The Institute of
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of Pakistan

CA PAKISTAN

FMCG Sector in Pakistan

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01 INDUSTRY OVERVIEW

Introduction

Fast Moving Consumer Goods (FMCG) is a term more commonly used in Europe, Asia, and Africa while Consumer-Packaged Goods (CPG) is more commonly used in the USA for products intended to be consumed immediately by the average consumer. Since these are everyday products that consumers buy on a regular basis, they sell quickly at a low cost and have a short shelf life.

The product categories FMCG companies use include beauty & personal care, home care, dairy, recipe mixes, breakfast cereals, infant nutrition, frozen desserts, consumer household and pharmaceuticals etc.

The demand for FMCG in Pakistan is surging thereby attracting hundreds of millions of dollars of new investments. The growing middle class, particularly millennials with their increasing disposable incomes, are demanding branded and packaged consumer goods ranging from personal and baby care to food and beverages. Rapid growth in sales of consumer products and services is driving other sectors including retail, e-commerce, packaging, advertising, media, sports, and entertainment.

Regulatory Authority for FMCG Sector in Pakistan

FMCG sector in Pakistan is regulated by Pakistan Standard Quality Control Authority (PSQCA). It controls the quality and environmental management system through ISO:9001-2000 and ISO:14000 certifications.

The PSQCA, under the Ministry of Science and Technology, is the national standardization body and is governed by the PSQCA Act, 1996 in performing its duties and functions. PSQCA is a member of the International Organization for Standardization (ISO) and is the apex body to formulate or adopt international standards.

The primary function of the authority is to foster and promote standards and conformity assessment as a means of advancing national economy, promoting industrial efficiency and development, ensuring public health and safety and protecting consumers. It also facilitates domestic and international trade and advances international co-operation relation to standard and conformity assessment in the interest of consumers.

Key Terms

Beat or Beat Plan: This is the route that a salesman follows on a particular day. For example, his beat on Monday will be area 1, and his beat on Tuesday will be area 2. This is usually optimized to ensure optimum coverage of all stores in a territory such that the salesman visits each store once a week, fortnight or month known as weekly, fortnightly, or monthly beat plan respectively.

Numeric Distribution (ND): The number (or percentage) of outlets where the company's product is present (outlets that have at least one SKU of a product). For instance, the number of outlets a company's product is available is measured by numeric distribution. For example, out of these 10 outlets in a beat, if the company's product is present in 4 outlets, then numeric distribution is 40%.

Weighted Distribution (WD): Weighted distribution is an additional measure of product presence in stores that gives an opportunity to understand the quality of distribution (or distribution efficiency). It is the percentage of stores that sell a certain product from a total number of stores, but (unlike Numeric Distribution) considering the weight of outlets. Weighted distribution = Sales volume of the category in stores that sell a product ÷ Total Sales Volume of the category in all stores.

Stock Keeping Unit (SKU): SKU, also called lines in the FMCG industry, refers to a specific product from a range of products of a company. The concept of SKU is used for sales, inventory management etc. For example, 100-gram Dettol original soap is an SKU of Dettol soap of Reckitt Benckiser (Reckitt Benckiser has other SKUs of Dettol soap such as 50-gram Dettol soap, 200-gram Dettol soap, etc.).

Distributor Salesman (DSM): Distributor's salesman or distributor's sales representatives are employed by distributors but managed by SO/ SSE; DSMs are the salesmen who are responsible to make sales of the company's products to retailers. Where TSI/ SO concept is not practiced (e.g., not employed by the company itself) DSM plays the role of TSI and in that case, the distributor employs a separate delivery unit for distributing products to retail.

Territory Sales in charge/ Sales Executive/ Sales Representative (TSI/ SE/ SR): Territory sales in charge can be employed either by the company or by distributors depending on company policy. They collected sales orders from assigned routes.

After collecting sales orders from outlets of the assigned route, a TSI/ SE/ SR makes a summary of the total order and submits it to the distributor for delivery. Based on this collected order (summary sheet), the product is delivered the next day by DSM or the deliveryman of a distributor.

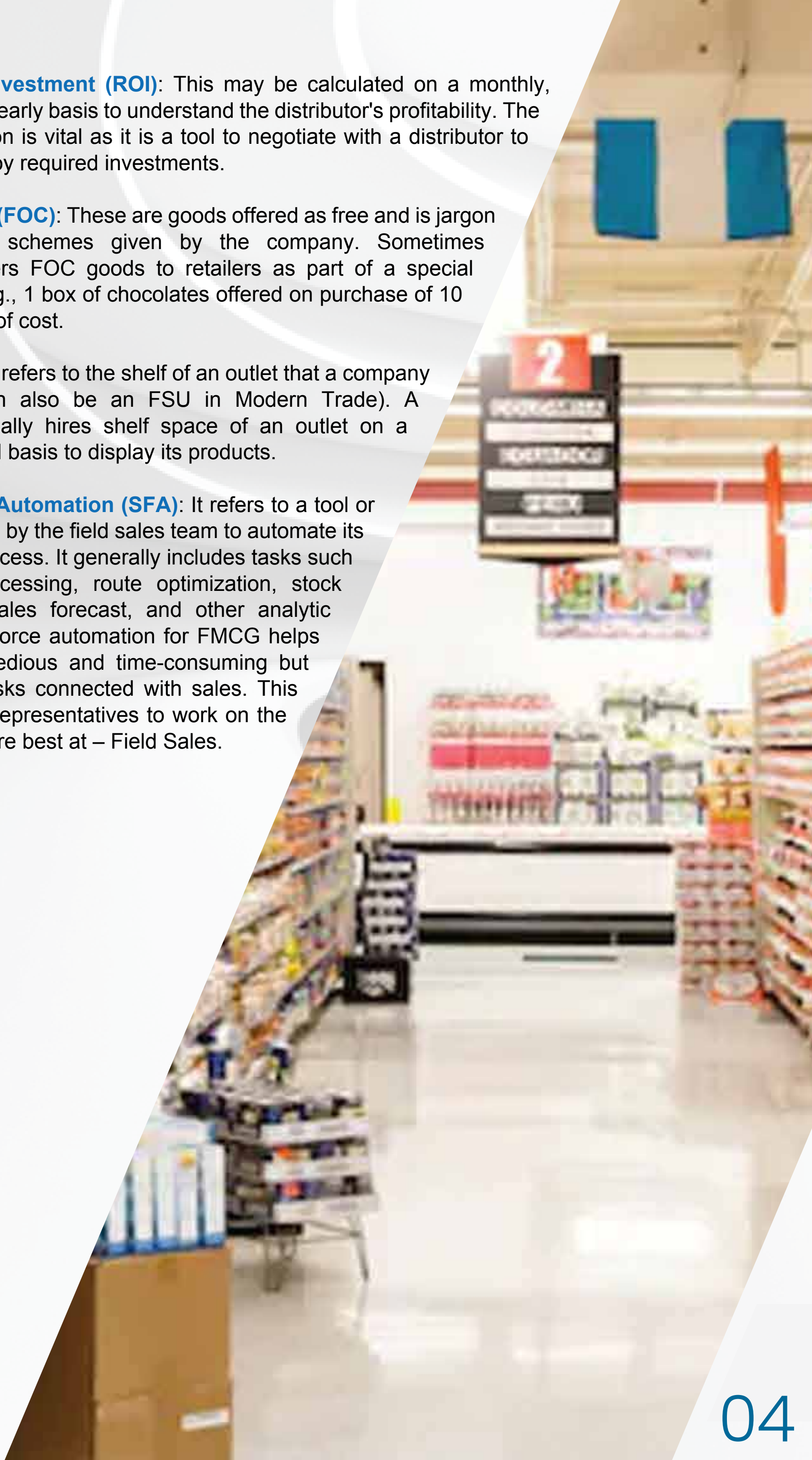
Sales Officer/ Senior Sales Executive (SO/ SSE): SO/SSE can be employed either by a company or by distributors depending on company policy, who are responsible to manage TSIs for secondary sales orders from their assigned routes and in return getting primary sales done through distributors.

