



Digital transformation of strategic sourcing in the FMCG industry: Opportunities, challenges, and performance implications

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Abstract

Organizations seek continuous change and their urge is more on competitive priorities. Today business has become more dynamic as its emphasis is more on technological advancement, customer expectation, customer satisfaction, new entrants, new ventures, speed information and so on. To be on par with these factors, a business has to think strategically and it has to redefine its vision and mission.

Markets are changing from time to time and it is transforming its role from conventional marketing to strategic marketing. The organizations should rethink logistics, operations and supply chain to establish their relation with the customers in the long run.

Globalization brought tremendous changes in supply chain management and there is a need for strategic competitive move as the core objective of supply chain is to remove the barriers between the business and its customers in order to maintain customer service excellence. Strategic sourcing emerges as a vital factor to integrate and support suppliers in to the supply chain intelligently. It promotes cross-functional, intra and inter-organizational integration.

The world is moving towards artificial intelligence and the technological advancement is taking us from operations to data-driven process, making use of data analytics. Today many functions are being carried out in the organizations with the application of Big Data. Supply Chain Management is not an exception to this. Digital evolution of FMCG is a feather in the cap for the business to enter into global markets from local.

Hence, this paper focus on the digital evolution of FMCG goods through strategic sourcing, which is the need of the hour as the online platform is ruling the market with online customers and promoting cashless economy.

Keywords: Market, globalization, fast moving consumer goods, digital evolution and online customers

Introduction

Supply Chain Management (SCM) is the process of managing network of interconnected business involved in provision of supplying goods and services to the end customers. The SCM process starts from procurement of raw material, its storage, and work-in-process and concludes when finished goods are produced and reaches the ultimate user.

A comprehensive SCM includes several components which link the process of availability to goods and services at ease. The supply chain starts and end with customers.

The following flow chart depicts components of the Supply Chain Management:

As we have seen, the first element in SCM is the procurement of raw material. The business is changing with the change in the global scenario and the technological advancement is bringing an ease to conduct operations in the business either to manufacturing or services sectors. The business today requires strategic approach than a policy to conduct. Hence, the strategic sourcing is emphasized and correlated with digitalization of SCM which paved way to online marketing of FMCG.

Strategic Sourcing In Scm

To ensure that the supply chain is operating efficiently, delivering maximum satisfaction to customers at low cost with high quality, many companies have adopted strategic sourcing in its SCM process and able to acquire competitive advantage over its competitors. Today's SCM functions at three levels, viz., Strategic, Tactical, and Operational.

It is emphasized that the strategy is playing a pre-dominant role in all the business today to overcome only the competitor's limitations, but also, to win the customers' demands, meeting their demands by reaching their expectations at a reasonable price and at the same time not compromising with the quality.

Procurement

The process of acquiring goods and services, finding, agreeing on terms and conditions, works from an external source is called as "Procurement". It is ensured that goods and services are received by the buyers at a reasonable cost for the required quantity and expected quality. The term procurement is more comprehensive than purchasing in supply chain management, as purchasing is a tactical aspect of acquiring goods and services, while procurement is encompassing business development through strategic mission and goals of the organization. Strategic procurement enhances the competitive advantage of the business over its competitor and enables the business to grow. One of the strategic approaches is digitalization of processes and operations in both manufacturing and service sectors to gain the competitive advantage and increase the scope of sustenance in the market for a longer period of time.

Digitalization of Scm

The advancement of technology is transforming from time to time, say, from yesteryear's computerization to today's digitalization and tomorrow's artificial intelligence.

Business is making use of technology on a marathon race. Some of the instances are focused here.

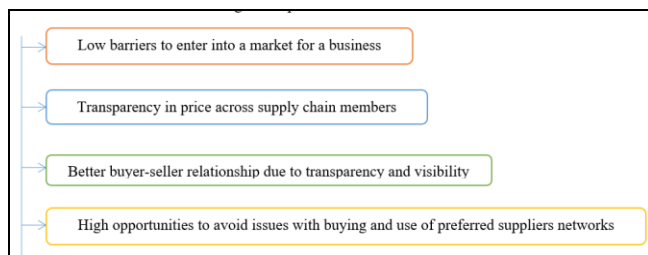
In the modern approach, the procurement process has become complex with the advent of globalization, uncertain global tariffs,

Digitalization of supply chain, increased the domain of business, giving a dual advantage of cost reduction as well as creating a value based services and supply of goods. Hence, the focus of this paper is on the digitalization of supply chain and FMCG.

