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Dr. Alpesh, Leua and Ms. Sweta, Sawhney
ASPEE Institute of Agribusiness Management

June 2010

Online at <http://mpa.ub.uni-muenchen.de/34032/>
MPRA Paper No. 34032, posted 10. October 2011 / 14:19

Study the effectiveness of retail environment classification of Cadbury India Limited

Dr. Alpesh Leua and Ms. Sweta Sawhney

Assistant Professor, Dept of Agribusiness Economics and Finance, AIABM, NAU and
Agriculture Officer in Bank of Baroda, Agra

Abstract

Cadbury India Limited has always been known for its innovation in manufacturing and marketing of its products. One such innovation in the distribution channel of the company was the introduction of a new classification system in January 2008, called the RE Classification (Retail Environment Classification) that classified the retailers which were catered to by the Redistributors of the company. The sample size undertaken for survey is 100 retail outlets. It include the 50 outlets each under two distributors of CIL i.e. CY Enterprises and KD Enterprises rises in Agra. It was found that some outlets categorized under new Retail Environment classification are not fulfilling the parameters which were used to categorize the outlets and thus company should perform strict audits to improve over it. The retailers are not satisfied with the system of MSS compliance as it leads to high replacements and so company should take some initiatives to find the loopholes and motivate the retailers to implement the compliance.

1. Introduction

The Fast Moving Consumer Goods industry is one major sector that faces fierce competition. Few big organizations like HUL, P&G and Colgate Palmolive dominate the industry. Cadbury India Limited is also one of these few dominating companies that have armored themselves with some of the most powerful brands of India in FMCG sector. Cadbury India Limited (CIL), with brands like Dairy Milk, Fivestar and Bournvita, has been the undisputed leader in the Indian confectionary industry for more than five decades. CIL has always been known for its innovation in manufacturing and marketing of its products.

One such innovation in the distribution channel of the company was the introduction of a new classification system in January 2008, called the RE Classification (Retail

Environment Classification) that classified the retailers which were catered to by the Redistributors of the company. In this new system, the company reclassified their retail outlets into different classes like High End Grocer, Low End Grocer, Food Store, Chemist, Pan Kiosks, Wholesaler, Super Markets, Hyper Markets and New Channel Development. This classification was based on the factors like Market Potential Value and Shoppers' Perception about the outlets. The retail sector of CIL contributes close to 60% of its revenue. CIL introduced the new classification system with the main aim of implementing differential RE strategies for various types of outlets, implementing differential 5P tactics and developing better investment strategies.

The company has introduced the new Retail Environment Classification on the basis of recommendations given by A.C.Nielsen in January 2008. The study aims to identify the major issues in the way of implementation of new Retail Environment Classification in the HEG and Food Store segment. This study tries to find out the perception of retailers with respect to the MSS compliance which is a concept introduced by CIL to increase the sales.

Visibility is an very important factor for the chocolate category as customer does impulse buying. The visibility can be understood in two different ways firstly with respect to visicoolers and secondly the window display's given by the company to the retailers and it is commissioned based. The study reveals the actual implementation of company policies regarding placement. The study also included the way company maintain its cold chain and its impact on the sales of company. Retailer's perception with respect to availability of visicoolers and its impact on sales. The study overall helps to identify the loopholes and it suggests the remedial action for effective implementation of Retail Environment Classification.

2. Methodology

The sample size undertaken for survey is 100 retail outlets. It include the 50 outlets each under two distributors of CIL i.e. CY Enterprises and KD Enterprises rises in Agra. The retail outlets of the area were selected on the basis of the concentration of the outlet in particular area. Data is classified into two categories have a great impact on the outlets as they their relations with the outlets 100 retail outlets According to Retail

Environment Classification, sample consisted of 57 Food Stores and 43 High End Grocer.

In this study, primary data was collected by survey method. Primary information was collected using three methods-

1. The data was collected through the observation of the shelves of outlets of Food Stores and High End Grocers.
2. Personal interviews were conducted with retailers.
3. In-depth interviews of distributors and sales force.

2.1 Secondary Sources

The relevant secondary information was collected from company previous records, sales report, other publications of company. Various websites were also accessed to collect information.

2.2 Objectives

- (1) To understand the new Retail Environment Classification of CIL**
- (2) To analyze the major issues related to the implementation of retail environment classification**
- (3) To determine the visibility of CIL vis-à-vis competitor companies in chocolate category and overall FMCG sector.**

3. Result and Discussion

3.1 To understand the new Retail Environment Classification of CIL New Retail Environment Classification

To improve the secondary sales performance and implement the marketing strategies in a proper manner the company classifies the retail outlets that are covered by the Redistributors.