Return on Investment (ROI): This may be calculated on a monthly, quarterly, or yearly basis to understand the distributor's profitability. The ROI calculation is vital as it is a tool to negotiate with a distributor to manage/deploy required investments.

Free of Cost (FOC): These are goods offered as free and is jargon used during schemes given by the company. Sometimes company offers FOC goods to retailers as part of a special promotion, e.g., 1 box of chocolates offered on purchase of 10 boxes is free of cost.

Display: This refers to the shelf of an outlet that a company pays for (can also be an FSU in Modern Trade). A company usually hires shelf space of an outlet on a monthly rental basis to display its products.

Sales Force Automation (SFA): It refers to a tool or software used by the field sales team to automate its field sales process. It generally includes tasks such as order processing, route optimization, stock monitoring, sales forecast, and other analytic tasks. Sales force automation for FMCG helps in reducing tedious and time-consuming but imperative tasks connected with sales. This allows sales representatives to work on the activity they are best at – Field Sales.



Key Performance Indicators (KPIs)

Strike Rate or Productivity: It is the percentage of all successful sales calls out of total calls made by a TSI/SE. This is generally measured on daily basis.

Effective Coverage (ECO): Also known as Effectively Covered Outlet, it represents the number of outlets out of total outlets of a route, market or territory that are making at least one memo a month. With ECO, a company measures a number of active outlets.

Cash Discount (CD): Trade scheme in the form of a discount given the bill is cleared before time is called CD or Cash Discount, normally companies give 1% CD. However, it's very important to understand that it's more useful in a category where there is a consumer pull and trade push doesn't work.

More KPIs in Annexure.

Other Popular Terms

- **FC:** First Call
- **LC:** Last Call
- **TC:** Total Call
- **PC:** Productive Call
- **LPC:** Lines Per Call
- **LPD:** Lines Per Day
- **LPM:** Lines Per Month
- **LPI:** Lines Per Invoice
- **KPI:** Key Performance Indicator
- **DSR:** Daily Sales Report
- **CP:** Consumer Promotion
- **CO:** Consumer Offer
- **FSU:** Free Standing Unit
- **L&D:** Leakage & Damage
- **DD:** Direct Distributor
- **SD:** Super Distributor
- **OSDP:** Out Stationed Distribution Point
- **PJP:** Permanent Journey Plan
- **JC:** Journey Cycle
- **WOD:** Width of Distribution
- **DLP:** Distributor Landing Price
- **PTR:** Price to Retailer
- **GT:** General Trade
- **MT:** Modern Trade
- **DRCP:** Daily Route Coverage Plan
- **FRCP:** Foot Route Coverage Plan
- **GTM:** Go-To-Market
- **NPLP:** New Product Launch Process

02 Business Process Mapping – Overview

Strategic Business Cycle

The business life cycle is the progression of a business in phases over time and is most commonly divided into five stages: launch, growth, shake-out, maturity, and decline.

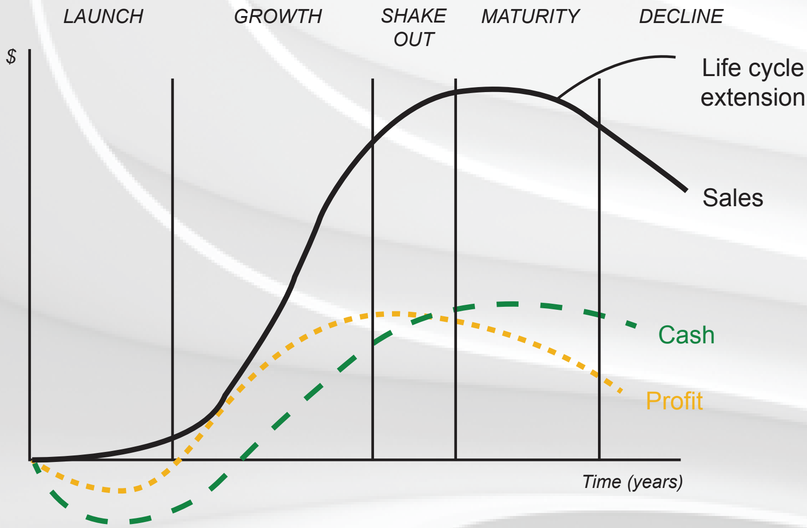
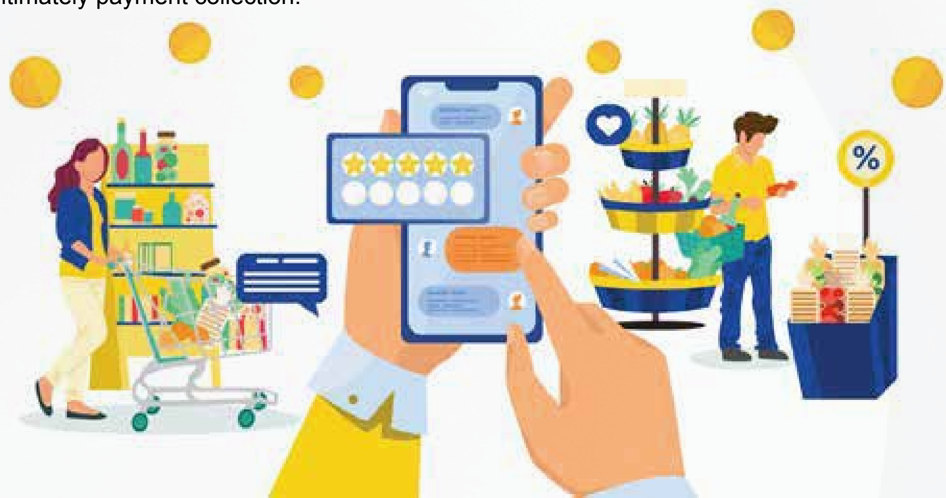


Figure 1 Business Life Cycle

Operational Cycle – Order to Cash

The order to cash cycle (O2C or OTC), is how your business receives, processes, manages, and completes customer orders. This means handling all aspects of sales including shipping the items, collecting the payment, creating invoices, and reporting on the end-to-end process. OTC impacts your bottom line and relationships with your customers so the process must be well-optimized. The process encompasses all steps from when a customer order is placed until the business is paid (the cash). These steps include order management and order fulfillment, through to credit management, then invoicing and ultimately payment collection.



03 Core Business Operations

Marketing

Marketing is a core business function of any organization that thrives and progresses through its products and/or services. It is a process that begins with gaining insights on consumers' needs, creating a want/demand, exposing target customers to the product or service using the right tactics and channels, and ensuring the product/service reaches the end consumer through the best channels, at the right time and in the best quality as it is intended to be.

For an organization, marketing means much more than just creating and delivering the product or service to the consumer. With the emergence of digital media and technological innovations, it has increasingly become crucial for companies to build deeper, more meaningful and lasting relationships with customers, stakeholders and create value for society at large.

FMCG is a highly competitive industry wherein marketing activities are targeted at a wider audience therefore it is integral for manufacturers to effectively build their brand name and product awareness. FMCG companies want their products to be picked up from the shelves regularly for which they need a loyal customer base. The competitors' products are mostly placed closely and may look alike to customers which make it even more important to increase brand equity.

For a loyal customer to be retained, it is important that FMCGs encourage innovations in business cases such as if market does not grows in certain level, the company keeps growing For example Surf was pioneer in introducing the liquid detergent and so in case of Vim Gel, Black Noodles Maggi etc. These new ideas may become successful cases or otherwise but companies need to invest to generate new stream of revenue for attraction for customers. It takes on an average three years for a business case from idea to planning and then execution.

Evaluation of the business cases depend on the capital expenditure required, forecast of volume for 3 years from the business case idea and cost of goods sold. As this forecast varies over the period of planning and execution therefore at time of execution the comparison of gains is done with the benchmarks set at time of idea generation.

A few times consumer demand also becomes a driving force behind expediting these case studies such as in Covid Sanitizer production was expedited and produced in three months but this depends on the Overall equipment effectiveness (OEE) and capacity utilization (CU) of the organization.

Generally, marketing strategies are devised by integrating seven elements to ensure a visible, in-demand product that is competitively priced and promoted to the customers. These elements are called the 7 Ps of marketing and include Product, Price, Promotion, Place, Packaging, Positioning and People.