E-Procurement

The application of digital technologies for procurement is not a new phenomenon. IBM was one of the first developers and users of digital procurement solutions by 2000 and used their production operations in Mexico.

The main advantages of e-procurement are as follows:



Literature Review

Taking into consideration the relevance of digitalization of supply chain process, the following literature is reviewed to ascertain the research gap and to lay down further relevance of the study.

- Global Human Capital Trends (2019):** Deloitte emphasized on Volatility, Uncertainty, Complexity and Ambiguity (VUCA), are not new to the world, but the modern world amplified them. Amid globalization, instantaneous communication and innovation eco systems, leaders are more challenged by innovative change.
- Farhani *et al.* (2017):** concluded that digitalization of supply chain has helped companies with both cost reduction as well as creating a value based digital transformation products used for procurement.
- Porter and Hepplemann (2014):** emphasized that through digitalization, businesses are able to better adopt design and deliver new smart connected products that change the way to compete with the competitors.
- Digital Universe of Opportunities (2013):** opined that, world's digital data volume is expected to reach 44 zettabytes by the end of 2020. The rise in the volume of usage if digitalization is increasing in supply chain. The technology bringing radical changes in the supply chain operations taking them towards a complete digital platform for the future generations.
- Van Weele (2010):** emphasizes that, the procurement activity ensures the buyer receives goods, services at reasonable prices, only when aspects such as quality, quantity, availability of goods and services are compared from various supply chain sources.

From the above review of literature, it is emphasized that, globalization, communication and innovation has given scope for the supply chain to shift towards digitalization, increasing its volume of operations.

Research Gap

In the recent years, the focus is more towards digitalization of manufacturing and service sector which is bringing quality and smart services in providing goods and services to the final consumer. The review of literature focused on the innovative changes taken place with the advent of digitalization in supply chain. Hence, this paper observes that there is a research gap, to be filled in focusing on strategic sourcing of supply chain w.r.t FMCG goods.

Statement of the Problem

This paper focuses on the strategic sourcing of supply chain and its role in providing FMCG to the final consumer sustaining quality, cost, and quantity and timely supply.

Objectives of the Study

Based on the research gap and statement of the problem, the following objectives are taken for the purpose of the study:

- To study the FMCG value chain - Manufacturing w.r.t Deloitte
- To analyze the views of supply chain channels on the strategic sourcing and digitalization of FMCG.

Research Methodology

The study is purely descriptive in nature. The data is collected both from primary and secondary sources. The primary data is collected by giving questionnaire to the respondents of manufacturing sector and the digital suppliers of FMCG. The sample size is taken as 100 out of the responses received from 89 only. Convenience sampling method is used.

Scope of the Study

The scope of the study is confined to the manufacturing sector and the focus is only on the digitalization aspects of FMCG. The respondents are only taken from Hyderabad.

FMCG Value Chain - Deloitte

The marketing and sales process of FMCG value chain are geared towards improving commercial performance and customer centricity. The following are some of the areas focused by marketing and sales:

- Digital Analytics:** The online channels are on demand, also in FMCG defining a uniform digital KPI framework and building web analytics capabilities to create insights into digital performance on the economic platforms.
- Brand Analysis:** Brand perception of firms is on the focus to compare the brand preference to create a data-driven brand strategy.
- Pricing Strategy:** The analyses focuses on demand variation at different price levels with different promotions/rebate and offers. The emphasis is on the optimal prices throughout the product/life cycle by customer segment.

4. **Trade Promotion Effectiveness:** Insights on trade promotion effectiveness allow to improve the aforementioned processes to increase sales while keeping the marketing costs at the same level.
5. **Competitor Intelligence:** Knowledge on what your competitors are doing, make you to take quick action to gain advantage. This analyses focuses on obtaining this knowledge and extracting the actionable insights that allow one to form data-driven competitor strategy.
6. **Production Forecasting Optimization:** Improving forecasting accuracy can potentially lead to reduction in excess inventory, lower labor cost, holding cost, spoilage discounts and reduce stock-outs.
7. **Quality Analytics:** It is focusing on the high impact issues and understanding a facility’s past performance and setting standards for quality performance.
8. **Production Efficiency:** It is pro-actively addressing the challenges such as the increase of efficiency and reduction of costs but also help to identify opportunities for consolidating facilities and determining outsourcing offshore transfer solutions for international and domestic organizations.
9. **Inventory Diagnostics:** Optimal inventory ensures on one hand, that the customers receive the goods on time and on the other hand it also ensures that holdings of stock costs as low as possible.
10. **Supply Chain Diagnostics:** Supply chain diagnostics aim at enabling and improving the ability to view every item (from ordering to delivering) at any point and at all times, in the supply chain.