The company recently changed its method of classification. Earlier, the classification was based on the internal data of the company i.e. the classification was purely based on attributes related to sales and not on the basis of shopper's perceptions and external factors that affect the sales. The classification was based on the throughput of CIL and route conveniences. It was namely:

- a. Purple Star: Small number of outlets selling large quantities and getting

higher discounts and benefits.

- b. Balance Top End: Outlets selling medium quantities and getting reasonably higher benefits.
- c. Mass Retail: Large number of outlets selling small quantities
- d. Modern Trade: Hyper/Super Markets
- e. Wholesale
- f. New Channel Development (NCD)

Hence, CIL implemented a new system of classification of the retail environment on the basis of the recommendations given by A. C. Nielsen in January 2008. The company classified the Retail Environment in following Categories:

- a. HEG (High End Grocer): the grocers from whom shoppers purchase a month's grocery
- b. LEG (Low End Grocer): the grocer from whom the shoppers purchase small and day to day items
- c. Chemist: An outlet selling ethical allopathic medicines and also stocking FMCG products.
- d. Food Stores: Outlet whose main business comes from food products like baked products, ice creams, etc.
- e. Pan Kiosks: An outlet selling pan/bidi/gutkha and also stocking FMCG products
- f. NCD (New Channel Development): any RE not mentioned otherwise. It includes schools, cinemas, music shops, departmental stores, clothing retailers, bus stops, railway stations, airports, canteens, BPOs, etc
- g. Wholesalers: any outlet selling more than 50% of overall business to other retailers.
- h. Hypermarkets/Supermarkets: Included in modern trade; self service outlets
- i. Cash & Carry: wholesale in self service format

This classification had to be completed by all the RDs (Redistributors) across the country. All the retail outlets coming under a particular RD had to be properly and correctly classified. A same classification

had to be implemented for both Base as well as Mass Businesses of the company. For e.g., if the RD of Base Products had identified a particular outlet as HEG, the RD of Mass Business would also classify that outlet as an HEG only.

3.2 To analyze the major issues related to implementation of retail environment classification

3.2.1 Knowledge of RE classification

20% of the respondents did not know anything about the new system of classification. They also felt that there was no impact of new system in their sales. While 80% who said that they knew something about the new system of classification and that the RDSM has told them about the MSS compliance, most of them felt that the new system has impacted The major response given by the respondents

- As the survey included FS and HEG, they are the main contributor of sales for CIL and so the owners of the outlet are given some visibility d basis so they are aware of the new system.
- Retailers also felt satisfied as company is giving them display's which have promoted the sales of chocolates.

Figure No. 1 Awareness about new RE Classification

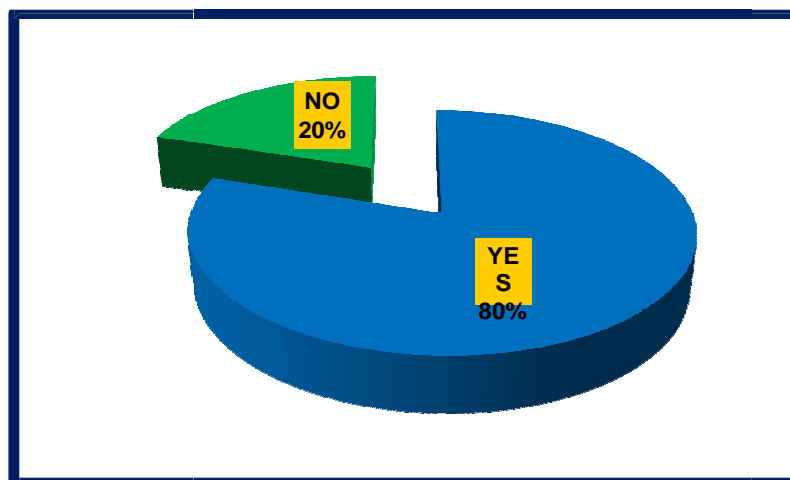


Table No. 1 Impact of RE Classification on sales according to Retailers

Particulars	No. and percentage of Respondents
Very Much	19
Considerably	50
Not Much	22
Doesn't Affect Sales	9
Decreases Sales	0
Total	100

19% respondents believed that sales have increased very much as a result of new RE classification while 50% respondents believed that their sale have increased considerably . 22 % of them believed that there is not much impact of new classification system. Only 9 out of 100 respondents showed disagreement that there has been no effect in the sales of chocolates and other Cadbury products due to the new classification system.

