FACTORS AFFECTING DISTRIBUTION OF FAST MOVING CONSUMER GOODS IN KENYA: A CASE OF EVEREADY EAST AFRICA

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ABSTRACT
The general objective was to investigate factors affecting distribution of fast moving consumer goods (FMCG) in Kenya, with particular emphasis on Eveready East Africa Limited. The study specifically aimed to; determine the effect of competition; establish the effect of price; analyze the effect of promotion and investigate the effectiveness of demand forecasting on distribution of Eveready East Africa Ltd products. The study adopted a descriptive research design and the study population comprised of 120 distributors and staff assigned in market territories in Kenya. The study applied a stratified sampling technique to select a total of 120 respondents. Questionnaires were used as the main data collection instruments and a pilot study was conducted to pre-test questionnaires for validity and reliability. Descriptive statistics data analysis method was applied. The study findings indicated that the major factors affecting distribution of the company fast moving consumer goods are; high competition from cheap imports, high prices of the company FMCG in comparison to the competitors FMCGs, application of ineffective promotion campaigns and lack of effective demand forecasting systems. The study recommendations were; introduction of less expensive and high quality FMCGs in the market that is dominated by cheap and poor quality imports; application of effective pricing strategies like competitor based pricing; offering of effective promotion methods such as sales promotion and continuous advertising and application of effective demand and forecasting systems such as distribution requirement system and material requirement system

Key Words: Distribution, Fast Moving Consumer Goods (FMCG)

Introduction

In many companies worldwide, distribution of Fast Moving Consumer Goods, FMCG is major problem that affects realization of increased sales revenue (Kowalczyk, 2007). FMCG is an acronym for Fast Moving Consumer Goods, which refer to things that we buy from local supermarkets on daily basis, the things that have high turnover and are relatively cheaper. Products which have a quick turnover, and relatively low cost are known as Fast Moving
Consumer Goods (FMCG) (Keller, 2008). FMCG products are those that get replaced within a year. Examples of FMCG generally include a wide range of frequently purchased consumer products such as toiletries, soap, cosmetics, tooth cleaning products, shaving products and detergents, as well as other non-durables such as glassware, bulbs, batteries, paper products, and plastic goods. FMCG may also include pharmaceuticals, consumer electronics, packaged food products, soft drinks, tissue paper, and chocolate bars (Walker, 2008).

Although FMCG companies generate a large volume of sales and money, they are always under pressure as they keep facing a lot of competition from their fellow competitors. Due to this, the FMCG companies try to do their level best in maintaining a fine balance in their profits and the product price. Thus they keep facing new challenges on their margins month after month (Armstrong, 2007). One of the key factors for an FMCG company to do well is a proper distribution network. If a distribution network of a particular FMCG company is well oiled, then that particular FMCG Company will definitely find the going much easier in the market. But companies have to allot a large chunk of their finances in developing and fine tuning their distribution networks (Kowalczyk, 2007).

A distribution channel is a method of getting a product to its consumer (Keller, 2008). These channels are part of a company's marketing mix, each business' unique combination of product, price, promotion, and place (Clow, 2007). Distribution affects the place or path through which consumers can buy and receive the product. A channel of distribution may be an on-site store, a virtual store, a retailer, a wholesaler, an agent, a telemarketer, or direct mail. Product distribution (or place) is one of the four elements of the marketing mix. Distribution is the process of making a product or service available for use or consumption by a consumer or business user, using direct means, or using indirect means with intermediaries. The other three parts of the marketing mix are product, pricing, and promotion (Bikram, 2013).

Distribution of products takes place by means of channels. Channels are sets of interdependent organizations called intermediaries involved in making the product available for consumption. Merchants are intermediaries that buy and resell products. Agents and brokers are intermediaries that act on behalf of the producer but do not take title to the products (Aaker, 2009).

Distribution is also a very important component of Logistics & Supply chain management (Brady, 2007). Distribution in supply chain management refers to the distribution of a good from one business to another. It can be factory to supplier, supplier to retailer, or retailer to end customer. It is defined as a chain of intermediaries; each passing the product down the chain to the next organization, before it finally reaches the consumer or end-user. This process is known as the 'distribution chain' or the 'channel.' Each of the elements in these chains will have their own specific needs, which the producer must take into account, along with those of the all-important end-user. Distribution encompasses all the outbound logistics employed by companies in distributing the final product and/or service to the customers. Distribution involves
establishing national and regional distribution channels, determining terms of sales and promotional responsibilities, outbound logistics and warehouse management (Balmer, 2008).