It is important that pricing of the product is pragmatic based on the market analysis, competitor price analysis, cost of raw material and Net material inflation (NMI). As FMCGs are operating for profit making, so in case if inflation is hitting the economy, the prices are either increased and moved to consumer or the volume per price locked SKUs is decreased to keep the price same.

Companies also use marketing tools to create the right marketing strategy depending on its objectives. For example, Ansoff Matrix is used when the company intends to develop or diversify their product or market for future growth.

FMCGs allocate marketing budgets across various marketing and sales initiatives to reap maximum performance for their brands. Huge budgets are deployed for ATL (Above The Line) and BTL (Below The Line) activities which involve commercials on radio and TV; print media such as newspapers and magazines, billboards, brochures, direct mail, flyers, sponsorships, and email campaigns.

Marketing department uses the following analysis to reap benefits from investments in marketing activities for making informed decisions,

- Brand analysis
- Pricing strategy
- Market intelligence
- Digital analytics
- Marketing mix ROI
- Trade promotion effectiveness

Market Intelligence

The need for information to implement successful marketing strategies has dramatically increased and has become inevitable for FMCGs. The impact of competition in the business environment has compelled many FMCGs to scan the environment for information to gain competitive edge within the industry. The ultimate outcome of marketing intelligence is to take better decisions. It assists companies to gain a better understanding of customers and their product portfolios and allocate resource efficiently to achieve desired results. They carry out extensive research to gain holistic insights on current market trends by compiling information collated from interviews, surveys, paid industry databases and industry forums.

Figure 2 Key components of Market Intelligence

Brand and Trade Marketing

Brand & trade marketing is a process,discipline or art of marketing products and services of the manufacturer to wholesalers, distributors, or retailers rather than selling directly to the end- consumers. The objective is to increase the demand of goods at the wholesaler or retailer or distributor level to sell goods to them who can then sell them to their customers. Trade marketing differs from traditional marketing as its main focus is on the means for making the final sale instead of the final sale itself.

Sales

Sales includes all activities that lead to selling products within a specified period. Household products contribute to the highest number of sales in the FMCG segment thus making sales force the backbone of an FMCG company.

Figure 3 Sales force hierarchy

In FMCG companies, the main objective of sales force is to ensure timely products availability for which they follow an intensive distribution module. They use integrated software to manage routine primary operations smoothly i.e., stock transmit from factory to warehouses and warehouses to distributors. This system allows to connect all sales functions - warehouse, logistic, distributor and sales force - on a single platform.

For smooth operation and effectiveness, each person in the sales force; from national sales manager to sales executive, is assigned sales targets for the year. The incentive/bonus of the sales force is dependent on achieving these targets.

As Sales Field Force Incentive is one of the significant costs of the period, it is the responsibility of finance executives to ensure that it is allocated timely on a particular product considering the cut off period. Furthermore, finance executives also ensure that selling expenses are aligned with company growth strategy and product life cycle.

Primary, Secondary and Tertiary Sales

- Primary Sales – It is the sales from a manufacturing company or national supplier to a city/ state/ regional distributor. For example, a brand invoicing the product to a distributor in one city to further sell it to retailers. Company invoices products at distributor price and revenue generated from this transaction is the net revenue of the company. Usually the targets for Area Manager and Regional Manager are set on primary sales.
- Secondary Sales – It is when a distributor invoices product to a retailer. In this transaction, the distributor keeps its margin and invoices the product at dealer price (also called as retailer price). Usually, TSI's/ TSM's targets are always based on secondary sales.
- Offtakes also known as Tertiary Sales – It is when a retailer sells the product to a customer (end consumer). The product at this level is sold at either Maximum Retail Price (MRP) or Market Operating Price (MOP). While offtakes are not tracked by the company.

Demand Forecasting

It is the process of estimating future customer demand by using predictive analysis to facilitate in production planning, inventory management, assessing future capacity requirements, business diversification or expansion etc.

Distribution

Distribution is vital to the success of FMCG companies. It is integral that they deliver their brands in the right quantity, place, time, condition and at a competitive price to their customers.

FMCG companies have the following distribution objectives,

- Brand availability – End consumers can buy products only if they are available on the shelves. Thus the right brands should be in the right outlet at the right time.
- Product quality – Companies must ensure that consumers have the best products in terms of freshness, packaging, and quality.

The right distribution channel helps reduce costs, avoids bad investments in product inventory, increases profits and improves communication for all stakeholders involved in the process.

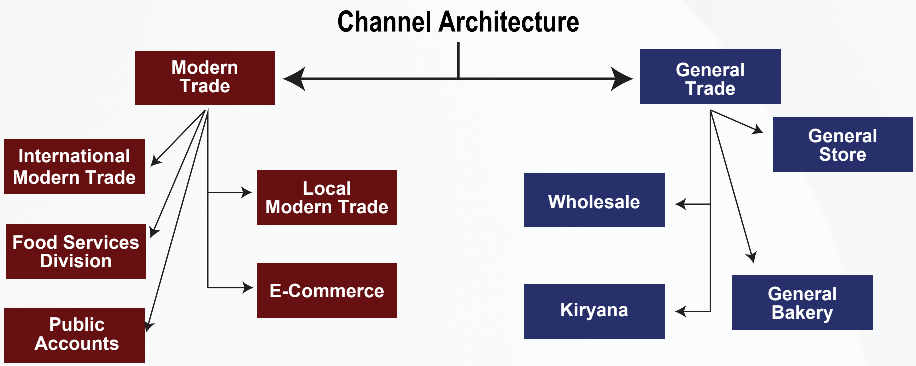


Figure 4 Distribution Channel of FMCGs

Trade Management

Trade management is classified into General Trade, Modern Trade and Online Trade.

a. General Trade

General trade encapsulates the entire network of buyers and sellers wherein the major players are retailers, distributors, wholesalers etc.

Key features of the General Trade include,

- Short lead times
- Regular orders
- Varying rates
- Limited choice of brand
- Usually common in developing countries where they take an 80% share in the overall economy

Wholesaler: A wholesaler primarily resells goods for the manufacturer to the retailer thereby acting as a middle person between the two. Generally, wholesalers buy in bulk reducing the price and allowing for profit since they are able to sell in small packages that yield high prices. Unlike distributors, wholesalers only deal with storage and delivery of goods.

Distributor: A distributor goes beyond the role of a wholesaler and assumes extra responsibility to fulfil retailer orders and actively sells products on behalf of producers,manages orders and returns and acts as a sales representative. They perform market analysis and are constantly searching for new opportunities to achieve peak sales performance. A distributor focuses on a particular area and market which allows them to cultivate strong relationships with manufacturers. Unlike a wholesaler, they have strong affiliation with particular companies. Distributors have a direct responsibility to ensure that products are flying off retail shelves.

Retailer: Retailers are outlets that purchase products from distributors or wholesalers and sell them to the end consumer. They can sell through storefront locations or online channels.

b. Modern Trade

Modern trade includes large retail outlets such as supermarket chains, mini-markets, hypermarkets, etc. where FMCGs are easily and widely available. It involves organized retail with distribution and logistics management.

Key features of Modern Trade are as follows,

- No customer interaction as they select products needed and proceed to checkout directly.
- Stores offer multiple discounts and promotions that gain buyer's attention.
- Wide product range giving multiple choices to consumers.
- Retailers contact manufacturers directly without any intermediaries.
- New brands can be easily introduced to customers.
- Organized distribution that creates trust in the minds of buyers.

