Chapter 1

INTRODUCTION

In India, the role of FMCG sector has been vital in the development and growth of the country. Its contribution to the Indian economy both direct and indirect has been quite significant. It has contributed in a variety of ways. The Indian FMCG sector is estimated at US$25 billion (Rs. 1,20,000 crore). What is more amazing that it has grown consistently even in the period of slowdown over the last 3-4 years. The developed markets are dominated by a handful of large players in contrast, Indian FMCG sector is still fragmented and a substantial part of the market comprises of unbranded and unpackaged products that offers a lot of opportunities for growth in time to come.

The Indian consumer market has witnessed remarkable transformation in the recent times. Just a decade or two ago, Indian consumer was barely able to save anything and use to spend most of his income on purchasing the bare necessities. Today a variety of changes have brought Indian consumer market to the forefront among the top markets of the world. Armed with higher income, credit cards, exposure to the organised shopping culture and with aspirations for better living standards, Indian consumers are part of the Indian population which is quite young and have grown up in the age of television and internet. Better employment opportunities with the opening up of Indian economy after 1991, have given the young shoppers enough power to indulge in variety of innovative products. This in turn has made the FMCG sector very promising and exciting. Financial sector has also given the required boost to the consumer markets. Credit cards and ATMs have made the shopping experience more convenient. The growing urbanization is also providing impetus to the availability and use of branded products. The organised retail
with its dazzling ambience and attraction of the multiplexes driving the Indian consumers to branded products. Companies are also pursuing specially tailored goods meant for Indian environment and suitable to the needs and wants of Indian consumers. It has been able to reach to the poorest section of the consumers through distribution of smaller pack sizes alongwith coming up with premium products for the needs of niche consumers. It has also brought out successful innovation like single use sachets and innovative products to cater to regional or local tastes.

But all these developments on one side, there also a great challenge before the FMCG firms, to remain competitive even in the highly competitive environment today. In such a situation Brand Loyalty can play a decisive role in achieving competitive advantage over the rivals.

1.1 CONSUMER GOODS

Goods can be classified into three group, according to their durability or tangibility (Copeland, 1923). First are Non-durable goods which are tangible goods and normally consumed in one or few uses. These goods are consumed fast and purchased frequently by the consumers and include Toothpaste, Sugar, Soap and Salt. Durable Goods are also tangible and normally survive many uses. Goods that fall under this category include, furniture, clothing etc. They are not frequently purchased as non-durable goods because they are used up slowly. Services are intangible activities, benefits or satisfaction that are offered for sale. They are usually produced and consumed in the same time frame unlike durable goods or non-durable goods that can be produced and shelved. The producer of goods may be far away from consumers, but service providers often work in the presence of the customers.
Fast moving consumer goods are typically non-durable products that are consumed over a short period of time after which they would need to be replaced. According to Brassington and Pettitt (2000) and Dewhirst and Davis (2005), these types of products are usually frequently purchased and are low priced, thus, requiring mass distribution and marketing communication focusing on their functional and psychological benefits. According to Boone and Kurtz (2004), fast moving consumer goods or convenience products can be divided into three basic groups, namely, impulse items, staples, and emergency items.

The products that fall into the classification of fast moving consumer goods include soap, toothpaste, tea, milk, sugar, bread, jam and lunch wrap, among others (Dewhirst and Davis 2005). Fast moving consumer goods are products of low unit value that are consumed within a short period of time and are purchased on a frequent basis. Depending on the nature of the product in question, consumers will vary in terms of the amount of time that they would allocate the purchasing decision (Kotler 2008).

According to Menke (2007) argued that, Fast Moving Consumer Goods are those goods which have very low prices and are manufactured at Low cost as well; however, they are produced in high volume and it is aimed to achieve high profit through economies of scale. Furthermore, according to Cox (2003) FMCG can also be called Consumer Packaged Goods. According to many researchers FMCG includes those products which are low involvement products and consumers don’t take much time on decision making process before purchasing them likewise, Bulmer (1998) defined the range of FMCG products from cosmetics to households. However Francis (2006) argued that development in FMCG product is just a development in already developed products.
so marketers do not need to invest high budget on research therefore they have low cost and in result marketers are able to market them (FMCG products) at low prices.

Kotler and Keller (2009), likewise, argued that FMCG’s product range can be classified in to tangible and non tangible goods/products and these are low involvement products that is why people don’t put much effort before purchasing them and these products are often being purchased by the consumers very frequently without spending time on decision making process. In supporting this idea Kotler and Keller (2009) argued that Fast Moving Consumer Good can also be classified as convenience goods and these convenience goods are further divided into three categories - i) Impulse Goods ii) Staples Goods ii) Emergency Goods.

