, Subcategories and MSKUs. This directly affects the output recommendations as it allows the model to also identify Target Outlets and Outlets Cut-offs.

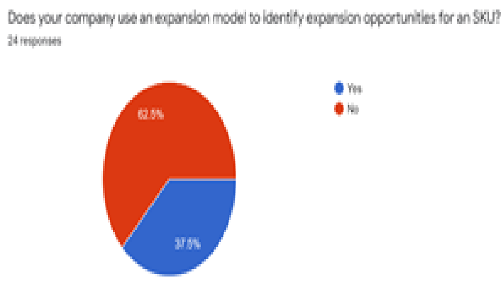



**Fig 7.** Interview Question 4

According to the interviews, 62.5% of respondents who work at top FMCG companies do not use a structured and standardised model to identify expansion opportunities. Therefore, the creation of such a model from market insights would be beneficial for sales professionals to use in the current scenario.

What approach is taken to identify expansion opportunities for SKUs?

A wide variety of answers were collected from this question. The answers ranged from focus group testing to relying on market intelligence teams to gain insights. However, after gaining deeper insight through in-depth interviews a common underlying approach was identified throughout. Markets were divided based on performance and then studied individually. The top-performing markets were studied and the insights extracted from the study were then applied to the averagely performing markets. The model design has been built using this approach to give the desired recommendations.

## Model Design

Based on the insights received from the interviews the following expansion model was designed. The design was formulated by combining the most prevalent answers from the interviews. According to the interviews, the data that needs to be funnelled into the model needs to be at an outlet level and this answer directly correlates with the most prevalent final recommendations of the expansion model which were Target SKUs, Target Outlets, SKU Pairing and Target Markets (Focus Geographies). The approach of the model was derived from the responses of 24 sales professional about how they find growth opportunities for the SKUs in their respective companies.

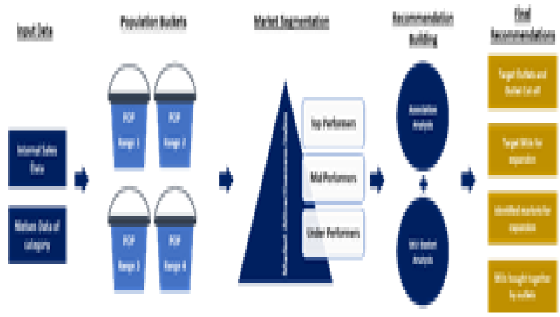



**Fig 9.** Growth Model design based on interview answers

### Population Range Buckets

The most prevalent parameter used by FMCG companies to calculate market size is the census population of the market. Therefore, before markets are evaluated, they are put into population range buckets which makes sure that only markets of similar sizes are assessed together. This provides a certain level of parity when recommendations are derived from the model.

### Market Attractiveness Index

Based on the findings, PDO growth, Outlet Billed Growth and Sales Volume/ Value growth were the most prominent parameters to determine market performance. These 3 parameters will be used to create a market attractiveness Index to segment markets based on performance into 3 categories, thereby identifying the focus geographies of the markets:

i. Top Performers
ii. Mid Performers – Focus Geographies
iii. Under Performers

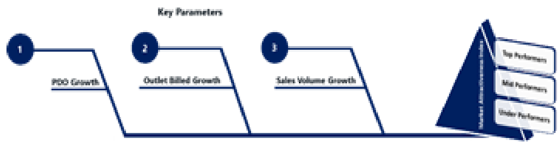



**Fig. 8** Market Attractiveness Index

### Recommendation Building

The most prevalent approach to identifying growth opportunities in FMCGs are to find combinations that are occurring in top-performing markets and replicate those combinations in mid performing markets. For example, if it is found that Atta MultiGrain 10 kg has a high salience in Grocery outlets, in top-performing markets. Then this combination will be replicated in focus geographies to increase sales. The process of identifying combinations from top-performing markets and replicated in mid performing markets (focus geographies) is done at the recommendation building stage.
During the recommendation building stage 2 types of analysis are conducted:

### 1. Association Analysis

During the Association analysis cross-tabulation of sales, volume/ value between outlets and SKUs are done to identify the various SKU Outlet combination. Once the SKU, Outlet combinations are plotted, the SKU Outlet combinations with the highest sales volume are identified. All of this is done on top-performing markets with the intent of it being replicated in focus geographies. This analysis tells us Target SKUs and the type of outlets these SKUs should be driven in.

