

# Factors Affecting Channel Conflicts in the Value Chain of FMCG Sector

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## Abstract

*Marketing channels are a set of interdependent organizations involved in the process of making a product or service available to customers/consumers, for use or consumption. The channel members in a marketing channel include companies, distributors, wholesalers, retailers and customers. Channel conflict is when a member of the distribution channel perceives another member to be engaged in behaviour that negatively impacts the attainment of its goals. Marketing channel conflicts are of different types and there are vast variations in their intensity and scale. This study, therefore, aims to ascertain the factors that cause channel conflicts in the supply chain of the Fast-Moving Consumer Goods (FMCG) sector and their impact on the overall supply chain of their marketing. The study considers a wide variety of FMCG products such as processed foods, baked goods, fresh, frozen and dry goods, medicines, cleaning products, and office supplies. The geographical boundary of this study is the south Indian state of Kerala. A qualitative methodology is used in the study by conducting in-depth interviews of the different channel members in the supply chain of FMCG sector in Kerala. The Quota-sampling method was used to identify the sample to be interviewed. Further, a correlation and regression analysis are done to understand the most influential factors in marketing channel conflicts. The findings of the study revealed that the major factors causing channel conflicts, were damaged goods, late deliveries, miscommunication, poor packaging, very low margin etc. The study found that managing channel conflicts will ensure a more efficient value chain that will reduce the overall costs incurred by the channel members. The study aims to identify measures to tackle channel conflicts in the supply chain of FMCG sector and enhance its value.*

**Keywords:** Marketing Channels, FMCG sector, Conflict.

## Introduction

Due to the advent of the digital and internet based online channels, many new technologies, business models, and innovative firms, a transformation has occurred in distribution channels. But, the conventional channels (i.e., the traditional brick-and-mortar channels) are still very much in existence. One of the outcomes of these developments is clear: customers now want far more and better channel choices for gaining access to the wide range of products and services from around the world, which satisfies their needs fully. It is through effective and efficient marketing channels that this challenge can be addressed.

Conflict is common throughout the distribution channel of marketing. It exists among manufacturers, distributors, wholesalers, and retailers. Among the various dimensions of behaviour within a channel, conflict has been identified as one of the most important and has been ever seen as inevitable given the differences in power among the channel members (Rosenbloom, 2012). Conflict is related with the overall level of perceived disagreement between exchange partners (Palmatier, et al. 2006) and is defined as a situation in which one channel member perceives that another is engaged in behaviour that prevents them from attaining their goal (Stern & El-Ansary et.al., 2016).

The Indian FMCG industry is having a size more than INR 1,300 billion. (IBEF). This industry is having the widest reach among all the industries in India, as it touches the life of every Indian. Over the last ten years, the industry is growing faster and has more than tripled in size. This has been made easier by the changes in the Indian economic and industrial landscape. The industry's capacity to grow further and faster is awesome, due to the low penetration of most categories and rise in consumer incomes. Over the last 20 years, even though many changes have taken place, the rate of change in the FMCG operating environment is accelerating. (Confederation of Indian Industry, 2010, FMCG Roadmap to 2020: the game changers).

Fast Moving Consumer Goods sector is the fourth largest sector in the Indian economy. 50% of FMCG sales in India accounts for household and personal care. (Indian Brand Equity Foundation, 2020, The urban segment is the largest contributor to the overall revenue generated by the FMCG sector in India which accounts for a revenue share of around 55% (Indian FMCG Industry Analysis) But, in the last few years, compared with urban India, the FMCG market has grown at a faster pace in rural India. Semi-urban and rural segments are growing at a greater rate. Half of the total spending of the rural population is on FMCG products. (Indian Brand Equity Foundation, 2020, Indian FMCG Industry Analysis).

Given the large scale of FMCG sector in India, it is vital to explore the conflicts faced in the marketing channel of this sector. In the Indian context, the studies related to efficiency and marketing channel conflicts, have been found very limited. Majority of the studies are having a broader view and most of the factors are inconsistent. Hence, this paper aims to identify the potential conflicts faced by the marketing channels in the FMCG sector in India. The following section reviews the prominent literature associated with marketing channel conflicts in relation to the FMCG sector.