If consumer behaviour is discussed regarding purchase related to FMCG products then it is of involvement similarly, Moffett et al (2002) argued that in FMCG industry there are too many products which are substitute or alternative to each other and competition is too high and product differentiation is very low. Therefore consumers usually don’t make decisions on the basis of brand differentiation but they purchase habitually. Kotler and Keller (2009) argued that in FMCG industry consumer usually do not make purchase on the basis of brand differentiation of a product but they do purchase on the basis of differentiation between the stores’ brands. Kotler and Keller (2009) further argued that purchase is not being made because of brand loyalty but on the basis of consumers’ habit. Likewise Fill (2005) supported this concept and argued that because of consumers’ low involvement, while purchasing FMCG products, proposed risk is also very low.
1.2 CONSUMER MARKET IN INDIA

1.2.1 Characteristics of FMCG

To study the Brand Loyalty in Consumer Goods FMCG it is necessary to understand the characteristics of FMCG market. From the consumers' perspective, they purchased these goods frequently and have low involvement and purchase these goods at a low price. From the marketers' perspective, to sell these goods, the marketers have sell them at high volumes with low margins. It also requires extensive distribution networks and leads to high stock turnover.

1.2.2 Analysis of Fast Moving Consumer Goods on the basis of Porter’s Five Forces Model

1.2.2.1 Threat of New Entrants: Moderate

(a) Low regulatory barriers (b) High competitive intensity requires large investments in brand building which deters small players

1.2.2.2 Threat of Substitutes: High

(a) Multiple brands positioned with narrow product differentiation (b) Companies entering a category/trying to gain market share compete on pricing which increases product substitution

1.2.2.3 Bargaining power of consumers: Low

High brand loyalty for some products, thereby discouraging customers’ product shift

(a) Low switching cost (b) Aggressive marketing strategies induce customers to switch between products (c) High rivalry among competitors (d) More MNCs entering the
Advertising spends continue to grow and marketing budgets as well as strategies are becoming more aggressive

1.2.2.4 Bargaining power of Suppliers: Moderate

(a) Prices are generally governed by international commodity markets, making most FMCG companies price takers (b) Due to the long term relationships with suppliers etc., FMCG companies negotiate better rates during times of high input cost inflation

1.3 SWOT Analysis of Fast Moving Consumer Goods

1.3.1 Strengths

(a) Moderate operating costs (b) Presence of established distribution networks in both urban and rural areas (c) Presence of well-known brands in FMCG sector (d) Favorable government policies

1.3.2 Weaknesses

(a) Lower scope of investing in technology and achieving economies of scale, especially in small sectors (b) Low exports levels (c) Counterfeit Products

1.3.3 Opportunities

(a) Untapped rural market (b) Rising income levels, i.e. increase in purchasing power of consumers (c) Large domestic market- a population of over one billion (d) Export potential (e) High consumer goods spending

1.3.4 Threats

(a) Removal of import restrictions resulting in replacement of domestic brands (b) Slowdown in rural demand (c) Tax and regulatory structure
1.4 KEY CHALLENGES BEFORE FMCG SECTOR:

Many of the senior management of leading FMCG and retail companies in India don’t believe they are strategically or organisationally ready to transform to meet the new challenges of changing business environment, according to a report. According to the report titled 'Changing your Orbit, the Handbook for Transformation in FMCG & Retail Businesses' by conducted by CII and the Boston Consulting Group. In the survey done in India, 60 per cent of companies agree that that the world around them is going to change significantly and a large number believe that they are not adequately prepared for that transformation. Acknowledging the challenge is a good first step according to the report. Flat sales, rising costs, disgruntled customers as well as increasing new nimble competitors are typical signals that a company needs to initiate fundamental change. According to the report, long term consumption opportunity in India is large and attractive, going from $900 million in 2010 to $3.6 trillion by 2020. Other important challenges are as below:

1.4.1 Price of inputs

(a) Commodity prices keep on fluctuating, which make it difficult to finalize raw material prices, affecting the final price of the product. (b) Indian consumers are very price-sensitive and value conscious, making it difficult for FMCG firms to pass on the increased costs.

1.4.2 Emergence of Private Labels

(a) Private labels serve to lower the consumer’s price points, particularly at the mass level (b) Conflicts of interest when a retail chain has its own label whose packaging
looks like category leaders’ and stocks brands of other manufacturers, (in terms of display space, promotions etc).