The major reasons for such response can be identified as:

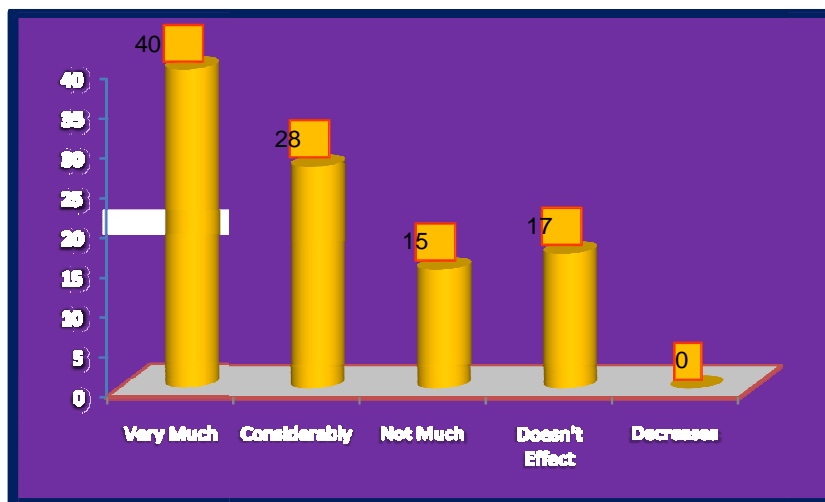
- Effective communication towards the end of supply chain by Redistributor's salesmen (RDSM).
- It was pointed out by the RDSM that retailers don't know the details of RE Classification as they are not so bothered about such internal changes in the system. They are more concerned with the sales of the products and their margins and earnings.

9 respondents showed disagreement as it was identified that one RDSM visits one outlet once a week and so it is easy for him to remember everything about the outlet. But, each retailer meets hundreds of salesmen of different companies daily and hence, it is not easy for him to remember

each and everything about the company.

- CIL after implementing Retail environment classification, CIL focused on increasing the numbers of SKUs available to any outlet at a time. On the basis of suggestions of A. C. Nielsen, CIL implemented a policy called MSS.
- According to MSS, all the Retailers were instructed to stock and sell particular number of lines every month depending on the type of outlet according to Retail Environment Classification they are.

Figure No. 2 Impact of MSS compliance on replacements



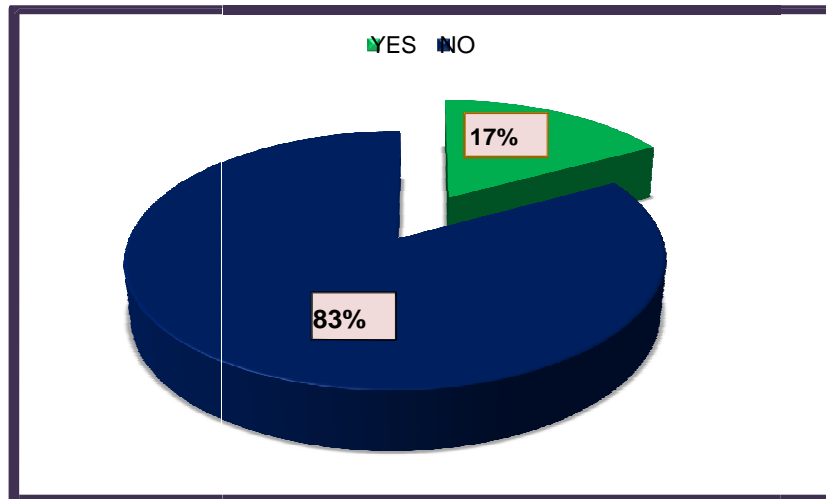
40 respondents stated that MSS compliance have led to very high replacements. 28 respondents believed that replacements have increased considerably. While 15 respondents believed that MSS compliance had not much affected the replacements and 17 respondents disagreed.

- The major reasons for such response can be identified as: Respondents feel that maintaining certain SKU's in line lead to stocking up of products and later send for replacements.
- Respondents feel that replacement is a very tedious task as company never replaces stock which is spoiled by rodents.
- The respondents who believe that maintaining certain SKUs it not

difficult due to strong brand image of CIL and so replacements are very few.

- The good visibility is must for the sale no matter what all SKUs are present as customer always does impulse buying for chocolate

Figure No. 3 Implementation of MSS compliance



From the survey conducted for 100 outlets it was analysed that only 17% of respondents implemented the MSS compliance while the rest 83% of Respondents believe that it's just to increased the stock which later would be replaced.

From this it can be concluded that there is very poor implementation of the MSS compliance and the company needs to take some initiative for proper implementation.