For the last ten years the sales volume at Eveready East Africa has declined from 1.2 billion batteries in 2003 to 200 million batteries in 2012. The company efforts to expand on the distribution networks through acquisition of many market intermediaries such as whole sales and retailers have not given positive results. The company sales revenues have remained flat at Sh1.37 billion for the last three years owing to lack of widening of the firms distributor network. The company shares have also been trading on average of Ksh 2.00 at Nairobi Securities Exchange since the employed distribution network affects realization of increased profit margin (Muli, 2012).

The cost of the company products affects the distribution of the company products in low income market segments where most consumers have got low purchasing power. The company lacks accurate methods of estimating future products demand by the consumers. The company has experienced large stock outs over a long period of time. In the recent past, cheap imports of Chinese batteries into the Kenyan market have led to loss of a big company market share and this has contributed to collapse of the company distribution networks in various market regions. The company promotion strategies fail to create awareness of the availability of company products in various market regions (Lee, 2009).

Despite the importance of distribution on growth of the firm’s market share, the experienced distribution problems at Eveready East Africa Limited have not been explored. This has created a major knowledge gap amongst the marketing managers on how the company could widen its distribution network. This study therefore aims to fill the missing knowledge gap by investigating the factors affecting distribution of manufactured fast moving consumer goods (FMCG) in Kenya, with a specific reference to EVEREADY East Africa Limited.

**Literature Review**

Cateora and Graham (2007) asserted that distribution relates to the flow of goods and services from the producer to consumer. A distribution strategy is intended to establish a dominant position in the geographic markets served by firms. The selection of an appropriate distribution strategy is a major determinant of an organizations success and distribution decisions represent much longer-term commitments than do other marketing decisions because of the time, costs and intermediate relationships that are involved in gaining access to an established channel. Distribution represents a complex, specialized, sophisticated and coordinated supply chain in developed countries and increasingly in many developing countries. The distribution sector includes commission agents, wholesalers and retailers who act as enablers of trade (Matteo, 2008).

The distribution strategy must be carefully integrated with all components of the marketing program. Before a manufacturer formulates a distribution strategy, two decisions should occur.
These are determining whether the firm will sell directly to end-users or will utilize intermediaries and selecting the type of channel. Day (2008) hold that distribution channels evolved through the utilization of national resources contained within an area of trade. The need to move the resources to other areas where they were in demand brought about the need for distribution channels (Tang, 2007).

Fast-moving consumer goods (FMCG) or consumer packaged goods (CPG) are products that are sold quickly and at relatively low cost. Examples include non-durable goods such as soft drinks, toiletries, and grocery items. Though the absolute profit made on FMCG products is relatively small, they are generally sold in large quantities, and so the cumulative profit on such products can be substantial (Eisenhardt, 2007).

Fast-moving consumer electronics are a type of FMCG and are typically low priced generic or easily substitutable consumer electronics, including lower end mobile phones, MP3 players, game players, and digital cameras, which have a short usage life, typically a year or less, and as such are disposable. Cheap FMCG electronics are often retained even after immediate failure, as the purchaser rationalizes the decision to not return the goods on the basis that the goods were cheap to begin with, and that the cost of return relative to the low cost of purchase is high. Thus low-quality electronic FMCG goods can be highly profitable for the vendors (Day, 2008).

Distribution is one of the four aspects of marketing. A distributor is the middleman between the manufacturer and retailer. After a product is manufactured, it may be warehoused or shipped to the next echelon in the supply chain, typically either a distributor, retailer or consumer. Frequently there may be a chain of intermediaries; each passing the product down the chain to the next organization, before it finally reaches the consumer or end-user. This process is known as the 'distribution chain' or the 'channel.' Each of the elements in these chains will have their own specific needs, which the producer must take into account, along with those of the all-important end-user (Kotler 2003).

Businesses operating in Fast Moving Consumer Goods are faced with many challenges. Companies strive to reduce production and supply chain costs, achieve world class delivery performance, and satisfy an avalanche of customer demands and changing requirements just to remain competitive. Many organizations in this space are relying on innovative technology and operational efficiency to drive profitability. Staying ahead of the competition means you must effectively and efficiently manage all of the variables involved in delivering products and meeting consumer tastes and price expectations (McCammon, 2009).