1.4.3 Counterfeit and Pass-offs

(a) These products narrow the scope of FMCG products in rural and semi-urban market (b) The spurious pass off products affect large, high quality brands which have actually invested money in research and development to create their products and build brand equity

1.4.4. Infrastructural Bottlenecks

(a) High cost of power (b) Poor transportation and roadways infrastructure (c) Weak agricultural infrastructure (d) Prohibitive cost of developing infrastructure

1.4.5 Tax Structure

(a) Complicated tax structure—because of the VAT being levied at state level, other state taxes such as octroi and entry taxes and then centre levies excise duties and service tax. (b) Indirect taxes are quite high particularly in case goods meant for daily consumption (c) Many states still continue to approach taxation differently. (d) Octroi and Entry tax at city and state entry points in a few states leads to increase in pricing (e) Changing tax policies makes it difficult to plan for long term.

1.5 LATEST TRENDS IN FMCG SECTOR

a. Consolidation—Indian FMCG companies are consolidating their existing business portfolios

b. Product innovation — several companies have started innovating by launching or customizing their existing product portfolios for new consumer segments
c. **Lifestyle products** — lifestyle and premium range products are the current hot target product segments among Indian FMCG players.

d. **Expanding horizons** — a number of companies are exploring the business potential of overseas markets and several regional markets.

e. **Backward integration** — backward integration is becoming the preferred strategy for increasing profit margins.

f. **Expanding distribution** — companies are now focused on improving their distribution networks to expand their reach in rural India.

g. **Third-party manufacturing** — FMCG players often outsource manufacturing or processing of ascertain range of products to small vendors. This approach has helped companies focus on front-end marketing.

h. **Rising importance of smaller-sized packs** — companies are increasingly introducing smaller stock keeping units at reduced prices. This helps them sustain margins, maintain volumes from price-conscious customers and expand their consumer base.

i. **Focus on enhancing presence in Asia, Africa and Latin America** — FMCG companies entering Asia, Africa and Latin America as it helps to be close to consumption markets within. Such foreign investments are encouraged by local governments, as they offer incentives to enter the markets networks.

j. **Reducing carbon footprint** — FMCG players in India are focusing on reducing their carbon footprint. They generate the required energy from renewable sources and earn CER credits for the same.
1.6 GROWTH POTENTIAL OF FMCG SECTOR

Fast Moving Consumer Goods sector is set to emerge as one of the most vibrant sector of the economy. According to Indian Equity Foundation, the Indian FMCG sector is the fourth largest sector in the economy with a total market size in excess of US$ 13.1 billion. It has a strong MNC presence and is characterized by a well-established distribution network, intense competition between the organized and unorganized segments and low operational cost. The FMCG market is set to treble US$11.6 billion in 2003 to US $ 33.4 billion in 2015.

1.6.1 Prospects of the Market

In the past couple of years, the FMCG sector achieved double-digit growth in sales. With annual revenues of Rs 72,000 crore, it is the one of the largest sectors in the Indian economy. The industry’s future prospects look bright, considering rising household incomes and the spread of modern retail. However, the per capita income level in India is still very low compared to the developed world. Besides, the penetration level of many products is also relatively low and several categories remain fairly unbranded. All these factors provide a huge untapped potential for the industry.

The growth in India’s consumer market will be primarily driven by a favorable population composition and rising disposable incomes. A study by the McKinsey Global Institute (MGI) suggests that if India continues to grow at the current pace, average household incomes will triple over the next two decades and it will become the world’s 5th largest consumer economy by 2025, up from 12th now.
1.6.2 Growth despite economic slowdown

It has been witnessed that during the times of economic slowdown, consumers may be ignoring durable and other capital expenditure but cannot avoid spends on daily necessities. Most FMCG products are daily use products, their volume consumption largely remains unaffected in the current economic slowdown. Because of the relatively less discretionary demand, this sector tends to be relatively stable in the long-term. In the last 2-3 years, it grew at between 12% - 15% and it is expected to grow at a CAGR of around 12% over the next few years to reach a size of US$43 billion (Rs 2,06,000 crores) by 2013 and US$ 74 billion (Rs. 3,55,000 crores) by 2018.

According the ‘Indian Attractiveness Survey (2012) : Ready for transition’ conducted by Ernst & Young, despite challenging economic conditions, India continues to be among the fastest growing economies in the world. The growth might have climbed down to 7% from its normal trajectory of 8.5%-9.0%; still, it continues to be impressive in the midst of anxiety all around. A large domestic market led by the emergence of an important middle class population, investor-friendly policies, rising foreign exchange reserves, availability of skills and demographic prospects are some of the strong factors that are behind the Indian growth story. The same survey indicated, the three most attractive characteristics of the Indian market which include its high potential of the domestic market, cost competitiveness and India’s young and educated workforce.

1.6.3 Key attractions of the Market

India’s rapidly rising middle class could grow from more than 160 million people in 2011 to 267 million people in 2016. Regarding cost competitiveness, the availability of low cost labour and inexpensive manufacturing capabilities are key attraction for their
business. In particular, India’s young and educated workforce has been benefitting companies also. India’s talent pool continues to increase; there was an estimated addition of approximately four million graduates in FY2011 (April 2010 to March 2011). With recent government education policies aiming to expand the number of educational institutions and vocation driven education systems in India, this number will continue to rise in the coming years.