From the above mentioned elements it is observed that the digitalization of supply chain is transforming the process from conventional to data-driven by expanding the domain towards, pricing strategy, brand analysis, quality, inventory, production efficiency there by making market ease to customers towards availability of FMCG.

Over the last years, online channels are becoming more and more significant for the companies to make business. As the online market is increasing the customers demand for goods are expected to deliver on a fast pace. Reliability of transaction is becoming more important with the increase in new online channels and customers.

S No	Statement of Hypothesis	Calculated Value (With d.f.)	Critical value @ 5% LoS	Accept/Reject Criteria – H0
1.	Online digital channels	2.97 at d.f.2	3.84	Accepted
2.	Gaining Competitive advantage	3.67 at d.f. 2	3.84	Accepted
3.	e-business	4.65 at d.f.2	3.84	Rejected
4.	Production efficiency	3.71 at d.f. 2	3.84	Accepted

Conclusion

Supply chain management and digitalization of FMCG go hand in hand. The role of supply chain management is to remove hurdles between suppliers and final consumer in order to satisfy consumer needs, meet his demand, provide qualitative goods, and achieve profitability and competitive advantage. In this paper it is emphasized that strategic sourcing enhances the scope of value chain in the digital era

The supply chain diagnostics are continuously making efforts to meet the customer demands all over the world, with wide range of products and services emerging. In order to improve the market coverage and set targets to the channels to deliver goods, the companies are searching insights into the drivers that most influence the coverage and eventually deliver the goods and services in time.

Findings

On the basis of data analyzed based on views of 89 respondents w.r.t. digitalization of FMCG, the following are the findings:

1. Of 89 respondents, 76% are males and 24% are females, from whom the data is collected.
2. 70.9% of the respondents strongly agree that online channels are on demand, which is expanding the digital market.

Source: Primary Data

3. 75.1% of the respondents emphasized that, knowledge on what competitors are doing in their business is a must to gain competitive advantage in the market today.

Source: Primary Data

4. 80% of the respondents viewed that, focus is more on the quality analytics in the value chain of a business.

Source: Primary Data

5. 79% of the respondents opined that production efficiency increases the quality with low cost and identify the opportunities to sustain strategic alliance with the market.

Source: Primary Data

Hypothesis

1. **H0:** Online digital channels are on the increased demand, expanding the digital market.
2. **H0:** Gaining competitive advantage is required to sustain in the market today.
3. **H0:** The focus of the e-business is on quality analytics, which is a strategic move.
4. **H0:** Production efficiency is increasing product quality with low cost and opportunity to sustain strategic alliance with the market.

Application of Chi-square Test for proving the hypothesis

and the digitalization of FMCG is bringing a competitive advantage to sustain the products and services in the market for a longer period of time.

Global chain responsiveness demands knowledge of customers’ requirements, organization and partner’s capabilities and the transformation of those demands into supplies. Strategic sourcing can offer unique contributions to supply chain competitiveness by creating opportunities

for inter-firm and intra-firm relations. Through an alignment between organization and purchasing strategies an organization can define paths for developing suppliers, identifying and mitigating supply risks, introducing innovations and advancement of technology leading to digitalization.

Digitalization lead to online marketing and it is serving the consumer world and satisfying their needs time to time and in the pandemic of Covid-19, the online market elevated the revenue in the economy by supplying goods and services to the needy customers.

Scope for Further Research

The digital era is transforming into analytics era and which is in turn taking us to artificial intelligence in future. Taking this phenomenon, the scope of study can be enhanced by the researchers as their research problem, covering the research gap and giving solutions to new research problems in the area of supply chain management, strategic sourcing and digitalization of FMCG or supply chain analytics.

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