The fast moving consumer goods industry is composed of both food and non-food products. The products have a very short shelf life either due to high demand or a rapid rate of product deterioration. The high demand can cause transportation and distribution costs to be quite high. Fast moving consumer goods generally have low profit margins. Large sales quantities help companies in the industry to realize significant gains on the products sold. Companies in the fast
moving consumer goods industry are often required to track immense quantities of products, the use of advanced computer and product identification systems is almost necessary to ensure proper inventory usage. It is very important in this industry for companies to properly manage their product; inventory shrink can be a significant source of loss without proper management.

A study by Wasonga (2012) on Factors affecting consumer perception of Kenyan manufactured fast moving consumer goods in the East African community found out that that different detergents such as Omo, Sunlight, Ariel, Persil and Toss were consumed in the five Nations, with Omo as the most consumed. Regarding the factors influencing the perception of Kenya manufactured products, a case of laundry detergent products; majority of the respondents indicated that the products were fairly expensive. On the perceived quality of the products, majority of the respondents perceived the products to be of good quality. Regarding the country of origin, most of the respondents agreed that they rather buy laundry products made in Kenya because they could always trust in quality, availability and other attributes. On the risks associated with the products, the study found the respondents disagreed with the statements that the risks of using the products from Kenya was that the products may not work well, that the products may harm them and that they did not like the products from Kenya. The study also found that the respondents strongly disagreed with the statement that buying Kenyan products will make them lose money and that buying products from Kenya will make their friends laugh at them.

Muthuy (2008) conducted a study to investigate the distribution strategies adopted by various firms in their market and distribution of their products. Particular attention was paid to cosmetic companies. The objectives of this study was to find out the various distribution strategies adopted in marketing of wares and the factors influencing adoption of such strategies. The findings of the study revealed that, most of the firms are yet to embrace strategic marketing and distribution ways in order to sell their products and subsequently leap marginal profits. The choice of good distribution channel is paramount in ensuring high returns and easy distribution of the products to the consumers. Besides, firms should adopt modern technology in improving their distribution of the products. This technology may involve use of phones, internet, online catalogues, and use of couriers to deliver products to consumers, if embraced will see vast returns.

A study by Matteo (2008) revealed that existence of many firms in the target market leads to increased competition and this makes it difficult for a single company to effectively distribute its product in the competing market and increase its revenue. Lehtonen (2009) confirmed that lack of distribution of FMCG product in various market segments by many FMCG firms in Kenya can be attributed to an increase in supply of cheap Chinese FMCG products in the market. Clow (2007) identified that that high level of competition in the FMCG market that affects distribution of FMCG products is influenced by supply of China imported goods, existence of many FMCG suppliers, loss of market share to competitors and quality of competitor products. McCammon (2009) established that aspects of price that affects effective distribution of the company FMCG
products includes; high transportation costs, increased inventory management cost, many middle men in the distribution channel and lack of price adjustments. Schendel (2008) found out that that of effectiveness of the company promotion campaigns in creating awareness of the company products influences many customers to FMCG from the competing firms with more effective promotion campaigns. A study by Tang (2007) noted that supply of china imported goods, existence of many FMCG suppliers loss of market share to competitors and quality of competitor products affects distribution of the locally manufactured fast moving consumer goods.

Competition involves rivalry between businesses competing to sell similar products in the same target market. Many businesses entities adopt various strategies to counter the threat of competition from business rivals (Porter, 2008). Existence of many FCMG distributors from different companies creates an intense competition in the market and this makes it difficult for most of the FCMG companies to distribute a large volume of products in the target market.

Price is the value that will purchase a finite quantity, weight, or other measure of a good or service (McCammon, 2009). Application of ineffective pricing strategies leads to increased cost of FMCG products in the market and this hinders FCMG companies to distribute their products to all customers in different market segments. Higher prices limits accessibility of the FMCG products by the low and the middle class customers in the market and this limits the FCMG distribution channel.

Promotion is the advancement of a product idea or point of view through publicity or advertising. Sales promotion involves providing incentives to customers or to the distribution channel to stimulate demand for a product. Sales promotion is normally a short-term activity that targets particular products in retail outlets (Palamountain, 2007). Application of effective product promotion strategies like sales promotion and advertising helps in creating awareness in the market on the existence of the FCMG products, products benefits and features. This helps in expansion of the market share and expansion of the FCMG distribution channel. Lack of application of effective promotion methods hinders distribution of FCMG in markets where customers lacks knowledge on the existence and benefits of the FCMG products.