1.6.4 Mysterious Growth of India’s Consumer Growth

An intriguing element of this mysterious growth is India’s Consumer Market which is characterized by diverse languages, regions, religions, and economic and social status. Consumer growth has, of course, always been a central engine of economic growth, but what is significant about the past decade is the acceleration in the pace of change. As the market undergoes a paradigm shift due to India’s rapid economic growth and favorable demographics, it has become a market difficult to ignore. Global corporations view India as one of the key markets where future growth will emerge.

A news report released by Boston Consulting Group (BCG) and Confederation of Indian Industry (CII) — “Changing your orbit, the handbook for transformation in FMCG and Retail Business which appeared in the Economics Times reported by Abheek Singhi projects that India's robust economic growth and rising household incomes would take consumer spending to a level of US$ 3.6 trillion by 2020. The report further stated that India’s share of global consumption would expand more than two times to 5.8 per cent by 2020. Indian consumer markets are currently in a transformational stage.

According a news titled “Indian Rural Consumer Market Reaches $6 Billion”, appearing in Silicon India News (Dec. 27, 2011) in the Annual Global Investor
Conference, 2011, conducted by Motilal Oswal, it is stated that the FMCG sector in India has registered a Compound Annual Growth Rate (CAGR) of 11.2 percent from 2000 to 2010, with an average annual volume growth of 8.5 percent. This growth has been attributed to factors like, increased consumption, rise in income levels, changes in lifestyles and demographic changes.

It should be noted that the unprecedented growth of the new middle class outside the western economy would be the most powerful economic trend in the coming decades. Global research company McKinsey had referred to India as the ‘Bird of Gold’ in its report titled ‘The Bird of Gold: The Rise of India’s Consumer Market’ prepared by McKinsey Global Institute, (May, 2007). Consumer product makers and analysts now believe that this bird is ready to fly with wings wide spread in the global sky. The report reveals that rising average income levels among the Indian middle class are driving aspirational consumer behaviour, as people are preferring higher quality products, better healthcare and more sophisticated services.

The McKinsey Global Institute (MGI) report, 2007, said India's consumer market till now was broadly defined as a pyramid; a very small affluent class with an appetite for luxury and high-end goods and services at the top, a middles-class at the center and a huge economically disadvantaged class at the bottom. This pyramid structure of the Indian market is gradually coming down and being replaced by a diamond – a relatively large affluent class at the top, a huge middle class at the center and a small economically disadvantaged class at the lower end. The diamond represents increasing volume and value across all classes of Indian consumer market.

Throughout India's history, the vast majority of its people have lived in desperate poverty. As recently as 1985, more than 90 percent of Indians lived on less than a dollar a
day. Yet India is poised to make a remarkable transformation. Research from the McKinsey Global Institute (MGI), 2007, shows that within a generation, the country will become a nation of upwardly mobile middle-class households, consuming goods ranging from high-end cars to designer clothing. In two decades the country will surpass Germany as the world's fifth largest consumer market. The report further seeks to understand how fundamental forces of long-term economic growth such as demographics, urbanization, and rising education levels will affect growth in Indian incomes, and how this increased spending power will, in turn, translate into household consumption. The report examines how Indian consumers will segment by income brackets, how much spending power they will have, what these different groups of consumers will buy, and how the picture will vary between urban and rural India.

As Indian incomes rise, the shape of the country's income pyramid will also change dramatically. As per MGI (2007) report over 291 million people will move from desperate poverty to a more sustainable life, and India's middle class will swell by more than ten times from its current size of 50 million to 583 million people. By 2025 over 23 million Indians will number among the country's wealthiest citizens. The geographic pattern of India's income and consumption growth will shift too. By 2025 the Indian consumer market will largely be an urban story, with 62 percent of consumption in urban areas versus 42 percent today. While much of this new wealth and consumption will be created in urban areas, rural households will benefit, with annual real rural income growth per household accelerating from 2.8 percent over the past two decades to 3.6 percent over the next two.
A report published by National Council for Applied Economic Research's (NCAER) Centre for Macro Consumer Research, which appeared in the Economic Times, (Feb. 6, 2011) projects that by 2015-16, India will be a country of 53.3 million middle class households, translating into 267 million people falling in the category. As per the study, which uses 'household income' as the criterion, a family with an annual income between Rs 3.4 lakh to Rs 17 lakh (at 2009-10 price levels) falls in the middle class category. As per 2000-01 prices, middle class classification was based on annual income of Rs 2-10 lakh.) Currently India has 31.4 million middle class households (160 million individuals). Further ahead, by 2025-26 the number of middle class households in India is likely to more than double from the 2015-16 levels to 113.8 million households or 547 million individuals. Factors such as the country's GDP growth, which is projected to be around nine per cent, going ahead and high growth rate of urbanization will result in the increase of middle class in the country. The report said a typical Indian middle class household spends about 50 per cent of the total income on daily expenses with the remaining goes into savings which means a middle class family has strong purchasing power to spend on durables and other items. As per the findings of the NCAER, the percentage of the middle class in the country's total population will increase to 20.3 per cent by 2015-16 and 37.2 per cent by 2025-26.