Modern Trade is further classified into,

i. Local Modern Trade (LMT)

LMT includes the following,

- Departmental Stores: Chase & Chen One.
- Discount Stores: Chase Up, Madina Cash & Carry (MCC) etc.
- Supermarkets: Imtiaz, Naheed, Farid's, Agha's, & Al-Fateh.
- Mom and Pop Store (Kiryana Stores): Bulk FMCG business comes from these 'kiryana' stores due to large numbers, location (proximity to shoppers), convenience and long business hours.
- Convenience stores: Shell Select and One-Stop Shop at fuel stations.
- Other retail channels: Includes pan (Beatle Leaves) shops, departmental stores, medical-cum-general stores, bookshops, roadside eateries and other specialty shops. Grocery stores include Meat One and K&N's (specializing in meat and chicken respectively), Simply Sufi and other neighborhood stores that offer convenience and availability of grocery and dairy items.

ii. International Modern Trade (IMT)

These include supermarkets with international affiliation such as Hyper star, Carrefour, Springs etc.

c. Online Trade

The characteristics of Online Trade are,

- A single online platform with diverse products and brands
- No traveling and visiting multiple stores required to shop
- Ease of exchange and returns within limited time period
- Discount offers on different modes of payment
- Varying delivery time depending on the location of the customer

Examples: Daraz, Kaymu, TCS Connect, OLX, AliExpress, iShopping and ShopDaily etc.

Trade Schemes and Promotions

Trade schemes and promotions are incentives offered to retailers, wholesalers, and distributors by FMCG companies with the objective to promote sales. These can either be in monetary terms or value of the product which lures retailers to buy more, consequently increasing sales for the company.

Following are the types of trade schemes depending on the money or value being offered,

- Quantity Purchase Schemes (QPS): Discounts offered to retailers on purchasing a particular quantity of products. For example, purchasing 72 pieces of an item at a time to get a 6% discount.
- Value Purchase Schemes (VPS): Discounts offered to retailers on purchasing products of a predefined value. For example, purchasing products of 10,000 PKR to get a 6% discount.

Following are the types of schemes depending on the type of receiver,

- Primary Schemes: Offered to distributor to facilitate additional profit margin implemented when the company makes invoice.
- Secondary Schemes: Offered to retailer or wholesaler to facilitate additional profit margin and later get reimbursement from the company.

Customer & Trade Servicing

FMCG trading services are business activities which sell goods directly to customers. It usually takes place in malls, stores, and shops. Selling fridge, washing machine or footwear in a shop to customers is an example of retail trading services.

Reverse Logistics – Sales Return Management

Returns management is a process in retail and e-commerce that starts with customers wishing to return a product and ends with the business collecting, organizing, and restocking that product. By properly managing returned products, companies can significantly cut losses by using undamaged returned items to restock warehouse inventory for resale. Returns management or reverse logistics, goes beyond the final delivery and is not used for every customer order. A returns management process is part customer support, part logistics, and part inventory management.

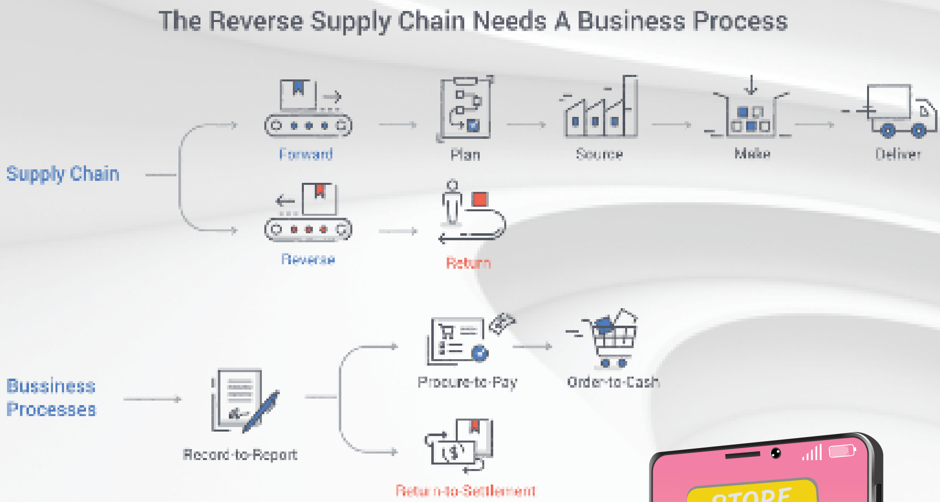


Figure 5 Reverse logistics

04 Core Business Operations – Value Addition & Supply Chain

Value Chain Analysis/Model

It is a process in which an organization identifies its primary or core activities such as logistics, operations, marketing, sales etc. as well as secondary/support activities such as infrastructure, HR, technological advancement, procurement etc. to add value to its final product. These activities are then analyzed to improve organization's finances, processes, and systems such as cost reduction or creating market or product differentiation. Therefore, it is important for finance executives to identify the most valuable activities (i.e., the source of cost or differentiation advantage) for the company and areas of improvement for each activity to provide competitive advantage.

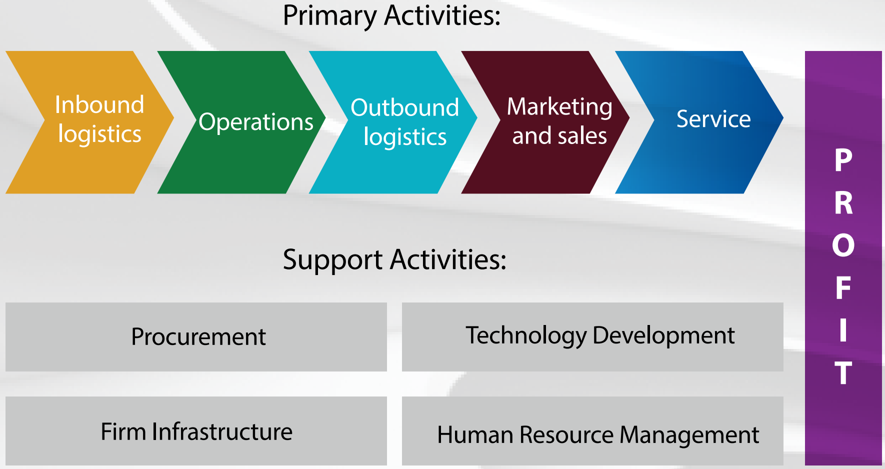


Figure 6 Value Chain

Primary activities directly add value to the production process; however, they are not necessarily more important than support activities. These activities are the source of cost advantage where costs for each activity can be easily identified and managed. Since technological innovations in business models or processes are the main drivers for competitive advantage, support activities become the crucial source of differentiation. Finance executives identify all costs and bring proposals to reduce cost effectively to maximize shareholders' wealth.

Supply chain

Supply chain includes all processes that result in delivering the product to the consumer. These processes include purchasing raw material, converting them into finished product and distributing it to the end consumer. Supply chain is different from value chain as it is focused on activities conducted by the company to maximize competitive advantage.

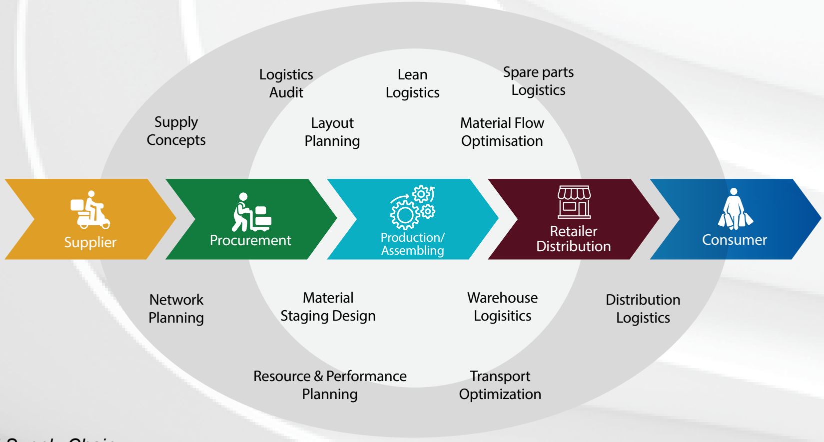


Figure 7 Supply Chain

Supply chain forecasting

Supply chain forecasting or estimation gives valuable information to FMCGs about their current and future markets. For example, forecasting the stock inventory, cargo booking, budget planning or expanding to new markets. If businesses do not use demand forecasting, they risk entering markets that have no need for their products.

