Title: **Pricing for an enhanced customer base: An Hobson's choice for FMCG manufacturers in the Indian market**

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Abstract:
Pricing of products is an exigent marketing decision to be made. If the price is too high, it can scare customers away. If it's too low, it can leave substantial amounts of money on the table. It can also raise doubts about the quality of the offering. Most companies set a price for their products without a lot of thought. They offer deals, discounts, and negotiations on top of that.

FMCG sales make up for more than half of all consumers spending. Meaning, that more than 50% of what consumers spend goes on FMCG goods. But, in spite of the large amount of money consumers are spending on grocery goods each quarter, FMCG organizations profit margins are surprisingly slim, averaging at 3-10%. Consumer goods companies benefit from ***price optimization***. They analyze customer and market data to find the most optimal price point for a product, todetermine the best price that will help attract customers, maximize sales, and increase profits. It is a paradox as to why FMCG margins are so low when grocery spend is so high? So, in this article, attempt has been made to evaluate FMCG pricing strategy to date – looking closely at the key pricing issues leading to consistently margin erosion.

Keywords:*pricing,fmcg,products,strategy,market,consumer*

Main Text

India is a hub of FMCG brands. There are huge national and multinational brands catering their products to millions of people and generating immense capital. Here is a look at some of the FMCG giants operating in the Indian markets along with a brief understanding of their pricing strategies:

A. Dabur Price/Pricing Strategy:

Dabur Ltd is an Indian multinational consumer goods company, founded by S. K. Burman and headquartered in Ghaziabad.It manufactures Ayurvedic medicine and natural consumer products,[5] and is one of the largest fast-moving consumer goods (FMCG) companies in India. Dabur derives around 60% of its revenue from the consumer care business, 11% from the food business and remaining from the international business unit.

Dabur follows different pricing strategies in its marketing mix for different product offerings. For its premium products such as Dabur Herbal (Premium range), Sun care, body wash, body creams are priced at a premium as they are targeted at high end target segment. For its low cost products, the prices are kept low and competitive pricing strategy is followed. More emphasis is given on the product quality and its products are priced low to gain more customer base. Its main aim is to sell more units although through a lesser margin. Since it a competitive industry with major players, Dabur has to follow a competitive pricing policy for its non-premium products to sustain itself in the long run.

B. Hindustan Unilever Pricing Policy

The company is the leader in consumer goods industry with many brands under its umbrella.HUL believes in products which are consumer friendly as this generates huge amounts of sales.

a) **Simple Pricing Policy**:HUL maintains level of quality for all its products and follows a low pricing strategy over its family friendly products.For example Sun Silk shampoo is being sold for Re. 1 so that the product reaches a wider market.
b) **Competitive Pricing Policy:**HUL has maintained a competitive pricing policy for some of its products.Competitve pricing policy is setting the price of the product based on competition of that product.This policy is generally used when two companies use similar kinds of products.Pric eis charged base on what the competition charges.For ex AXE (an HUL product) ,Park Avenue and Fogg all come in the Rs. 170-190 price range.
c) **Discount Offer:** Consumers give a lot of importance to discounts while making their purchase decisions.HUL also tries to create interest amongst its consumer by offering quantity discounts for ex, 200 gm Sur Excel free with 1kg.This reduces the net price of the product which increases its sale.
d) **Brand Offers:** HUL is a wide consumer goods producer ,so it tries to offer a variety of products under a single brand at different price points.For example their home care,personal care and food & Beverages brands offer different varieties of products.te Palmolive India Pricin Strategy

C. Colgate Palmolive India Pricing Strategy:

Colgate-Palmolive follows a competitive pricing policy under its marketing mix strategy. The products are priced at similar range or slightly higher range with respect to its competitors.

Colgate charges premium price for its specialty products as it is targeted at a niche category. Colgate-Palmolive target all sections of society by providing products at all price ranges. A higher price range is justified by an added ingredients that provides extra benefits to consumers. Also the products are available in various SKUs so that it can cater to a broader base. The pack sizes ranges from 12g to 500g. Colgate also bundles its toothpastes with toothbrushes to make the offers look attractive to consumers. Most of the oral care products are available between Rs.5 to Rs.453 whereas personal care products cost around Rs.10 to Rs 400.

D. Procter & Gamble(P& G) India Pricing Strategy:

P&G uses three different pricing policy to gain market share and generate revenue i.e. competitive pricing, penetrating pricing and premium pricing. The Brands whose sale is affected a lot by its competitors, a competitive pricing policy is followed as a part of its marketing mix. If the competitor decreases its price then there are high chances that it would have an effect on sale of the product and thus the product has to competitively priced. When P&G enters the market or wants to create a new consumers base, it tries to capture market by following penetrative pricing policy. P&G prices it products of similar quality that of competitors at a slightly lower price to gain market share. The brands also provides high quality products that are targeted at a segment that can afford these products. P&G charges premium for these types of products. Apart from providing discounts on its products P&G spends extra on advertising.