The growth of household income has been confirmed by a report titled “FMCG Sector: The Road Ahead”, prepared by Federation of Indian Chambers of Commerce and Industry in 2009.
Table 1.1: Growth of Annual Household Income

<table>
<thead>
<tr>
<th>Annual Household Income (‘000 INR p.a.)</th>
<th>2001-02 (‘000 HH)</th>
<th>2005-06 (‘000 HH)</th>
<th>Growth (05-06/01-2)</th>
<th>2009-10 (‘000 HH)</th>
<th>Growth (09-10/05-6)</th>
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<tbody>
<tr>
<td>&lt;45</td>
<td>61351</td>
<td>52410</td>
<td>-15%</td>
<td>34623</td>
<td>-34%</td>
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<tr>
<td>45-90</td>
<td>70196</td>
<td>79225</td>
<td>13%</td>
<td>79678</td>
<td>1%</td>
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<tr>
<td>90-135</td>
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<td>33721</td>
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<td>13-180</td>
<td>12797</td>
<td>16251</td>
<td>27%</td>
<td>21307</td>
<td>315</td>
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<tr>
<td>180-200</td>
<td>2258</td>
<td>3250</td>
<td>44%</td>
<td>4883</td>
<td>50%</td>
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<td>200-1000</td>
<td>10727</td>
<td>16521</td>
<td>51%</td>
<td>28409</td>
<td>75%</td>
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<tr>
<td>1000+</td>
<td>753</td>
<td>2235</td>
<td>197%</td>
<td>3995</td>
<td>79%</td>
</tr>
</tbody>
</table>

Source: FMCG Sector — The Road Ahead, a report by FICCI (2009)

According to global consultancy Deloitte report, 2013, ‘India matters: Winning in growth markets’, India is expected to emerge as the world's largest consumer market with aggregate spending of $13 trillion by 2030, surpassing the likes of China and the US, reveals the report. By 2020, India is projected to be the world's third largest middle class consumer market behind China and the US. By 2030, India is likely to surpass both countries with an aggregated consumer spend of nearly $13 trillion.

According to the Deloitte report, there is a shift in the economies of China and India which would herald a golden period for them in developing their potential as economic powerhouses of the future. It gives the reasons for it to the explosion of middle class consumer power began to take shape in India during the 1990's, following trade
liberalization post-1991, an increase in foreign direct investment and the proliferation of information technology exports.

According to Confederation of Indian Industries, FMCG sector is one of the key drivers for the economic development of the Country as a whole in the sense that its estimated total market size was Rs 130,000 crore in 2010 and is expected to further expand to Rs 1,80,000 crore by 2015. Though India’s GDP growth slumped down to a nine-year low of 5.3% in January -March quarter, but FMCG companies bucked the downtrend with 15% plus growth during the same period. FMCG sector has even higher potential in the Northern Region considering that the 5 Northern States & UT Chandigarh have Per Capita Income higher than the All India average.

According to a report prepared by Booz & Company in 2010, “FMCG Roadmap 2020: The Game Changer”, the Indian FMCG sector is expected to grow between 12 to 17 percent by 2020 and would reach a market size of ₹4,000 to ₹6,200 billion. According to a McKinsey Global Institute (MGI) study, incomes in India are likely to grow 3 times over the next two decades and India will become the world's fifth largest consumer market by 2025. India’s rising affluence will drive the growth for FMCG firms over the next several years. The market is expected to grow at an average rate of 11-12%. Rapid growth in India’s toiletry and cosmetic market will create opportunity for new players. India’s rapidly growing middle class, with annual household incomes of US$ 3,000-5,000 is becoming increasingly brand-conscious and is aware of the importance of personal grooming.

Penetration level as well as per capita consumption in most product categories like jams, toothpastes, skin care, hair wash etc. in India is low indicating the untapped market
potential. Burgeoning Indian population, particularly the middle class and the rural segments, presents an opportunity to makers of branded products to convert consumers to branded products. An average Indian spends around 40 per cent of his income on grocery and 8 percent on personal care products. The large share of fast moving consumer goods (FMCG) in total individual spending along with the large population base is another factor that makes India one of the largest FMCG markets.