FMCGs adopt the following two methods for forecasting,

- Quarterly rolling forecast
- Seasonal forecast (every summer & winter)

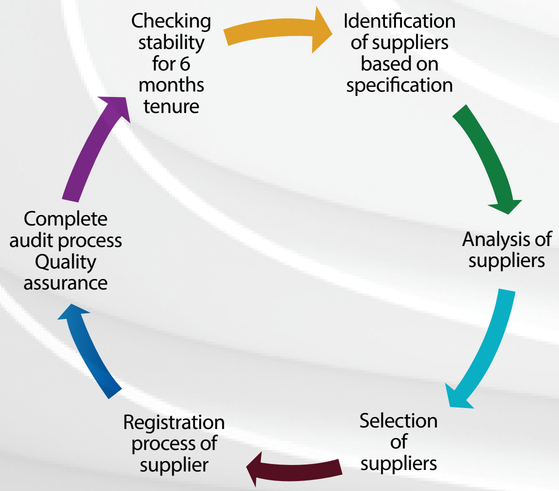
Supplier Evaluation

Supplier has a significant role as their active participation helps develop a successful supply chain network. FMCGs strive to take reliable suppliers on board to gain and maintain competitive edge.

Selecting the right supplier involves much more than scanning a series of price lists. The choice depends on wide range of factors such as value for money, quality, reliability, and service. The importance of these factors is based on the business' priorities and strategies.

FMCGs deal in products that directly affect consumers' health which makes them more concerned about the quality certification (ISO) of suppliers. Hence the quality control team extensively evaluates all parameters of suppliers before selecting them.

FMCGs deal with local as well as international suppliers. One of the reasons to deal with international suppliers is monopoly in the local market, however, it is accepted to meet deadlines.



Procure to Pay (P2P) Cycle

The P2P cycle is the systematic process that a business follows to purchase and pay for raw materials and services timely and cost-effectively. The cycle integrates procurement activities with accounts payable department of an organization.

FMCGs in Pakistan have a vast range of products to supply all over the country. Hence, they are extremely concerned about their production which is streamlined through proper supply of materials. Procurement department deals with suppliers regarding purchase of all kinds of material, its packaging and respective lead time.

Rigorous competition, price wars, high sales volume, and low margins demand FMCG's procurement department to play a critical role in managing order planning with budget allocation and planning, cost savings and ensuring timely delivery. The best procurement practices are designed for cost-effectiveness and productivity improvement. FMCGs opt for either centralized or decentralized procurement approach however, some choose a combination of the two.

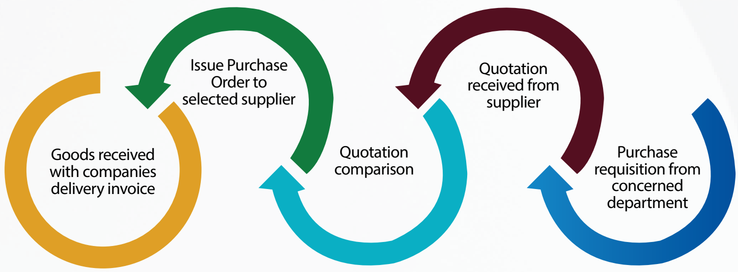


Figure 8 P2P Process Flow

Inventory & Warehouse Management Systems (IMS & WMS)

IMS is a software that manages the supply chain and delivery system that facilitates FMCGs to manage raw materials during manufacturing and handle finished goods for retail. One of the key benefits of inventory management software is automation. For instance, the system can define replenishment points to get automatic reminders when stock gets low. This allows continuous control over inventory. Store officer maintains records and visits warehouses any time to see the actual situation of materials. Operations manager and auditors also check the inventory and its records to minimize the risk of loss or manipulation.

WMS is a software that manages daily warehouse tasks such as picking, packing, and shipping. Managers use it to get detailed data on stock levels and define or standardize warehouse activities. The software tracks goods from the warehouse through customer delivery.

Supply Chain Logistics

Logistics includes coordination of movement and storage of resources such as goods, equipment, and inventory. It can be categorized into inbound and outbound logistics. While inbound logistics brings supplies or materials into a business, outbound logistics deals with moving goods and products out to customers. Both focus heavily on the transporting of goods but inbound is all about receiving, while outbound focuses on delivery.

The approach to distributing products or services depends on several factors including the type of product, especially perishability; market served; geographic scope of operations and company's overall mission and vision. The process of setting out a broad statement of the aims and objectives of a distribution channel is a strategic level decision. Most FMCGs outsource this function to benefit from specialization and do away with the hassles of monitoring and maintenance. Recently FMCGs are moving towards third party and fourth Party Logistics providers (3PL and 4PL).

Quality Control

FMCGs deal with highly sensitive products which directly impact the health and wellbeing of consumers. This is one of the key reasons behind maintaining quality standards and adhering to quality requirements, which are imperative for players in this industry. Also, even a small incident that compromises the quality of products could tarnish the brand image and incur huge costs. Hence, it is extremely necessary for FMCGs to follow and implement quality control measures.

All batches of raw material,packaging material and finished products undergo rigorous quality assurance check. Quality department draws sample, checks it against quality parameters and ensures that it is fit for consumption or sale. Any discrepancy found in any batch is thoroughly investigated and the batch is rejected if deviations are significant. In case, the problem goes unnoticed based on the sample and is identified later when the product has already reached the market, the company immediately recalls the product from the market. Moreover, all stakeholders including retailers, wholesalers, distributors, and consumers are informed about the batch for recall.

Quality Management Systems

The most important quality management systems in the food industry are: Global Food Safety Initiative (GFSI), International Food Standard (IFS), British Retail Consortium (BRC), Safe Quality Food (SQF) 2000 and International Organization for Standardization - ISO 22000:2005

Capacity & Material Resource Planning – Production Cycle

Operational Planning Process (OPP)

OPP is an integrated cross-functional planning approach which starts with demand planning by individual SKU. Following steps are included in the process,

i. Sales and marketing functions finalize the demand and coordinate with supply chain and factory GM for production.
ii. Production plan is made by factory which includes quantity requirements for all materials and capacity fo machines for production.
iii. Supply chain team coordinates with the production / procurement functions to see what can be achieved considering production and supply constraints.
iv. After finalization of demand, Material Requirements Planning (MRP) System is used by supply chain to estimate/forecast quantities of raw material and schedule their deliveries.

MRP is designed to answer three questions:

- What is needed?
- How much is needed?
- When is it needed?

MRP works backward from production plan for finished goods, which is converted into a list of requirements for the subassemblies, component parts, and raw materials needed to produce the final product within the established schedule. MRP program in ERP runs to generate purchase requisitions for raw material ingredients and packaging material. Purchase order issuance is managed by supply chain function with approval of GM supply chain.

As raw material is converted into finished goods, it is placed in company's warehouse from where finished goods (products) are dispatched as per sale order to distributors by using sales and distribution in ERP. Here logistics function is involved to deliver products to distributors from warehouse. Material's Management (MM) Module in SAP (ERP) is used to ensure timely delivery of goods.

Finance executives ensure proper working capital and cash flow management for timely payment to vendors and maintain good relations with them. This enhances company's goodwill and credit reputation in the market.

Challenge

During devising the production plan it is important to have rationalized demand. Machines are limited to production of units, not the volumes, so if demand increased for high volumes it will lead to need of more machines.

The ideal capacity utilization of the machiens is 85% so in order to increase the production, capacity utilization must be paid attention to, so new machines can be added which is a time taking process due to government regulations for import.

05 Key Support Functions

Finance & Internal Audit

The accounting and financial reporting framework for all companies in Pakistan are stipulated in the Companies Act of 2017 (formerly Companies Ordinance of 1984). The Act outlines the requirements for presentation of financial statements, establishes standard-setting procedures as well as other financial reporting obligations. All companies are required to prepare financial statements in accordance with International Financial Reporting Standards (IFRS) or other reporting standards as adopted by the Act.

Finance executive's role is to ensure compliance with all relevant financial reporting frameworks, monitor company's financial performance, analyze financial ratios and present it to management for informed and timely decision making. Their role may include.