E. Nestle India Pricing Strategy:

Nestle uses various pricing strategies including price skimming, inexpensive and bundles pricing strategy, penetration pricing strategy, stock keeping units, psychological pricing strategy, discounts, and competitive pricing strategy. Nestle offers discounts in various retail stores. Nestle products are often bundled and come with a 5% or 10% discount.

Nestle employs Penetrative Pricing, **ex:** When Nestle introduced a new flavor of Maggi instant noodles, they were sold at a low price to entice new customers. Nestlé's strategy was to lure more customers away from its rivals which offered alike flavors priced at higher prices. Nonetheless, when Nestle gained a greater customer base they increased the price.

F. ITC Pricing Strategy:

ITC has different price points as it has a diversified product portfolio. ITC have products in all price brackets but more and more new products are on the premium side as they provide higher margins

Pricing of the product depends on several things like pricing objective, the market one is operating in, the purchasing power of the consumers, the market condition, product's market position etc. For instance, as Bingo was entering the market, it adopted a very clever aggressive pricing strategy to capture the market share. They maintained their prices as per the market leader but offered more quantity and more margin to the retailers which gave them a competitive edge. ITC follows different marketing mix pricing strategy for different products. Their economy brands follow economy pricing. Marketing and manufacturing cost is kept at a minimum. ITC had to hike the price its premium products in the industry due to hike in excise duty. Classmate is priced over 5% over its competitors.

G. Marico Pricing Strategy:

Marico has a wide product range in a competitive market and hence has a diverse price range. For most of its brands Marico followed the strategy of entering markets that have low competition and emerged as leader in them, like hair oils, edible oil, etc. But recently Marico has found itself in a competitive scenario as it entered deodorants, hair styling, fabric conditioners, breakfast cereals, skin care, etc. Also, other FMCG giants have focused again on ayurvedic and natural products segment with Patanjali's recent entry in the industry. Marico therefore follows a competitive pricing strategy to maintain its leadership in its leading brands like Parachute and Saffola. This gives an insight about the pricing in its marketing mix.

H. Britannia Pricing Staretgy:

Food production is a highly competitive sector. Competition is at the heart of Britannia's marketing mix price strategy.

Also, because the significant sector is price-sensitive middle-class individuals, Britannia is forced to compete on price. Britannia strives to bundle its products, which lowers the cost of its products. This is notably evident in their items made for family packs. Their price discrimination method allows businesses to make more money from customers who are prepared to pay more for healthier products and perks. Britannia's prices are comparable to those of its competitors, mainly Parle's, and they are practically identical.

S .No	Company Name	Market capitalization (Rs.Cr)
1	Hindustan Unilever	626,765
2	ITC	551,000
3	Nestle India	212,000
4	Britannia	112,000
5	Dabur India	99,528
6	Marico	70,936
7	Procter & Gamble India	44,488
8	Colgate Palmolive India	43,634

The above table depicts the Market Capitalization of the FMCG companies discussed .This is done to put their relative sizes in perspective.

Their huge market capitalization notwithstanding the profit margins earned by Indian FMCG companies' remains wafer thin. In terms of profit margins, the FMCG business has a very thin margin overall. Profit margins can range from 2% to 15%. Due to the numerous steps the products go through before reaching the store and the customer, the profit margin in this industry is very low.

Despite this, the volume of sales in the FMCG sector is large, which indirectly covers part of the fewer profit margins given. Additionally, it may be pointed out that the competition for FMCG products is very high.