### 2. SKU Basket Analysis

The sales of other product groups must also be taken into consideration during an expansion plan and that is the rationale behind doing an SKU Basket analysis. SKU Basket analysis identifies SKUs that are

| Market Analysis Methods | | |
|---|---|---|
| Analysis | Association Analysis | SKU Basket Analysis |
| Purpose | 1. To identify the highest Outlet*SKU combinations | To identify SKUs that are bought together by outlets |
| Methodology | 1. Plots Sales Volume of Outlet*SKU combinations<br>2. Highest Combinations identified from the plot | 1. Factor analysis performed on SKU basket (branch level)<br>2. Calculates correlations between monthly SKU sales<br>3. Correlation above 75% is considered actionable. |
| Data Analysis Software | Tableau | IBM SPSS |
| Final Deliverables | Target SKUs, Target Outlets | SKU Pairing |

Recommendation Building Output

| Branch | Pop Range | Association Analysis | | SKU Basket Analysis (IBM SPSS) |
|---|---|---|---|---|
| | | Target Outlets | SKU Basket | SKU Pairing |
| Karnataka | POP Range 2 | Grocery outlets<br>ISS outlets | Line 2, Line 6 | Line 2 with Line 9, Line 10 orders |
| | POP Range 3 | Grocery outlets | Line 5 | Line 5 with Line 8, Line 10 orders |
| | POP Range 4 | ISS outlets | Line 6 | No statistical evidence |
| Bangalore | POP Range 2 | Grocery outlets<br>ISS outlets | Line 2, Line 6 | Line 2 with Line 1, Line 3, Line 5, Line 6 |
| | POP Range 3 | Grocery outlets | Line 5 | Line 2 with Line 6 |
| | POP Range 4 | ISS outlets | Line 6 | No statistical evidence for Line 3 |
| Hyderabad | POP Range 2 | Grocery Outlets | Line 5, Line 6 | Line 6 with Line 8, Line 9, Line 10 |
| | POP Range 3 | ISS Outlets<br>Wholesale | Line 5, Line 6 | Line 5 with Line 9, Line 10 |
| | POP Range 4 | ISS Outlets | Line 5, Line 6 | Line 5 with Line 6, Line 9, Line 10<br>Line 6 with Line 5, Line 9, Line 10 |

## Conclusion and Recommendations

According to the interviews, the most prevalent recommendations from an expansion plan are:

a. Target SKU
b. Target Outlets
c. SKU Pairing
d. Target Markets (Focus Geographies)
e. Outlet Cut off

Considering these results, the model was designed to give these recommendations as part of the desired output.

The model was tested using the sales data provided by an FMCG and gave the following recommendations for expansion of SKUs when it was applied on its Atta Category for 3 cities (Chennai, Coimbatore, Hyderabad)

- Target SKU for expansion are the SKUs that are recommended to be expanded
- Target Markets are the focus geographies that the company should expand distribution of the Target SKU
- Target Outlets are the outlets that the target SKU should be driven in to expand distribution
- SKU Pairing – SKUs that are being bought together by outlets in top-performing markets. The model recommends distributing this combination in target markets.

•Outlet cut off- This is the threshold identified for an outlet type. The model recommends the SKUs only be distributed to outlets above the cut off to prioritise distribution to the best-performing outlets

