Brand Loyalty: A Best Approach towards Sustainable Business in FMCG

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Abstract of A research paper based on Market Research and Market Analysis done in FMCG space—**While most of the retailers and manufacturers believes that the cost and quality are two key leavers to gain market share, however our research in FMCG market space reveals that brand loyalty is best approach to build a sustainable business in FMCG. This research paper establishes that customers loyal to a brand are not generally susceptible to typical price or quality based marketing campaigns of competitors, rather they show repeat patronage to the brands they are loyal to. Further it has been observed that loyal customers/consumers owns, endorses and celebrates their favorite brands. In return, brand to whom customers/consumers are loyal to, has to develop extraordinary connect with its customers/consumers by understanding and delivering on consumers' needs and expectations. Our research establishes that if a brand takes cares of expressed and unexpressed needs & expectations of their customers/consumers, costumers in turn reward that brand with loyalty, repeat patronage and willingness to pay price premium. It has been further established that its customers who makes a brand a Market Leader or allocate an alternate position in market based on how well that brand serves and meets their needs & expectations.**

Index Terms —**: in our research, customer and consumer are used in same spirit, however theoretically there exits some differences among them as all customers may not be consumer. Further Customer Loyalty has been used in same spirit as Brand Loyalty, however there may exists some differences between them.**

I. RESEARCH METHODOLOGY AND HYPOTHESIS

Exploratory Research to identify problem to research and hypothesis formulation followed by Primary Research (Qualitative and Quantitative) to test the hypothesis further followed by secondary research for hypothesis validation. An integrated framework of data collection, data collation and analysis was created to derive market and consumers insights.

A.Hypothesis Formulation: "Brand Loyalty mitigates risk of firms getting trapped in price based ruin competition and helps in building a sustainable business model which fetches long term premiums in FMCG space".

B.Hypothesistesting: We tested our hypothesis on a sample size of 32 (N=32) through DI (Depth Interviews) on set of structured questionnaires. Since FMCG has wide products portfolios, hence we picked up a popular 'Edible Oil' Segment for our research survey and most of our survey samples were distributed in North India. Our target respondents were channel partners like C&F, distributors, wholesalers, retailers, bulk buyers and consumers.

C.ProminentFMCG/EdibleOilbrandswecoveredinourresearch: Fortune (by Adani Wilmar), Dalda, Dhara, Nature Fresh (by Cargill), Saffola (by Marico), Sundrop (Agro Tech.), Ruchi Soya, Patanjali, many national, regional and local brands not mentioned here.

II. FMCG/EDIBLE OIL INDUSTRY ANALYSIS

Edible oils constitute an important component of consumableexpenditure in Indian kitchens and food processing industries. India is a leading player in this industry, with world's largest importer from Indonesia and Malaysia and third largest consumer.

Since Indian population and per capita income are growing, hence edible oil consumption is also increasing over the years. At present Per Capita Edible Oil consumption in India is estimated to be around 17 Kg[1].

The Edible oil players in India are highly fragmented and having diversified portfolios of Integrated producers owing oil seeds production, processing to Edible Oil Refining, Packaging assets to distribution and retailing, and also have portfolios of traders who don't own production/refining assets, just have brands to label by importing or locally sourced refined Edible Oil. This industry segment has unique characteristics as one can find large MNC players like Cargil, Wilmar to pure play Indian players like Ruchi Soya, Patanjali to local players like Mantora to unbranded local traders. Traditionally Indian Edible Oil industry was unstructured and it used to be traded & sold as commodity locally. Concept of brand was not there until Dalda entered into this market and quite literally had a monopoly over the market till the 1980s[2]. Since last few decades many MNC brands to Indian brands to local brands have entered into Indian edible oil market, and few prominent brand names have been already mentioned section C of page 1.

III. ANALYSIS OF SURVEY DATA:

We have analyzed data captured through our structured survey questionnaires to draw following insights about market from it:

A. Supply Side Market Analysis:
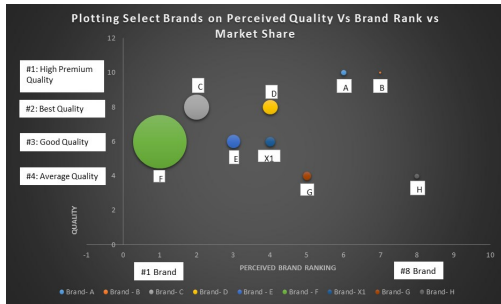
1. *Market Share Analysis*:

Fig. 1. Plotting select brands on perceived quality vs brand rank vs market share

Though we mentioned key brand names in section C of page 1, but here onwards we shall be keeping brand names confidential and shall be representing brands by Alphabets like 'A', 'B', 'C', 'D'.