- Fund flow management/ working capital management
- Capital budgeting
- Tax planning and compliance with the code of corporate governance
- Identify profit maximization and cost minimization avenues
- Examine resource utilization and ideate optimization techniques
- Financial planning & forecasting
- Decision support system
- Develop and oversee financial controls
- Internal and external financial reporting
- Risk management
- Financing and treasury operations
- Maintain and report transactions with related parties
- Other regulatory compliance e.g., SECP filings & ISO adherence

Some of the core responsibilities of finance executives are explained below.

Internal Management Reporting Mechanism

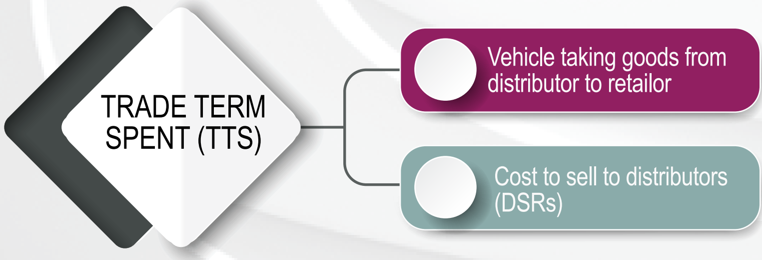
It is crucial for an organization to have sound internal reporting mechanism for management and stakeholders to get timely information on product profitability. Finance executives provide complete and accurate financial performance reports periodically to management for informed decision making. An integrated management reporting system such as SAP or ORACLE is mostly considered as the best tool for this purpose. Evaluation of the best-suited solutions available for reporting systems is also a part of finance executives' role.

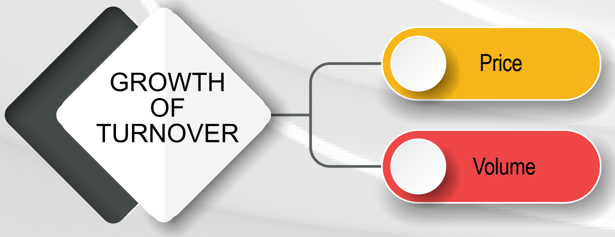
Profitability Analysis & Resource Allocation

Profitability analysis helps finance leaders identify ways to optimize profitability by systematically analyzing profits derived from multiple revenue streams of the business. Finance executives perform profitability analysis of product portfolio for the best allocation of available resources in the company. Further, finance plays a crucial role for allocation of resources to profitable areas resulting in investing activity. Significant investments are required for new products to ensure it achieves substitutional market share. Similarly, high margin products require sufficient resources to sustain company's profitability and growth.

Management Reporting

In order to facilitate the decision making process, management reporting is vital. FMCG companies focus on below ratios to evaluate the profitability and growth of the organization.





In 2022 all FMCGs in Pakistan grew due to the high pricing leading to profitability. However, company would prefer sustainable growth so healthy split between price and volume is essential. Only pricing does not gives a healthy ratio.

Trade Term Spent(TTS)

Reduced TTS leads to improved Turnover such as Gross sales value (GSV)-TTs=Turnover Reduced Cost of goods sold will give generate the Gross profit (GP).

Brand and Marketing Investment (BMI) is calculated by GP-BMI= Underline (price before overheads)

As overheads include the huge cost element of organization such as salaries, administrative cost etc therefore underline operaring profit is calculated as Profit Before Overheads-Overheads=Underline Operating Profit.

Duties

Multiple duties and taxes are charged at different percentages on custom assessed value depending on the Pakistan Customs Tariff (PCT) Codes and valuation rulings. Generally acceptable duties and taxes at different stages of operational cycle of FMCG are,

Custom Duty: Applies as a percentage of custom assessed value at import and export stage. The rate of duty is based on the PCT code of the product.

Additional Custom Duty: Applies as a percentage of custom assessed value at custom clearance stage.

Regulatory Duty: Applies as a percentage of custom assessed value inclusive of customs duties.

Tax Aspects in FMCG Business

In Pakistan, the following taxes are applicable:

Tax Name	Incidence	Standard Tax Rates
Income Tax	Withholding Tax deducted at the time of payment receipt from customers At the time of filing Annual Income Tax Returns	4% / 4.5%
Sales Tax on Goods	At the time of supply to customers or advance received from the customer, whichever is earlier	17%
Sales Tax on Services	At the time of rendering services or an invoice for the value of the taxable service was sent to the customer or an advance received from the customer	13% (Sindh), 16% (Punjab) 15% (Baluchistan & KPK)
Federal Excise Duty	On manufactured goods and imported goods	13% - 17% Edible Oils,Vegetable Ghee – 17% Aerated Waters – 13%
Customs Duty	At the time of import	0 – 25%

Income Tax related aspects

Income Tax Law defines FMCG as consumer goods supplied in retail marketing as per daily demand of a consumer (excluding durable goods such as household goods, sports, etc.).

FMCG Companies are subject to Tax on Income at higher of:

- Corporate Income Tax @ 29% of Taxable Income
- Alternate Corporate Tax @ 17% of Accounting Profit before Tax
- Minimum Income Tax @ 1.5% of Total Turnover
  (For Distributors of FMCG, the Minimum Income Tax rate is 0.25%).

(In case of dealers and sub-dealers, wholesalers and retailers of fast-moving consumer goods, the Rate is 0.25% provided said persons are 'Active' in Active Taxpayer List for Income Tax and Sales Tax).

Customers of FMCG companies are liable to deduct withholding Income Tax from the payment made to the companies (for onwards deposit in Government treasury). The tax rate for an FMCG company is 4% and for sole proprietorship & partnerships, it is 4.5%.

*Facts are mentioned as per June 2022.

(For distributor of FMCG, the rate is 2% in case of Company and 2.5% in any other case)

(In case of dealers and sub-dealers, wholesalers and retailers of fast-moving consumer goods, the rate is 0.25% given they are registered for Sales Tax)

Sales Tax related aspects

FMCG products are classified in the Third Schedule to Sales Tax Act (such as juices, aerated beverages, soaps, tea etc.)

FMCG companies are liable to charge sales tax @ 17% of the retail price.
(i.e., the price fixed by the manufacturer or importer, in case of imported goods, inclusive of all duties, charges and taxes at which any particular brand or variety of any article should be sold to the general body of consumers or if more than one such price is so fixed for the same brand or variety, the highest of such price).

Other relevant points in FMCG sector:

- ‘Aerated waters’ is the only item within food and beverage industry that is subject to both sales tax (third schedule of the Sales Tax Act, 1990) and FED (First Schedule of Federal Excise Act, 2005), while all other beverages such as juices, tea and milk-based drinks are only subject to sales tax at 17%.
- Customers of FMCG companies are not allowed to claim input Sales Tax credit on certain items such as food, beverages, office equipment and machines, ordinary electrical fittings, sanitary fittings, etc.

Thus, the cost of customers is increased and FMCG companies should take this into account in their Sales Pricing Mechanism.

Sales tax on supply of goods consists of,

- General sales tax
- Additional sales tax
- Further sales tax
- Extra sales tax

Sales tax on services includes,

- Provincial sales tax
- Federal excise duty (FED)
- Islamabad Capital Territory (ICT)

Usually, sales tax charged at the time of purchase of goods/services (input) is adjustable against sales tax collected from customer (output) and net could be payable/refundable to FMCG.

Sales tax is applied as value added tax (VAT), however, at the time of import, it is applicable on an ad valorem basis where assessed value is inclusive of customs duty, additional customs duty, and regulatory duty.

Products such as syrups and squashes, cigarettes, soap, detergents, tea, powder drinks, milky drinks, fertilizers, etc. are categorized as 3rd schedule items and sales tax is applied to the final retail price.

Goods and services such as illuminating paraffin, petrol, diesel, international transport services, residential rental accommodation, public road, and rail transport are notified as zero-rated products and exempt goods.

Sales tax compliances

FMCG must produce a tax invoice. Simplified invoices are permitted for retail sales. Invoices should include the following details,

- Name and address of the supplier
- Tax number of the supplier
- Name and address of the customer
- Date of supply
- Unique invoice number
- Description of the goods or services provided
- Sales tax rate, amount charged and gross amount of the invoice
- Foreign currency amount must be translated into PKR at a public exchange rate
- Time of supply rules in Pakistan

Sales tax becomes due at the time of supply. Sales tax for services is paid when the taxable supply is provided, or payment is made. Whereas for goods, it is when the invoice is settled with a payment.