The company needs to have strict audits or recruit the third party to keep check over the compliance, they can give training to RDSM who can help the retailers to implement the compliance and they can also give some incentives which can motivate the retailers to maintain the proper line of the products as per MSS at their outlets.

3.2 To determine the visibility of CIL vis-à-vis competitor companies in chocolate category and overall FMCG sector.

3.3.1 Visibility - for an impulse purchase: Chocolates are largely an impulse purchase where the consumer makes the decision most often when he sees the products displayed at the retail point. A recent in-depth survey carried out by Cadbury showed that more than 35% of the total sales of chocolates are on impulse. Thus visibility will surely spur the purchase of chocolates. Unfortunately, storing in refrigerators defeats this very purpose. Cadbury tackled this issue by

1. Buying shelf space in the retail outlets
2. Having display containers analogous to the Pepsi concept of 'visicoolers'.

3.3.2 Purple Star Classification- The visibility programme of CIL is named as Purple Star.

The purple star outlets are classified into:

- Purple Kings
- Purple Prince
- Bournvita Chemist Club (BCC)
- Bournvita Ka Badshah (BKB)

For the audit of the visibility in outlets, a Third Party has been appointed. The main task of the Third Party Representative would be:

- To check whether the outlet is maintaining the proper visibility and following minimum requirements.
- To check whether the purity of Visicooler is maintained
- Installation of POP, sticking of posters, etc.
- Maintenance of Visicoolers

Proper Brand Blocking Circulation of stocks, i.e., if any product of previous date is kept, the representative would keep that stock above the new stock so that it is sold before the new stock. This reduces the replacements.

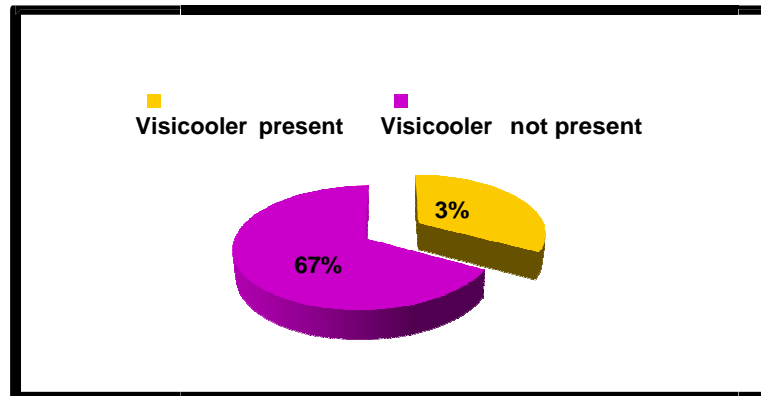
Table No. 2. The monthly targets, norms and discounting schemes for Purple Star Classification

Classification	Sales	Visibility Norms	Extra Benefits (Quarterly basis)
Purple King	Min. Rs. 12000 p,m, of overall Base Business	Chocolates: * Visicooler or Min. 3 sq. Feet Horizontal Space * 3 Sq. Feet of Vertical Space * CIL Large Pack Dispenser at Cash Counter Bytes: * 5 Strips hanging or Pure Bytes Stand	* 2.5% for Visibility * 1% on Targets
Purple Prince	Min. Rs. 10000 p,m, of Chocolates and Bytes		* 1.5% on Monthly Targets * 0.5% on Targets of Focus Lines
BCC (exclusive for chemist)	Min. Rs. 3000 p.m. of BV and FSM	* Min 4 sq. ft. of horizontal space adjacent to the MFD category stocking * Min. 12 BV facing (incl. Min. 3 Five Star Magic)	* Rs. 300 p.m.
BKB (chemist not included)	Min. Rs. 3000 p.m. of BV and FSM	* Min 4 sq. ft. of horizontal space adjacent to the MFD category stocking * Min. 12 BV facing (incl. Min. 3 Five Star Magic)	* Rs. 400-600 p.m.

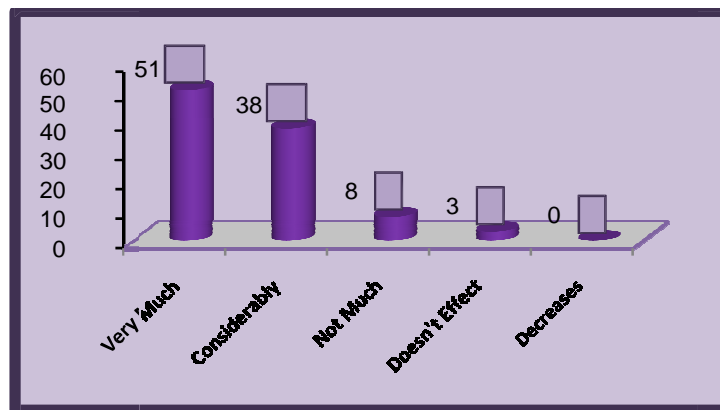
3.2.3 Availability of Visicooler at outlets

Out of the 100 outlets visited, there were 33 outlets that had Visicoolers provided by Cadbury. The Visicoolers range from 33 Lt. to 145 Lt.