Brand- A: Is a relatively newly launched national level brand, though at National level it brought disruptions in many FMCG segments, but it's not able to do same for its Edible Oil segment products

Brand-B: Is a local brand in the surveyed markets

Brand-C: Is a national level brand, though at National level it's a leading brand, but not able to lead in the surveyed markets

Brand-D: Is a national level brand

Brand-E: Is a national level brand

Brand –F: An age old local brand in the surveyed markets, many consumers grown up with taste of this brand and they connects with its taste, flavor and aroma, so consumers are very loyal towards it.

Brand-G: Is a national level brand

Brand-H: Is a local level brand in the surveyed markets

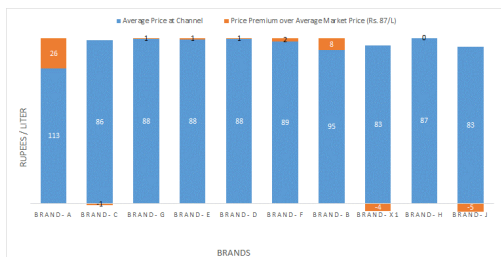Brand- X1: Is a National level brand

2. *Market Price Distribution*:

Fig. 2. Price distribution of select brands in surveyed market

B. Demand Side Market Analysis:
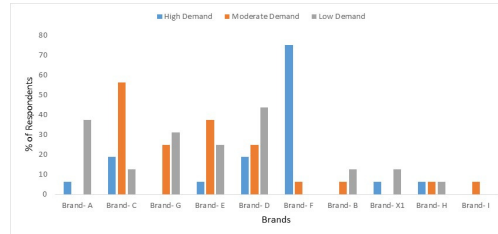
1. *Demand Distribution*:

Fig. 3. Demand distribution of various brands in surveyed market

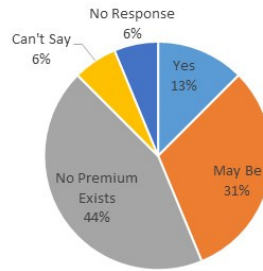2. Scope for a Price Premium in Surveyed Market:

Fig. 4. Q. Do you see any scope of incremental pricing premium for a new brand ?

IV.   MARKET ANALYSIS TO TEST OUR HYPOTHESIS:

A. Analysis of Consumer Behavior:

During research it has been observed that customers/consumers comes with very clear mind on what brand to be purchased, they don't get frequently influenced on suggestions of retailers or wholesalers or shopkeepers. It has been further observed that consumer behavior is to remain consuming same brand which they consumed over the time as it matched to their taste, aroma, trust, identity, choice and other aspirations. It has been further observed that customers/consumers churn from one brand to other brand in the researched product segment (Edible Oil) is not as frequent as we observe in other products. Our research reveals that this kind of consumer behavior has been observed because most of the customers/consumers forms an **"Inner Protective Circle"** **(IPC)** around their preferred brands they go for. Reason customers/consumers forms **IPC** as they are very loyal towards one or two brands as these brands connects very strongly with its customers/consumers either on taste, aroma, trust, identity, choice and other consumers aspirations. In our research **Brand-F** has emerged as most trusted and preferred Brand having highest Brand Loyalty of customers/consumers, so customers/consumers have made it as Market Leader in the

surveyed market.

Our research further reveals that Loyal customers/consumers keeps their trusted and preferred brand in top of their mind, and don't allow any new brand to enter into their **IPC** easily as there exists a high entry barrier gate in form of a **"Consumer Gateway" (CG)** which connects consumers mind with external market place.