Tax on imports is due at the time of customs clearance into Pakistan.

Income Tax

Income Tax Law defines FMCG as consumer goods supplied in retail marketing as per consumer's daily demand (excluding durable goods such as household items, sports, etc.). FMCGs are subject to a different form of income tax as follows,

- Corporate income tax
- Alternate income tax
- Minimum income tax
- Final income tax
- Adjustable income tax

The government collects income tax during different transactions in the form of advance tax. The final liability of tax is calculated through the annual return of income tax after netting off adjustable advance income tax already paid, deducted, or withheld.

FMCGs are also liable to withhold income tax from payments made to vendors or others at the rates specified in the relevant section of the Income Tax Ordinance as a withholding agent.

In addition to the above, FMCG could be subject to other levies such as Employees' Old-Age Benefits Institution (EOBI), Sindh Employees Social Security Institution (SESSI), Professional tax etc.

A finance executive must have sufficient knowledge of all applicable duties and levies and compliance requirements as it directly impacts the prices, cost, profitability, going concerned, reputation and strategic business decision making of the FMCG. Any non-compliance could expose the entity to hefty penalties.

Selling, distribution and collection

Generally, FMCG sales are made on advance payment particularly to general traders, but credits are given to some customers such as distributors, IMT, LMT and corporate accounts. Customers/distributors provide cheques/pay orders or directly deposit them in the bank along with sales orders. After those sales orders are processed and goods dispatched, revenue is recorded. Finance executives need to ensure that the amount credited in the company's bank account is accounted for correctly in the customer ledger; revenue recognition is according to the applicable reporting standards.

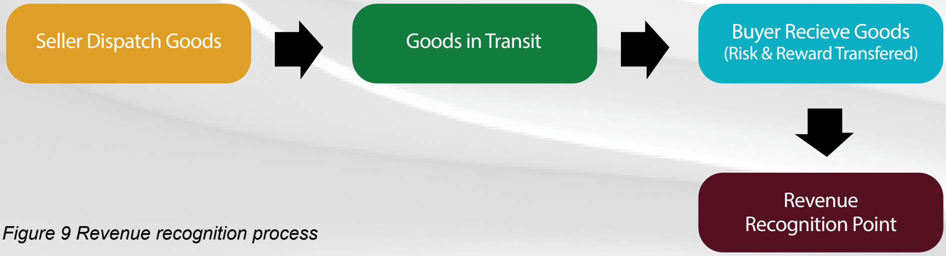


Figure 9 Revenue recognition process

Working Capital Management and Liquidity Analysis

Working capital can deal with substantial portion of the company's total assets; more than half of a typical company's total investment is in current assets. Major components of working capital in FMCG industry includes inventories, debtors, cash and bank balances, loans, and advances and hence, the level of working capital determines the liquidity position of an FMCG.

FMCGs can minimize risk and improve overall performance if they understand the role and determinants of working capital. They may adopt an aggressive working capital management policy with low level of current assets as a percentage of total assets. It may also be used for financing decisions of the organization in the form of high level of current liabilities as a percentage of total liabilities. Excessive levels of current assets may have a negative effect on the company's profitability, whereas a low level of current assets may lead to lower levels of liquidity and stock outs, resulting in difficulties in maintaining smooth operations.

It is the prime responsibility of the finance executive to increase shareholder value by managing working capital efficiently. An effective working capital optimization program should start with a tone at-the-top mandate from the board, CEO and CFO. Senior management should make clear that improving working capital is an organization-wide priority, and that working capital improvement is linked to both business and individual performance. Finance executive collaborates with other leaders within the business to embed the goal of improving working capital into their organizations' systems, analytics, and performance metrics.

Expectations from Finance Department

Finance department play an integral role in shaping the strategic choices such as identifying opportunities, the size or price for each opportunity, fundamental abilities to compete in each of those areas and eventually the value for the company return to the shareholders.

Secondly, productivity is the biggest part offering with superior value to consumers unless special focus is given to productivity and efficiency. Although there is an area where every department contributes, finance plays a leading role by providing thought leadership to other functions.

While general mindset limits finance to managing books or keeping finances aligned, due to evolution on strategic analysis, finance has become a key leader in creating strategic value that exists in those choices within an organization. In some organizations within Pakistan, finance function is more evolved than others and globally it has progressed to another level. One of the learnings for anyone aiming to have a career in finance is to understand that this role is not limited to financial management but is more strategic in nature.

Information Technology (IT)

With consumers inclining towards technology day by day, it has become inevitable for FMCGs to incorporate technology in their business operations, product development and distribution etc. to create brand value, reach the right markets and stay ahead in the industry.

Major challenges that FMCGs face are expanding product portfolio, managing Stock Keeping Units, tracking field employees, managing supply chain and distribution channels, human resource management including daily wages and payroll, meeting distinct requirements of customers, ensuring compliance with changing market trends, get real-time access to competitors' activities, manage multi-channel marketing and many more. With these possible complexities, FMCG leaders across all industry verticals realize that IT can play a game-changing role that can stimulate revenue growth by sparking innovation and thus have started investing in the same. Many IT outsourcing companies have emerged as a pioneer in providing technology services to FMCGs being well acquainted with the fact that consumer is going mobile and FMCGs need their services to keep up with the consumers demands. Following are few benefits FMCGs can reao from technology:

- **Enterprise Resource Planning (ERP) software:** ERP system helps manage inventory system, keeps track of stock records, manages multiple orders, accounts for transactions, controls multiple distribution channels, supply chain management, workflow management, logistics management and MIS reporting.

- **Mobile Applications:** Mobile apps render a highly personalized experience by facilitating customers locate company's product store, surf product portfolio any time, recieve alerts on discounts & offers and buy onlineconsequently building customer loyalty.

- **Sales Force Automation:** Since FMCG operations are vast, geographically, sales force automation becomes a crucial solution that connect clients and suppliers. Some features of sales force automation system includes tracking orders, setting targets, tracking field salesman, getting real-time insights into data, stock management etc.

- **Customer Relationship Management (CRM) System:** It helps retain valuable customers and is practiced at retailer or distributor level. Industry giants are using CRM to set up customer care centers, launch newsletters, give notifications etc.

Human Resource (HR)

Empowering employees with meaningful roles, challenging assignments and a learning environment can help build a purpose-driven organization. A key role of HR is talent acquisition which is becoming increasingly essential as organizations focus on hiring the right talent with the right technical and behaviorial competencies, while retaining the existing high peformers for organization's sustainable acceleration.

Other focus areas for HR include diversity and inclusion, competency realignment, health and wellness of employees. Following are the few roles of HR department alongside managing, hiring and exit policies,

- Acquiring and retaining top talent
- Execute management trainee programs
- Manage internship and apprenticeship programs
- Conduct employee engagement surveys
- Training and development
- Maintain safe and healthy work environment
- Manage compensation and benefits
- Labor law compliance

FMCG employees are highly valued across all sectors particularly due to their unparalleled understanding of end consumer and market knowledge. This results in high employee turnover due to which HR has high budgets on employee recruitment and retention.

Health, Safety & Environment (HSE) & Corporate Social Responsibility (CSR)

Health & Safety

FMCG companies keep health and safety at forfront when designing processes and making decisions. This is to ensure that the company follows safety procedures during product manufacturing, packaging and distribution. In the FMCG industry, increased safety awareness amongst peers, timely reporting of hazards and incidents and non-punitive approaches towards those who come forward with information on hazards/ incidents have been the cornerstones of the overall success in this domain. FMCG follows a classroom and on-floor training program for management and non-management staff that includes identifying hazard hunting techniques and strategies to deal with them.

It is integral for FMCGs to maintain health and safety across all locations. For this purpose, interactive forums and Total Recordable Incident Rate (TRIR) mainly contribute towards HSE performance assessment for each location. Based on HSE performance for each location, the highest performing location is rewarded. Moreover, FMCG companies that are committed to improving employee safety, reducing workplace risks and creating better, safer working conditions follow ISO 45001 on Occupational Health & Safety Management System.