The expansion of middle class, as per studies of McKinsey Global Institute report (2007) is going to transform the pattern of India’s Income and consumption growth. This has important implications for the FMCG sector. It has been observed that young population of this segment of the population is brand conscious. Hence it appears that the manufacturers of FMCG sector have a potential to develop or create brand loyalty among their customers and would benefit out of these developments.

1.7 GROWTH DRIVERS FOR FMCG SECTOR

The current economic trend, exhibiting modest demand and supply is likely to have a medium-term impact on the demand for FMCG products but promises revival and higher growth in the long term based on the following fundamentals:

1.7.1 Demand-Side Drivers

1.7.1.1 Consistent GDP Growth

The Indian economy has been consistently growing over the last few years. The story of India’s resurgence is reflected by one of the best indicator of economic health i.e. GDP.
Table No. 1.2: India’s GDP Growth

<table>
<thead>
<tr>
<th>India’s GDP Growth Per Cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
</tr>
<tr>
<td>2002</td>
</tr>
<tr>
<td>2003</td>
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<td>2004</td>
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<td>2005</td>
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<td>2006</td>
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<tr>
<td>2007</td>
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<td>2008</td>
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Source: FMCG Sector — The Road Ahead, a report by FICCI (2009)

1.7.1.2 New Indian Consumer

The Indian consumer market has become global attraction not just because of its promise of huge volumes, but also because of the change in the nature of demand. Increasing urbanization, increasing incomes and rising aspirations for a better life, especially among the lower economic strata, are some of the factors reshaping the Indian consumer market. The result of this flux is a new Indian consumer who is more discerning than ever, ready to place his money on brand, quality and convenience, and eager to explore the organised retail market.

As millions of previously economically deprived households move into the lower strata of the middle class segment, they will begin to be able to afford and demand products and services beyond food and clothing. Increasing penetration of media and infrastructure facilities will expose the rural India to urbanized lifestyle and fuel the latent desire for improved living standards. Together the ‘aspirants’ from rural and urban areas will push up demand for goods and services at the lower end of the spectrum.
1.7.1.3 The lower end of Indian consumers and aspiration for better life:

According to a report, “Low-end consumers to fuel FMCG growth” which appeared on Dec. 5, 2012, in the Times of India by the Edelweiss Securities, as many as 10 million of these households live in urban India with an income of less than Rs 72,000 annually and spend one fifth of their incomes on FMCG products they have moved to branded products. Nielsen forecasts that this segment will increase consumer goods sales by 50% in the next three years to $3.6 billion.

The report further delineates that only 5% of their household's budget is presently spent shopping at a modern trade outlet and one-third of these families buy bulk packs. For the first time modern trade shoppers together spend $ 280mn at which is likely to triple in three years. These first time shoppers are impulsive and prone to 'supersizing' their shopping trips by buying more than they had planned.

The MGI study (2007) suggests that if India continues to grow at the current pace, average household incomes will triple over the next two decades and it will become the world’s 5th-largest consumer economy by 2025, up from 12th now.

1.7.1.4 Economic growth and rising disposable incomes

India is growing at an average annual rate of 7.6% for the past five years and it is expected to continue growing at an equal if not faster rate. The rapid economic growth is increasing and enhancing employment and business opportunities and in turn increasing disposable incomes. As the benefits of growth trickle down, an increasing number of people are moving up from the economically weaker class to join the middle class. The middle class with its rising numbers and incomes is thus
becoming the biggest market segment. The affluent class too will continue to grow in terms of size and value, albeit, at a slower pace than the middle class.

The MGI (2007) study’s prediction on the effect of economic growth on different classes:

- Income class, defined as households with disposable incomes from Rs 200,000 to 1,000,000 a year, comprises about 70 million people, roughly 6% of the population at present. By 2025 the size of this income class namely middle class will increase to about 583 million people, or 41% of the population.
- Extreme rural poverty has declined from 61% in 2005 and is projected to drop to 26% by 2025.
- Affluent class, defined as earning above Rs 1,000,000 a year will increase from 0.2% of the population at present to 2% of the population by 2025. Affluent class’s share of national private consumption will increase from 7% at present to 20% in 2025.

1.7.1.5 High Private Consumption

The Indian economy, unlike most Asian economies, has a very high rate of private consumption of 61%. Of that, a further 60% is due to retail spends – goods and products that people consume, as opposed to services or essential consumption items like rent and education.

1.7.1.6 Rising Urbanization

India has 70% of its population living in rural areas. With rising urbanization, more people will have exposure to modern products and brands and thus shift to branded and packaged goods and products. By 2015, an additional 75 million consumers will have
moved into cities, not only buying FMCG products for themselves but also serving as a conduit for information and goods to their families still in rural India.