Figure No. : Outlets having Visicooler



Visicooler can increase the sales of chocolates



Out of 100 respondents, 51 believe that the Visicoolers increase their sales very much while 38 believe that Visicoolers can increase their sales considerably. Only 3 respondents are not affected by the availability of Visicooler in their outlets and 8 respondents believe not much effect on sales as they sell higher percentage of Bournvita. There was no respondent who believed that it was worthless to keep a Visicooler and that it reduces the sales.

This shows that overall perception of buyer is that the seeing is buying. Respondents believe that in order to increase their sales proper functionality of Visicooler is required and that if Visicooler is given to those who don't have one right now, it would surely increase their sale.

The major reasons for this as told by the respondents are:

- High temperatures in Agra leading to melting of chocolates.

- Increase in visibility increases the sales due to impulsive nature of the product. It induces unplanned buying.
- High Visibility helps in Better Brand Recall which leads to repeat purchases and increase in Brand Value of the Cadbury
- Easy Storage helps in reduction of replacements.

Table No. 3 Comparative analysis of visibility of CIL vs other FMCG companies

Company	No. of outlets having display	Percentage Share
HUL	14	17
NESTLE	30	37
P&G	11	14
GSK	11	14
CIL	15	18
TOTAL	81	100

From the graph it can be observed that 37% of outlets have displays of Nestle while HUL and CIL having visibility approximately equal number of outlets. GSK and P&G have exactly the same number of i.e. 14% outlets having their displays.

The major reasons for such response can be identified as:

- Even though Nestle have maximum visibility outlets but mainly for Maggi and tomato sauce and not in chocolate category.
- In chocolate category only CIL have the visibility displays which is named as Purple Star and depending on the type of outlet it is further categorised in which the company have no competitor.
- The outlets having HUL displays are named as SVS (super value stores).
- GSK give display for the Horlicks which is competitor for CIL for Bournvita.
- As per the rating on the basis of visual appearance of display CIL would be positioned second after HUL.

Table no 4. Comparative analysis of the availability of competitor brands of CIL at the outlets.

Company	No. of outlets	Percentage Share
NESTLE	72	28.13
IMPORTED	45	17.58
AMUL	22	8.59
PRIYAGOLD	2	0.78
CADBURY	100	39.06
ONLY CADBURY	15	5.86
Total	256	100

Cadbury holds 39.06 per cent of share in market in comparison to other chocolate brands. Nestle has the second highest share 28.13 per cent. Imported chocolates cater to 17.58% of share. Priyagold have launched its chocolate with a brand name chocogold which have least share of 0.78% in market. 5.86% of the market share is only of Cadbury.

The major reasons for such response can be identified as:

- From the graph it can be estimated that Nestle is the strong competitor of Cadbury in chocolate category.
- Imported chocolates are also in competition with Cadbury because of high margins and that is why retailer prefer to keep the imported brands.
- Priyagold have the least share as the brand is new to the market and customers are not aware. Few numbers of outlets have only Cadbury so we can conclude that company have good brand image.

4. Conclusion

RE Classification is a great innovation. A.C. Nielsen and CIL have done a remarkable job in developing a classification that is based on the shoppers' perception of the outlet. It can be concluded that the retailers are aware of the new Retail Environment Classification and thus it has increased the sales considerably.

- It was found that some outlets categorized under new Retail Environment classification are not fulfilling the parameters which were used to categorize the outlets and thus company should perform strict audits to improve over it.
- The retailers are not satisfied with the system of MSS compliance as it leads to high replacements and so company should take some initiatives to find the loopholes and motivate the retailers to implement the compliance.
- Hindustan Unilever has started a program for visibility with the name of Super Value Store Programme. This has led to increase in the number of good shelves getting occupied by HUL's products and advertisements. Unlike HUL even CIL have come up with the PURPLE STAR visibility programme.
- CIL has no competitor for its Purple Star visibility programme in the chocolate category and it has given good sales to the company. Company has appointed third party which supervises the outlets for proper implementation of the programme.
- The availability of visicoolers is poor in the market. Due to perishable nature of products company can likely to lose sales and thus chocolate is an impulse purchase thus visibility is must.

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