Environmental Protection

Environmental protection includes implementing strict preventive maintenance schedules to ensure exhaust emission values meet the legal requirements. Independent labs regularly monitor and ensure compliance with all critical parameters, i.e., ambient air, vehicle/exhaust emissions, noise, light intensity level and drinking water. A proper waste management system is in place as hazardous and non-hazardous waste is managed as per legal requirements through Environmental Protection Agency's (EPA) approved vendors.

Finance executives are vigilant for any unusual event regarding product safety specially at the cut off period by taking guidelines from IAS-10 Events After Reporting Period for adjusting and non-adjusting events & disclosure requirements if products are damaged. Furthermore, finance executives make budget and feasibility for HSE investment, considering financial and non-financial impact to minimize the risk of accident and through covering proper insurance.

Corporate Social Responsibility (CSR)

CSR is the cornerstone of corporate philosophy in FMCG companies which helps enhance their brand image along with benefitting society. This practice allows the companies to be conscious of the kind of impact they are making on all aspects of society including economic, social, and environmental. These activities may include,

- Ethical sourcing of raw materials
- Community service
- Contributing to education
- Hiring refugees, disabled individuals, and underprivileged class
- Reducing environmental impact from company's operations

Finance executives ensure that all such expenses are classified as CSR activities and can be differentiated from marketing expenses. Moreover, they need to ensure these costs are incurred in a transparent and ethical manner without the objective of tax evasion.

06 KEY BUSINESS RISKS AND MITIGATION CONTROLS

FMCG sector had witnessed an above-average growth rate throughout the second half of the 20th century. This success owed much to a widely used value creation model with key elements including:

- Perfected mass-market brand building and product innovation.
- Built relationships with grocers and other mass retailers that provide advantaged access to consumers.
- Entered developing markets early and actively cultivated their categories as consumers became wealthier.
- Designed their operating models for consistent execution and cost reduction.
- Mergers & acquisitions to consolidate markets and create a basis for organic growth post acquisition.

However, while passing through the new millennium, this long-successful model of value creation has started losing its touch. The new millennium has come up with certain new "technology-driven trends" which have started disrupting the market in a significant manner, resulting in an emergence of a new set of business risks which may have a serious impact in the years to come.

The following disruptive trends of the new era have the power to create new business risks and must be closely monitored and well mitigated in advance to continue with a going concern assumption:

- The millennial effect
- Digital intimacy – data science – IoT – mobile
- An explosion of small brands & rise of local competitors
- E-Commerce giants
- Discounters and deals
- Healthier lifestyle awareness

KEY RISKS	Type of Risk	Key Response
Crisis Management: Reputation management to ensure positive perception of the brand	**Strategic**	**Board / Top Management**
Consumer/ Marketplace Trends/ Issues: Ability to achieve business objectives is affected by consumer taste changes, changes in retail options etc.	**Strategic**	**Marketing**
Commodity pricing: Exposure to fluctuations in prices of commodity-based materials.	**Operational**	**Supply Chain**
Material-on-time availability as per specifications.	**Operational**	**Supply Chain**
Business Disruption: Significant business interruptions threaten the organization's capacity to continue operations e.g. stemming from catastrophic damage at manufacturing plant, natural disasters, utility disruption, or workforce dynamics etc.	**Strategic**	**Board / Top Management**

Government Actions: Ability to achieve objectives is affected by policies adopted by governments e.g. regulatory changes/ enforcement actions, refusal to grant permits, expropriation or nationalisation.	**Regulatory**	**Legal & PR**
Malicious Product Attacks: Ability to achieve business objectives is threatened by malicious attacks on product e.g. counterfeiting, tampering.	**Reputational**	**Legal & PR**
Product Recall due to critical quality issues	**Reputational**	**Top Management**
Quality Control Risk: Defected Production (mislabeling) goes undetected to the final consumer.	**Operational**	**Quality Control & Assurance**
Environment Risk: Manufacturing processes failure to provide a safe environment for employees or citizens residing in surrounding territory exposes the organization to compensation liabilities, loss of business reputation, litigation and other costs.	**Regulatory**	**Legal & PR**
Compliance with Product and Packaging regulations: Product formulations/ingredients or ratio of the ingredients if not comply to local food laws/or international food law where our product is being sold may cause product recalls, claims and penalties.	**Regulatory**	**Legal & PR**
Commercialization of New Products: Ability to achieve business objectives is affected by failure to develop new products, impact of new products on existing product lines; performance of product/ package or manufacturing issues.	**Strategic**	**Marketing**
Relationship Management: growing influence and bargaining power of LMT's/ key accounts, to be managed to minimize business value risk.	**Operational**	**Sales**
Demand variability/ volatility: Stockpiling/ shortages, shelf life expiration and high inventory cost.	**Operational**	**Supply Chain**
Theft of inventory by employees / third parties may affect the short-term business plans and objectives.	**Operational**	**Supply Chain**
Lack of information for decision making / Unreliable information: Failure to capture or inability to analyze required information impacts the business plan.	**Strategic**	**Top Management**
Inaccurate business planning/production planning/ performance measurement prevents achievement of business objectives. Inability to fund the operational or financial obligations of the business.	**Strategic**	**Top Management**
Credit Risk: Inadequate controls over management of credit exposure may possibly result in financial loss for the company.	**Operational**	**Finance**
Financial controls: Inadequacy of financial controls leads to possible loss of assets, audit non-compliance, breach of regulations, fines and loss of brand and trademark value.	**Operational**	**Finance**

Capital Availability: The organization’s credit rating or ability to attract investors may be insufficient to obtain capital at an economic rate.	**Operational**	**Finance**
Unauthorized Access to information: Business is seriously affected by intrusion to systems by competitors/ hackers/ external users; disclosure through consultants/ contractors/ employees; theft of hardware; theft of or unauthorized access to documents.	**Strategic**	**Information Technology**
Unavailability of talented people: Inability to attract or retain appropriately skilled personnel threatens the achievement of critical business objectives. Possible causes include market conditions, poor morale e.g. as a result of work pressures/ understaffing/ business consolidation/ restructuring, lack of loyalty culture, inadequate training and development for succession.	**Strategic**	**Human Resource**
Failure to perform delivery route planning may result in excessive transportation costs to the company	**Operational**	**Supply Chain**
Failure to perform and manage the physical order fulfillment process of picking, packing, and shipping products in a manner consistent with Customer Expectations.	**Operational**	**Supply Chain**
Inadequate management over physical issuance of goods with respect to FIFO considerations leading to expired goods.	**Operational**	**Supply Chain**
Unauthorized returns are processed.	**Operational**	**Sales**
Poorly positioned or developed distribution channels threaten the company's capability to effectively and efficiently access current and potential customers.	**Strategic**	**Sales**
Product/Service Failure - Allocations are not entered into stores inventory accurately or timely, resulting in duplicate shipments or over shipments.	**Operational**	**Sales**
Third-party warehouse inventories are not reconciled/matched to ensure the appropriateness of dispatches and transfer of goods quantities.	**Operational**	**Supply Chain**

07 CONCLUSION & KEY LEARNINGS

We are living in an era of information with immense data, particularly in the FMCG industry. The key is to filter the relevant data and convert it into meaningful information and insights for business applications. In future, AI and IoT will be involved in information systems.

Today, technology and automation continue to make significant changes in the corporate world and society at large. Therefore, the key influencer must initiate a comprehensive plan to educate and train the unskilled workforce to transform them into valuable sources ready to deal with new demands.

Conversely, climate change due to global warming is probably the biggest threat for FMCG and food industry since it may damage the agricultural sector and create massive food industry issues. To mitigate this high risk, business requires backward integration to succeed in their supply chain.

Few more takeaways include,

- Consumers are now more concerned with their health and wellbeing and accordingly functional communication may play crucial role in FMCG's future growth which leads to a possible shift in future investment and communication strategy.
- New business models are emerging and may dispute the existing route to market strategies.
- E-Commerce and its emergence as a direct to customer channel.

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