### Table No. 1.3 Population in India

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Population</th>
<th>Urban Population</th>
<th>Rural Population</th>
<th>Rural %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>836</td>
<td>215</td>
<td>621</td>
<td>74.3</td>
</tr>
<tr>
<td>2001</td>
<td>1027</td>
<td>285</td>
<td>742</td>
<td>72.2</td>
</tr>
<tr>
<td>2011</td>
<td>1216</td>
<td>397</td>
<td>833</td>
<td>68.84</td>
</tr>
</tbody>
</table>

Source: Census of India 2001; Total population, Urban and Rural population in millions

### Table No. 1.4 Level of Urbanisation

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth (in per cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>27.81</td>
</tr>
<tr>
<td>2011</td>
<td>31.16</td>
</tr>
</tbody>
</table>

Source: Census of India 2011

### 1.7.1.7. Increasing Discretionary Spends

Another encouraging factor is that spends on basic food items have been falling, which frees up consumer income for other categories of FMCG products. This trend is noticeable among both urban and rural consumers.
1.7.2 Supply Side Drivers

1.7.2.1 Growth of Retail

From US$ 535 billion in 2012-13, Indian retail is expected to grow to US$ 755 billion by 2018. Modern Retail - At current size of US$ 73 billion, and with fresh investments over the next 5-7 years, modern retail will show impressive CAGR (Compound Annual Growth Rate) of more than 30%. Traditional Retail – In absolute terms, Traditional Retail will grow more than Modern Retail, in the next 5 years. From the 7 current 9 million, the number of outlets selling FMCG is expected to increase to 11 million by 2013 and 16 million by 2018. In summary, Traditional Retail will grow slower in percentage terms, but will continue to occupy a very dominant share of FMCG sales over the next 10-20 years.

Indian consumer purchasing is largely through the unorganized sector or through the street stores. However with urbanization and increasing value-consciousness among consumers, the organized retail format is beginning to not only take root but grow at a rapid rate. The evolution of shopping malls is now providing a place for the new “Shopping Experience”. This gives a brand new focus to brand names and new producers in the market.

According to Ernst & Young’s Attractiveness Survey India (2012), India’s growing urban population has been driving organized retail in India. In addition, shift in the preference for branded products; convenient spending through debit/credit cards; and greater propensity to spend act as drivers for the sector.

1.7.2.2 Low Labour Cost

India has by far the lowest labour cost compared to many emerging countries giving it an edge for establishing manufacturing base for both domestic and international
FMCG brands. Average labour cost in India is US$ 110/month compared to US$190/month in China, US$ 210/month in Thailand and even higher at US$1,300/month in Taiwan.

1.7.2.3 Favourable changes in Government Policies

The Indian government has been trying to foster the growth of various categories of FMCG by way of making policy changes. Some of the policy changes include:

(a) Automatic investment approval (including foreign technology agreements within specified norms), up to 100 per cent foreign equity for most of the food-processing sector (b) Quantitative restrictions removed. (c) Five-year tax holiday for new food processing units in fruits and vegetable processing. (d) Customs duties reduced on plant and equipment, raw materials and intermediates, especially for export production (d) Capital goods freely importable, including second hand ones (d) De-reservation of most FMCG categories from SSI (Small Scale Industries) (e) Many states have also begun competing with each other to offer incentives to different sectors including FMCG, in the form of tax holidays, fiscal incentives, land at concessional rates and subsidies to encourage economic development.

1.7.2.4 Infrastructure Development

The government has invested a considerable amount in the Golden Quadrilateral Project to connect the four corners of the country. 50% of existing highways are being improved and expanded. The railways are also increasing capacity through increasing tracks, improving existing tracks and adding more freight compartments to enable better carrying of goods and products.
1.8 OPPORTUNITIES IN RURAL INDIAN FMCG MARKET

1.8.1 Growing Rural Markets

The rural market has emerged as a key growth driver for FMCG organizations. With more than 33 per cent of the Indian consumer base present in rural areas, it provides FMCG players to expand their domestic business. It is expected that more than two-third of the next generation youth will be from rural India. Rural India contributes 50 per cent of India’s GDP and constitutes for 70 per cent of population.

1.8.2 Market Size

According to a report titled “Indian Rural Market” by Indian Brand Equity Foundation (Aug. 2014), rural market presents a mix of growing income and aspirations of around 850 million consumers who inhibit 6,50,000 villages in the country. Some of India’s notable biggest companies generate about one third of their business from Rural India. In rural India per capita GDP has grown at a compound annual growth rate (CAGR) of 6.2 per cent since 2000. Per person consumption in rural India has increased by 19 per cent yearly in the period 2009-12 which was 2 per cent over the urban Consumption. Predicting about the annual real income per household in rural India, report of the Mckinsey Global Institute (2007) states that by 2025 it will increase by 3.6 per cent from 2.8 per cent of the past two decades.