Reasons for low Profit margins in FMCG products

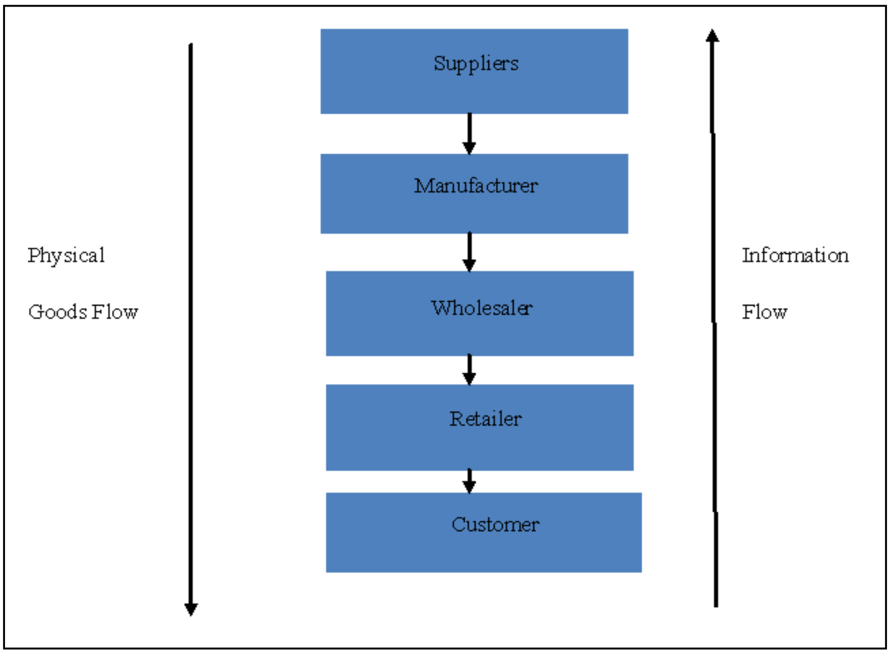
a. FMCG pricing strategy is based on "last" generation super marketing retailing:
   The first area ripe for FMCG pricing strategy transformation is existing FMCG channel strategy and go to market process. It would be safe to say, that most FMCG pricing strategy is still focused on an old-fashioned dysfunctional relationship with their retail customers. To the extent that now most leading FMCG suppliers haven't got or haven't yet implemented a direct to market, online channel strategy to serve a rapidly growing customer base (currently equalling 20-30% of total sales).
b. Rising prices squeezes FMCG players' margins. This phenomenon has been witnessed since the pandemic and its recovery
c. As a rule, FMCG products have very thin profit margins, but their sales volume is very high. This is primarily because of the business models used to distribute FMCG products, including wholesalers, retailers, and distributors.
d. In FMCG, typically, the MRP is low and the retailer is allowed a lower markup, from anywhere between 5 and 8%. Low margins means a retailer makes less money on every unit, but the number of units sold is very high in FMCG. So overall, the amount of money made evens out.

Traditional Business Model for an FMCG company:

Every FMCG manufacturer or supplier, who would want to sell its products to consumers, will have to find distributors and retailers, both in home country and abroad. The margin for a distributor may range from 3% to 13% of the sales price; the margin for the retailer may range from very little to 15%. This all depends on the type of product and who pays for the marketing activities.

The target for any business is to bring their product or service to the market and make it available for consumers by creating a distribution path or channel. The link between producers and the end consumer is normally intermediaries, such as wholesalers, retailers, or brokers. The intermediaries can be natural persons or businesses. Distribution channels affect the prices of goods and their positioning in their respective markets.

Distributions, ideally, should be set up in a way that limits the number of stops for the product or service before it reaches the end consumer. A distribution channel must be efficient and effective. It means that transportation and other logistical requirements need to be used at maximum capacity and at the lowest rates possible



A traditional model of distribution for FMCG products in India

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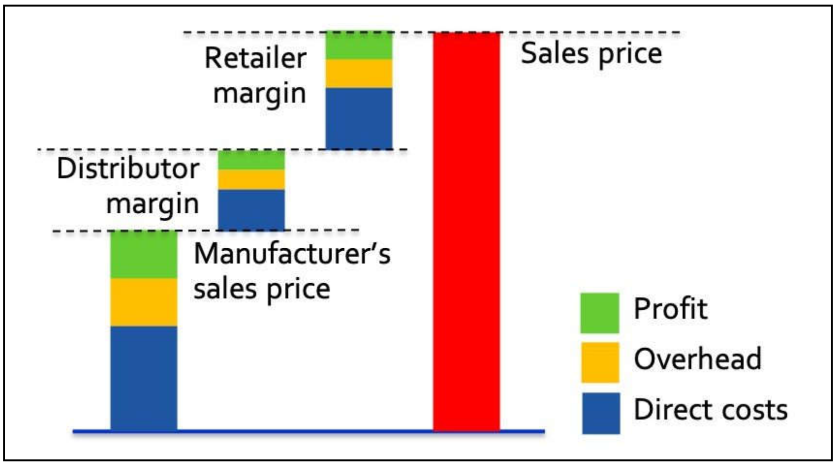
Distributions, ideally, should be set up in a way that limits the number of stops for the product or service before it reaches the end consumer. A distribution channel must be efficient and effective. It means that transportation and other logistical requirements need to be used at maximum capacity and at the lowest rates possible. The direct distribution channel does not make use of any intermediaries. The manufacturer or producer sells directly to the end consumer. The direct form of distribution is typically used by producers or manufacturers of niche and expensive goods and items that are perishable. An example is a baker. The indirect distribution channel makes use of intermediaries in order to bring a product to market. It is in this scenario that the manufacturer's margin gets eroded. The manufacturer knows the cost of production and getting it to the point of sale, and from that it gets an idea of the sales price for the consumer, excluding any taxes. Anything in between is margin that the firm will have to share with its distributors, retailers or value added resellers.