## **Review of Literature**

### **Channel Conflict**

Conflict is viewed as a channel outcome between the channel members, which is influenced by various factors (Gaski, 1984) defined channel conflict "as the perception on the part of a channel member that its goal attainment is being impeded by another, with stress or tension the result". According to (Frazier, 1989; Gaski, 1984), for the development of a productive relationship, considerable interactions between members plays an important role. Conflict represents the level of tension, frustration, and disagreement in the relationship (Anderson & Narus, 1990; Frazier & Gill, et.al., 1989) when one channel member perceives the actions of another channel member is engaged in behaviour that is preventing or impeding it from achieving its goals (Gaski and Nevin, 1985).

Conflict is quite different from other outcomes because of its negative connotation. Non-economic satisfaction, trust and commitment are considered separate since they all deal with a positive feeling or effect. According to (Pearson, 1973), conflict and cooperation are opposite features in a scale, and are mutually exclusive. However, (Robbins, 1974; Mallen, 1964; Stern & Heskett, 1969) avoid linking elimination of conflict to achieving cooperation.

(Pondy, 1967) characterized episodes of conflict as 5 stages: latent conflict, perceived conflict, felt conflict, manifest conflict, and conflict aftermath. (a series of interlocking episodes). (Pondy, 1967) characterize latent conflict into 3 groups: competition for scarce resources; drive for autonomy; and goal incompatibility or divergence of goals. Perceived conflict occurs when promotional plan of a manufacturer is not coordinated with its reseller. This is quite common for manufacturers who often do not disclose new promotional plans till the final approval of promotion (McVey, 1960). In the felt conflict stage, conflict arouses emotive responses such as anger and frustration. In manifest conflict, conflict is reflected in overt behaviour which can range from conspicuous apathy to outright violence. Here, the agent in question behaves in such a manner that frustrates the goals of at least some of the other participants (Vaaland and Hakansson, 2003). Conflict aftermath involves conflict resolution and addressing the bases for future conflict.

### **Marketing Channels and Conflicts**

The paper by (Kozlenkova, I. V & Hult, G. T. M. et.al., 2015) brings together a review of five decades of research into the topic “Supply Chain Management” (SCM). The paper deals with the important features of supply chain management, namely marketing channels, logistics, purchasing, and operations management. The study attributes the success of MNCs like Amazon, Apple, Cisco, Cognizant, Dell, P&G etc. to the highly efficient supply chain management practiced by these companies. Supply Chain Management is considered as a very important competitive advantage driver, and a big asset for any organization. The author opines that Marketing channels is the last part of the supply chain but is the driver of the input needed to provide this customer value. SCM relies on the integration of processes across the domains of marketing channels, logistics, purchasing, and operations. Marketing channels mainly deal with downstream relationships, connecting the firm to the end-user or the final customer. The marketing channels viewpoint is especially applicable in the “last stage” of the supply chain (Boyer &Hult, 2005), where connecting to end-customers and meeting their needs and wants are the focus. For marketing professionals, marketing channels typically include three main components: manufacturers, intermediaries (i.e., agents, wholesalers, retailers), and end-users (individual or business customers/consumers). As such, marketing channels span various activities from the point of production of products and services, to the final consumption.

A review of the existing studies of marketing channel conflicts reveals that several unresolved issues still remain. There has been no agreement regarding the level of satisfaction achieved by channel members. Some researchers (Lusch, & Smith, 1993) consider satisfaction as only economic in nature, while other researchers study satisfaction considering it to be non-economic, i.e. is in psychological terms. Channel member satisfaction is defined as a positive affective state resulting from the assessment of all aspects of a firm’s working relationship with another firm (Frazier & Gill, et.al.,1989; Gaski&Nevin, 1985). According to this concept, both economic and non-economic aspects have an impact on the channel satisfaction.