Demand forecasting is the activity of estimating the quantity of a product or service that consumers will purchase. Demand forecasting involves techniques including both informal methods, such as educated guesses, and quantitative methods, such as the use of historical sales data or current data from test markets. Demand forecasting may be used in making pricing decisions, in assessing future capacity requirements, or in making decisions on whether to enter a new market (Zotteri, 2005). Lack application of effective demand forecasting strategies affects ordering of the right inventory quantities and this increases distribution overheads hence leading to higher distribution costs. Demand forecasting problems also leads to products shortages in retail outlets and this affects distribution of products to many customers.
Research Methodology

The study adopted a descriptive research design and the study population comprised of 120 distributors and staff assigned in market territories in Kenya. The study applied a stratified sampling technique to select a total of 120 respondents. Questionnaires were used as the main data collection instruments and a pilot study was conducted to pre-test questionnaires for validity and reliability. Descriptive statistics method was applied to analyze quantitative data. These data was scored by calculating the percentages, means, STD deviation and Variance. This was done with the aid of Statistical Package for Social Sciences (SPSS) computer software. Inferential statistics was applied through the use of multiple regression analysis to establish the nature of the existing relationship between the research variables.

The multiple regression model applied was if the form;

\[ Y = B_0 + B_1X_1 + B_2X_2 + B_3X_3 + B_4X_4 + \epsilon \]

Where:
- \( Y \) = Distribution
- \( X_1 \) = Competition
- \( X_2 \) = Price
- \( X_3 \) = Promotion
- \( X_4 \) = Demand forecasting
- \( B_0 \) = constant of regression

Results and Discussion

The study found out majority (65%) of the respondents indicated that the level of competition was very high, 17% high, 10% average and 8% low. The respondents explained that high level of competition in the FMCG market was created by existence of many firms dealing with FMCG products in the target market and this made it difficult for the company to distribute its products in various market segments and this led to loss of sales revenue. This concurred with Matteo (2008) that existence of many firms in the target market leads to increased competition and this makes it difficult for a single company to effectively distribute its product in the competing market and increase its revenue. The study established that the key notable aspects of competition that affected the distribution of the company FMCG to a large extent included, existence of many FMCG suppliers, loss of market share to competitors and quality of competitor products affect distribution of the company fast moving consumer goods (FMCG) in Kenya to a large extent. These findings were in agreement with Clow (2007) that high level of competition in the FMCG market that affects distribution of FMCG products is influenced by supply of China imported goods, existence of many FMCG suppliers, loss of market share to competitors and quality of competitor products.
The study found out that the price of the company FMCG in the market was high and this made it difficult for the company to effectively market and distribute its products in market segments with high supply of cheap FMCG products especially from China. Majority (45%) of the respondents indicated that the price of the company FMCG products was high, 18% very high, 22% average and 15% low. These echoed findings by Muthuy (2008) that existence of cheap FMCG imports hampers local manufacturing companies from distributing and selling their FMCG products in low income market segments since locally manufactured FMCG products are highly priced than Imported FMCG products which are supplied in the market. The study further revealed that the key aspects of price that affected distribution of the company fast moving consumer goods (FMCG) in Kenya to a large extent included; high transportation costs, high inventory management costs, existence of many middle men in the distribution channel and lack of price adjustment strategies. These findings echoed findings by McCammon (2009) that aspects of price that affects effective distribution of the company FMCG products includes; high transportation costs, increased inventory management cost, many middle men in the distribution channel and lack of price adjustments.

Majority (40%) of the respondents rated the level of effectiveness of the company promotion campaign in creating awareness of the company products in new market segments to be average, 38% low, 13% high and 10% very high. It was noted that the employed company promotion campaigns lowered the level of the popularity and awareness of the company FMCG in the market and this influenced many customers to purchase products from other companies. These findings concurred with Schendel (2008) that level of effectiveness of the company promotion campaigns in creating awareness of the company products influences many customers to FMCG from the competing firms with more effective promotion campaigns. The study further noted that the key aspects of promotion notably supply of china imported goods, existence of many FMCG suppliers loss of market share to competitors and quality of competitor products affected distribution of the company fast moving consumer goods to a great extent in Kenya. These findings confirmed findings by Tang (2007) that supply of china imported goods, existence of many FMCG suppliers loss of market share to competitors and quality of competitor products affects distribution of the locally manufactured fast moving consumer goods.