However, not all margin is profit. In order to earn the margin, distributors and retailers have to make costs, for example for shipping, storage, financing and of course selling the goods. They also have their overhead, leaving only part of the margin as their profit. When negotiating with the parties further in the distribution chain, you will have to take this into account, as a part of good distributor management.



Manufacturer's margin gets split amongst various channel partners

So the question arises "Is there a better way to maximize margins using pricing other than 'push' promotions and deep discounting?

The Road Ahead

The following are some models suggested to enable the FMCG manufacturers to enhance their margins

I. **FMCG pricing strategy is based on "last" generation supermarketing retailing**

The first area ripe for FMCG pricing strategy transformation is exiting FMCG channel strategy and go to market process. It would be safe to say, that most FMCG pricing strategy is still focused on an old-fashioned dysfunctional relationship with their retail customers. To the extent that now most leading FMCG suppliers haven't got or haven't yet implemented a direct to market, online channel strategy to serve a rapidly growing customer base (currently equalling just 20-30% of total sales).

To be fair, though, c.70-80% of all FMCG sales for major suppliers still go through major, brick-and-mortar supermarket channels; and the rest goes through IGA and/or smaller independents. Direct to market sales using online is still a new concept in FMCG institutions. Which means leading FMCG institutions are still relying on old fashioned selling techniques to win major contracts with their supermarket customers rather than data and analytics on pricing and consumer trends. Not only does this indicate that FMCG suppliers are commercially led organisations rather than pricing organisations, there's likely to be wide variations in B2B deal pricing resulting from some level of discretionary pricing.

As a result of current operations, therefore, suppliers are hamstrung by their own outdated channel strategy and sales based pricing approach and retail customers can't get the consumer data and pricing insights they need from FMCG suppliers because they simply don't have them. However, nothing lasts forever – even onerous contracts expire – and the world moves on. Leading FMCG institutions should take note of how quickly consumers have taken to online buying in the recent months, and get serious about completing an integrated transformation.

India includes 780 million internet users, where an average Indian person spends around 7.3 hours per day on their Smartphone, one of the highest in the world. Number of active internet users in India will increase to 900 million by 2025 from 622 million in 2020. In 2021, India's consumer spending was US$ 1,891.90 billion. Indian villages, which contribute more than 35% to overall annual FMCG sales, are crucial for overall revival of the sector. E-commerce now accounts for 17% of the overall FMCG consumption among evolved buyers, who are affluent and make average spends of about Rs. 5,620 (US$ 68).

FMCG giants such as Johnson & Johnson, Himalaya, Hindustan Unilever, ITC, Lakmé and other companies (that have dominated the Indian market for decades) are now competing with D2C-focused start-ups such as Mamaearth, The Moms Co., Bey Bee, Azah, Nua and Pee Safe. Market giants such as Revlon and Lotus took ~20 years to reach the Rs. 100 crore (US$ 13.4 million) revenue mark, while new-age D2C brands such as Mamaearth and Sugar took four and eight years, respectively, to achieve that milestone.

The number of internet users in India is likely to reach 1 billion by 2025. It is estimated that 40% of all FMCG consumption in India will be made online by 2025. E-commerce share of total FMCG sales is expected to increase by 11% by 2030.

As Vikash Agarwalla, Engagement Manager, Booz & Co. notes that in some areas, companies have taken on a greater role. "Earlier, distributors appointed salesmen directly, and the companies had little or no say. Increasingly, companies are outsourcing this entire process to temp staffing outfits."

Agarwalla says that in western countries, there is no concept of distributor, and that companies go directly to the consumer. "In the next 15 years in India, this entity called distributor may disappear," he says.

II. FMCG pricing strategy is very tactical and does not utilise trade spending effectively

The second area ripe for FMCG pricing strategy transformation is trade spend investment in unnecessary promotions and needlessly excessive discounting. Trade spending – the financial deals that FMCG suppliers offer retailers to market their products – stands at an all-time high for FMCG companies, despite their underwhelming results in terms of generating more profitable sales or capitalising on product innovation.

On average more than 30 per cent of the price that consumers pay for a product goes to retailers in terms of trade deals. There is also a large price variation between categories that gives retailers a lot of room to discount products further. All of this cuts FMCG suppliers' profits and undermines premium brands. Especially, when prices go below the prices consumers are willing to pay (i.e., consumer reference prices).

Many FMCG companies say they have tried to optimise trade spend to improve the situation with retailers. However, very few have taken a comprehensive approach to trade spend. Namely, clearly defining and analyzing the whole "price waterfall" as the money flows from the consumers and shoppers to the retailer and then to them – the manufacturer.

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