We further tried validating our research findings about Consumers **"Inner Protective Circle" (IPC)** and**"Consumer Gateway"** through secondary researchby looking around other literatures / research papers published on Consumer Behavior. We came across a research paper '**Customer Loyalty: Towards an Integrated Conceptual Framework'** published by Dick &Basu in year 1994[3]. As per Dick &Basu research paper, Customer Loyalty is viewed as the strength of relationship between an individual's relative attitude and repeat patronage. The relationship is seen as mediated by social norms and situational factors. Cognitive, affective and conative antecedents of relative attitude are identified as contributing to loyalty, along with motivational, perceptual, and behavioral consequences.

We observed that findings of Dick &Basu works coherently with our research outcomes, hence we derived a combined model of brand & customer loyalty by integrating '**Integrated Conceptual Framework**' of Dick &Basu with our **"Inner Protective Circle"**and **"Consumer Gateway".** Further we established that **CG** gets operated by Dick &Basu's framework through **'Consequences'** and **'Situational Influence'** modules as per Fig.#5.

B. Analysisforhypothesistesting:

As per our hypothesis, Brand Loyalty mitigates risk of firms getting trapped in price based ruin competition and helps in building a sustainable business model which fetches long term premiums in FMCG space. In support of this hypothesis, we would like to highlight data insights we mentioned in Fig.#1, Fig.#2, Fig.#3, Fig.#4, Fig.#5.
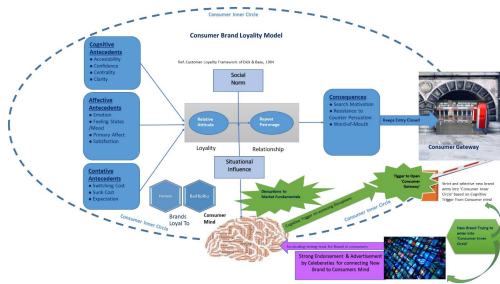

Fig. 5. Diagram Shows Brand & Customer Loyalty build up process leading to IPC & a strictly controlled entry gateway, CG

As per Fig.#1, Brand- F is market leader with highest market share and with highest perceived brand ranking, however its quality level is good to best, but obviously its not a premium quality product. As mentioned, Brand- F is an old local brand having great taste, aroma and connect with its

consumers hence it enjoys a great brand loyalty. As per Fig.#2, Brand- F is drawing premium between 5% to 10% on pricing compared to lowest market price prevailing. Our further investigation during survey reveals that even if Brand-F increases its price from current level, it remains a highest demanded brand in the surveyed markets as per Fig.#3. We further investigated whether market is ready to pay premium to other brands/new brands by asking a question in our survey as per Fig. #4 data. Most of the respondents were non-affirmative for pricing premium for other/new brands. To validate this response, we further analyzed insights of Fig.#1, Fig.#2 & Fig.#3, it has been observed that other brands like Brand-A &B tried extracting premiums from the surveyed markets by even keeping higher quality products compared to Brand- F, but they failed to generate enough demand for their products, hence having very small market share in the surveyed markets. This demonstrates, that customers/consumers are paying or willing to pay premium to only Brand-F as it has created highest Brand Loyalty among its customers/consumers in the surveyed markets. It has been further observed that when other brands got locked into price based ruin competition, Brand-F built its business model across brand loyalty keeping it away from price based ruin competition. Hence Brand-F could able to build a sustainable business over the years and got connect, trust, loyalty and endorsement of its customers/consumers since many decades.

This proves that our hypothesis is true, hence we successfully tested our hypothesis mentioned in section#I under sub sec. A. Hence, Brand Loyalty has been proven as a best approach towards sustainable business in FMCG.

REFERENCES:

CMIE- Centre For Monitoring Indian Economy, CARERatings

[1] Business Standard: "40 years ago and now how Dalda built and lost its monopoly"

[2] Alan S. Dick and KunalBasu,"Customer Loyalty: Towards an Integrated Conceptual Framework", Alan S. Dick, State University of New York at Buffalo &KunalBasu, McGill University, Published in Journal of the Academy of Marketing Science, Volume 22, No.2, Pages 99-113, Year 1994

LIMITATIONS:

Limitations of our hypothesis: our above proposed hypothesis may have some limitations as well in some other conditions, as all possible market conditions are not tested in our present research due to limited scope. Market conditions varies from geography to geography, products to products, and consumers segments to consumer segments, hence it's not possible to test all infinite market conditions, so we have to rely on statistical methods like sampling for our hypothesis testing.