### **Research Methodology**

The geographical boundary of this study is in the southernmost state of India, Kerala. A high-level consumption of food, non-food and non-essential items marks the consumption standard of the people of this state. More than 85% of the commodities for daily consumption in Kerala come from other states. (Majeed, C.A., 2007). It is the state with poor economic growth, but higher physical quality of life, retarded industrial growth, but higher standard of living, and low per capita income, but with higher consumption level. (Majeed, C.A., 2007). At the same time, the monthly per capita consumer expenditure is the highest in the state according to the 60th round of survey

report by the NSSO. Considering all these factors, it is significant to study the marketing channel conflicts in FMCG sector in Kerala and its impact on channel efficiency and channel performance.

For the study, qualitative interviews (in-depth personal and telephonic interviews) were conducted among distributors, wholesalers and retailers in the FMCG sector in Kerala. Sixteen channel members were interviewed to identify the problems faced by them in the marketing channel. A convenience sampling method was adopted for the same. The table 1 below represents a snapshot of the responses with regards to the major conflicts deciphered from the interviews. Here, P1 to P16 represent the interviewees and F1 to F25 represent the factors derived from the interviews.

The 25 factors influencing marketing channel conflicts in FMCG sector in Kerala, are listed below:

1. Very low margin (4% or 5%).
2. Unavailability of stocks on time.
3. Due to COVID-19, customer footfalls on the shops have drastically reduced.
4. Large excise duty on these margins.
5. High risk of damages of products and damage settlements.
6. Quick, frequent and easy damage of highly perishable products.
7. Default on payments by wholesalers.
8. Late deliveries.
9. Improper invoicing.
10. Poor packaging.
11. Poor shelf placement.
12. Resource scarcities.
13. Online sales becoming popular.
14. Increasing transportation cost.
15. Improper communication.
16. Company wants to appoint more distributors or open new channel in the same city, but existing distributors are furious.
17. Distributor wants more efforts in advertising and promotion by the company, because competition is heating up, but the company does not have the budget for that.
18. Distributor wants to be compensated for serving for distant markets where he/she incurs extra expenditure.
19. Distributors compete for selling to the same customers (i.e., trying to sell in the same geographical area/market).
20. Distributors feeling neglected if the company does not respond to their requests or if supplies suffer.
21. High cost incurred by channel members on salary of the employees, electricity and water charges of the building.
22. Due to COVID-19, customers are opting for online selling platforms like Lulu Webstore and Reliance Fresh.
23. Very low commission.
24. Manufacturing defects.

	P1	P2	P3	P4	P5	P6	P7	P8	P9	P10	P11	P12	P13	P14	P15	P16
F1	√		√		√	√				√	√	√			√	
F2						√										
F3									√	√		√		√	√	√
F4	√															
F5	√	√	√		√	√	√	√				√	√	√		√
F6	√															
F7	√	√														√
F8		√		√							√					√
F9		√														
F10		√									√					
F11		√									√					
F12		√														
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F16		√														
F17		√														
F18		√														
F19		√														
F20		√														
F21			√												√	
F22							√					√		√		
F23			√											√		
F24											√					

## Results and Discussion

The study reveals that high risk of damages of products is a major problem in the marketing channels of FMCG sector. This creates severe conflicts in terms of damage settlement that triggers other factors such as loss of profits, late deliveries, and default on payments. Further, very low margin on FMCG products is a big challenge for businesses in this sector. Adding to this challenge is the COVID-19 pandemic that reduced footfalls and triggered customers to rely on online platforms. Late deliveries further lead to loss of profits and market for many products. This preliminary study also reveals that unavailability of stocks or resource scarcities are not factors that lead to major conflicts in the marketing channels of FMCG sector. However, detailed studies are needed to reinforce these findings.

## Conclusion

Marketing channel conflicts are a major concern in the Indian FMCG sector. In the study done in Kerala, a few major problems were understood. However, this is an ongoing research. Hence, in depth understanding of the channel conflicts will help in addressing the hindrances in the supply chain of FMCG sector and help to enhance the overall value of the channel. This could lead to higher profits and better relations between the channel members.

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