| Branch | Pop Range | Target Markets* | Target Outlets** | Outlet Cut off | Target SKUs for expansion** | SKU Pairing*** |
|---|---|---|---|---|---|---|
| Chennai | OLP | Market 7, Market 13, Market 11, Market 15, Market 29, Market 27 | ISS outlets | 180 kg (182)*Popular Atta | Atta Select 1 kg<br>Atta Multi-Grain 1 kg | No statistical evidence of a relationship between SKUs |
| | 51k-100k | Market 19, Market 2, Market 22, Market 21, Market 16, Market 31 | ISS outlets | 300 kg (294)*Popular Atta | Atta Select 1 kg | Atta Sugar Control 1 kg<br>Popular Atta 1 kg<br>Atta Whole Wheat 5 kg |
| | 21k-50k | Market 3, Market 8, Market 25 | Grocery<br>Wholesale | 60 kg (63)* Popular Atta<br>390 kg (382)*Popular Atta | Atta Select 1 kg<br>Atta Multi Grain 1 kg | Atta Multi-Grain 1 kg<br>Atta Sugar Control 1kg |
| Coimbatore | Pop Range 2 | Market 51, Market 2, Market 41, Market 26 | ISS outlets | 150 kg (164)*Popular Atta | Atta Select 1 kg<br>Atta Multi-Grain 1 kg | Atta Multi-Grain 1 kg |
| | Pop Range 3 | Market 29, Market 30, Market 20, Market 22, Market 40, Market 23 | ISS outlets<br>Wholesale | 150 kg (168)*Popular Atta<br>210 kg (199)*Popular Atta | Atta Select 1 kg<br>Atta Multi Grain 1 kg | Atta Multi-Grain 1 kg |
| | Pop Range 4 | Market 10, Market 52, Market 53, Market 27, Market 32, Market 13 | Grocery outlets<br>ISS outlets | 30 kg (34)* Popular Atta<br>90 kg (99)* Popular Atta | Atta Select 1 kg<br>Atta Multi Grain 1 kg | Atta Multi-Grain 1 kg |
| Hyderabad | Pop Range 2 | Market 2, Market 16 | Grocery Outlets | 60 kg (61)* Popular Atta | Atta Multi-Grain 1 kg<br>Atta Multi Grain 5 kg | Atta Whole Wheat 10 kg, Popular Atta 1 kg, Popular Atta 5 kg |
| | Pop Range 3 | Market 18, Market 4, Market 20, Market 19, Market 21, Market 7 | ISS Outlets<br>Wholesale | 270 kg (274)*Popular Atta<br>150kg (162)* Popular Atta | Atta Multi Grain 1 kg<br>Atta Multi Grain 5 kg | Atta Popular Atta 1 kg, Popular Atta 5 kg |
| | Pop Range 4 | Market 25, Market 27 | ISS Outlets | 300 kg (290)*Popular Atta | Atta Multi Grain 1 kg | Atta Multi Grain 5 kg<br>Popular Atta 1 kg, Popular Atta 5 kg |
| | | | | | Atta Multi Grain 5 kg | Atta Multi Grain 1 kg<br>Popular Atta 1 kg, Popular Atta 5 kg |

| Branch | Pop Range | Target Markets* | Target Outlets** | Outlet Cut off | Target SKUs for expansion** | SKU Pairing*** |
|---|---|---|---|---|---|---|
| Coimbatore | Pop Range 2 | Market 51, Market 2, Market 41, Market 26 | ISS outlets | 150 kg (164)* Popular Atta | Atta Select 1 kg<br>Atta Multi Grain 1 kg | Atta Multi Grain 1 kg |

This is an extract from the above table showing the recommendation for Pop Range 2 markets in Coimbatore. The model recommendations can be translated as follows:

Atta Select 1kg and Atta Multi Grain 1kg should be expanded in ISS outlets that have a monthly sale of over 150kg for the following target markets:

i. Market 2
ii. Market 51
iii. Market 41
iv. Market 26

## Future Aspects

The expansion model designed from this study has many applications in a business environment. There are various functions this model can serve for companies such as:

a. Scaling up distribution for niche products

Niche products have very low salience in markets and are difficult to scale up because due to the small market they cater to. However, the expansion model formulated from this study can help identify focus geographies and a suitable distribution model for niche products.

b. Optimising sales distribution in saturated markets

This model can be used by companies to create a leaner distribution plan centred around focus geographies. The outcome would be that companies are only distributing SKUs to outlets and markets that are best suited towards them. Thereby, making the distribution chains more streamlined and growth-oriented.

c. Identifying new focus geographies for SKUs and Subcategories

In due course of time, changing customer preferences caused by geographic factors, demographic shifts, political policies and other external factors caused shifts in focus geographies for SKUs and subcategories. By using the model these shifts can be identified and new recommendations can be used to form a new distribution model that cater to new markets.

## Limitations

The model doesn't consider on-ground market insights when the recommendations are being developed. This makes the model 1 dimensional as it is only based on quantitative analysis. To make the model more dynamic and accurate market insights for the recommendations can be used to sharp focus distribution models.

This is an extract from the above table showing the recommendation for Pop Range 2 markets in Coimbatore. The model recommendations can be translated as follows:

Atta Select 1kg and Atta Multi Grain 1kg should be expanded in ISS outlets that have a monthly sale of over 150kg for the following target markets:

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iii. Market 41
iv. Market 26

The preferred spelling of the word "acknowledgment" in America is without an "e" after the "g". Avoid the stilted expression "one of us (R. B. G.) thanks ...". Instead, try "R. B. G. thanks...". Put sponsor acknowledgments in the unnumbered footnote on the first page.

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