The study found out that majority (87%) of the respondents felt that demand forecasting affected distribution of at Eveready East Africa Ltd products and only few (13%) of the respondents who differed with the majority. The study noted that demand forecasting affected distribution of at Eveready East Africa Ltd products since lack of effective demand forecasting systems hindered proper estimation of the right quantity of goods to be supplied in the target market and this hence affected distribution of the company FMCG products. These echoed finding by Walker (2008) that lack of effective demand and forecasting systems makes it difficult for an organization to effectively determine the right quantity of good to be supplied and satisfy customers demand in a particular market segment and this makes it difficult for the organization to distribute its products in the target market. The study further identified that the key aspects of demand forecasting
affecting distribution of the company fast moving consumer goods (FMCG) in Kenya to a large extent included; products shortages in the retail outlets, cost of ordering, cost of holding products in the stores and higher goods distribution overheads.

The study finally presented in Table 4.1 the results of the test of beta coefficients which indicates that the significant relationship between independent variables notably competition (X1), price (X2), promotion (X3) and demand and forecasting (X4) and dependent variable distribution of the company FMCGs is positive. The coefficient significance of competition (X1) is .357 which is significantly greater than zero since the significance of the t statistics 0.00 is less than 0.05. This demonstrates that competition has a positive effect on distribution of the company FMCGs.

The coefficient significance of price (X2) is .287 which is significantly greater than zero since the significance of the t statistics 0.00 is less than 0.05. This demonstrates that price has a positive effect on distribution of the company FMCGs.

The coefficient significance of promotion (X3) is .177 which is significantly greater than zero since the significance of the t statistics 0.00 is less than 0.05. This demonstrates that promotion has a positive effect on distribution of the company FMCGs.

The coefficient significance of demand and forecasting (X4) is .247 which is significantly greater than zero since the significance of the t statistics 0.00 is less than 0.05. This demonstrates that demand and forecasting has a positive effect on distribution of the company FMCGs.

Therefore the regression equation was;

\[ Y = 0.217 +0.357X1 + 0.287 X2 + 0.177 X3 + 0.247X4 \]

Table 1: Coefficients of Factors Affecting Distribution of the Company FMCGs

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficients (B)</th>
<th>t</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>.217</td>
<td>.881</td>
<td>.385</td>
</tr>
<tr>
<td>X1</td>
<td>.357</td>
<td>5.66</td>
<td>.005</td>
</tr>
<tr>
<td>X2</td>
<td>.287</td>
<td>.320</td>
<td>.003</td>
</tr>
<tr>
<td>X3</td>
<td>.177</td>
<td>.050</td>
<td>.004</td>
</tr>
<tr>
<td>X4</td>
<td>.247</td>
<td>.060</td>
<td>.002</td>
</tr>
</tbody>
</table>

Conclusions and Recommendations

Based on the study findings, the study drew conclusion that the major factors affecting distribution of the company fast moving consumer goods (FMCG) in Kenya includes; high competition from cheap imports, high prices of the company FMCG in comparison to the competitors FMCGs, application of ineffective promotion campaigns and lack of effective demand forecasting systems. These factors makes distribution a major challenge for this company and affect availability of its products in the market.
The study recommendations were: To avoid competition from cheap imported FMCGs, the company management should increase on its products varieties and offer more products in the target market. The company should introduce less expensive and high quality FMCGs in the market that is dominated by cheap and poor quality imports. The government should also enforce measure to control importation of cheap and poor quality FMCGs in the country and this will greatly help local manufacturing companies to regain the market lost to cheap imports and counterfeit goods.

To ensure that price helps in distribution of the company FMCGs in the market, the company should employ effective pricing strategies such as going rate pricing or competitor based pricing in order to create a narrow difference between the price of the company FMCGs and the of the competitors. To ensure that the end price is affordable to competitors, the company should employ effective supply chain management strategies that help in cutting down the manufacturing costs such as strategic sourcing of raw materials, use of sustainable procurement practices, outsourcing of various services form competitive suppliers and implementation of effective financial management practices. The company should also employ inventory management practices that are as per the economic order quantity, outsource transportation functions from competitive logistics firms and employ flexible price adjustment strategies.

To ensure that the company promotion methods contributes greatly in assisting effective distribution of the company FMCG in the market, the company marketing management should employ effective promotion methods such as sales promotion, continuous advertising and public relations. The company should also improve on the quality of the company FMCGs in order to improve on the level of the customer satisfaction and attract and retain many customers in different market segments.

The company should finally implement effective demand and forecasting systems by adopting computerized demand and forecasting systems such as distribution requirement system and material requirement system. This will help the company to predict the right quantities of the company FMCGs in the target market and this will help in minimizing cases of the company products shortages in the market.

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