1.8.3 Investment in Rural India

The report of Indian Brand Equity Foundation (IBEF), “Indian Rural Market” (Aug. 2014), analysed the major investments being witnessed in Rural India by the India Inc. In the period 2009-12, rural India witnessed a spending of US$ 69 billion. It has also witnessed 75 per cent of the new factories built in these regions in the last decades.
Factories in rural India account for about 70 per cent of jobs. There are variety of reasons which has made rural markets an attractive destination for FMCG players. Minimum wages guaranteed under the National Rural Employment Guarantee Scheme (NREGS), higher crop minimum support price (MSP) offered by the central government and multiple sources of income has led to increase in consumption levels in rural India. The increasing reach of media has also fueled the awareness about big brands. Rural consumers have started showing a noted preference for the brands of national level consumer companies in comparison to local brands. Leading consumer products players have now realized the potential of the rural markets and have started building a strong distribution in rural India and are gearing up to tap the rising brand consciousness among the rural buyers.

1.8.4 Changes in Rural Market

The rural markets are being witnessing a dramatic change. The market hitherto witnessed as single demography are now adopting segmented approach by revisiting their strategies. While some marketers are reaching ‘bottom of the pyramid’ others are upgrading consumers in the ‘creamy layer’ of rural India and offering premium products. According to Unilever Premium Index, there are a total of 6,00,000 villages in India out of which 10,000 have potential of growth for premium consumer products. These 10,000 villages contribute 50% of the rural GDP.

1.8.5 Introduction of Innovative Products

Indian consumers have shown their high adaptability to new and innovative products.
1.8.6 Opportunity for premium category products

Rising income levels have led to increasing affordability for the premium products particularly in case of cosmetics and toiletries for lower-income groups and for those people who wish to upgrade from unbranded or local brands to premium brands.

1.8.7 Low penetration level in rural markets and low consumption levels

The penetration level of the FMCG and their consumption levels are comparatively low to their counterparts in urban areas. This provides an ample opportunity for the FMCG players to expand their base in rural market.

1.8.8 India is a sourcing Hub

Indian as well multinational FMCG players can leverage India as strategic sourcing hub for their international markets have cost competitive product development and manufacturing in India.

1.9 BRAND LOYALTY

Brand Loyalty has emerged as one of most researched topic of Consumer Behaviour in Marketing Management. Brand loyalty has been considered an essential ingredient of the marketing strategies in this era of cut-throat competition. According to Reichheld and Sasser (1990) brand loyalty has been proclaimed by some researchers as the ultimate goal of marketing. According to Aaker (1991) brand loyalty reflects “how likely a customer will be to switch to another brand, especially when that brand makes a change in price, product features, communication, or distribution programs”. Schiffman and Kanuk (2004) explain the meaning of “consumer behavior” as the behavior that consumer behave in the form of acquiring, buying, using, evaluating, or consuming product, service and idea to fulfill own need, and be the study of the decision making of
consumer in spending resources, both money, time and power for consuming products and services that included (1) what to buy, (2) why to buy, (3) how to buy, (4) when to buy, (5) where to buy, and (6) how often to buy. Brand loyalty is a major strategic objective and focus in marketing. In the study of brand loyalty the above referred components of consumer behaviour have been taken into consideration in their studies by the researcher.

Giddens and Hofmann (2002) mention significance of brand loyalty in today’s competitive world. The first reason pointed out is that companies with high brand loyalty enjoy higher sales volumes. According to Giddens and Hofmann’s studies, the average company loses around 13% of their customer base every single year, and that shows just how challenging it can be in the competitive environment. To achieve a mere 1% annual growth, the sales need to increase by 14% to both new and existing customers. By reducing and stemming customer loss, improvements in business growth can be brought and brand loyalty can be increased. As the possibility of purchasing the same brand increase, these factors lead to more consistent sales of greater volumes.

The second reason for the generation of brand loyalty mentioned is premium pricing ability. Giddens and Hofmann state that with increased levels of brand loyalty, consumers become less price-sensitive. Overall, they are ready to pay higher amounts for their preferred brand because they understand some special and unique value in that given brands that other brands do not provide. Apart from it, brand loyal customers are less prone to go after discounts. The third and final reason mentioned is related to product search. Those customers loyal to a certain brand are ready to search for that brand and are less sensitive to the competitor brands. This leads to lower advertising costs, marketing
costs, and distribution costs. Attracting a new customer costs up to four to six times as it
does to retain an already existing one.

According to Dick and Basu (1994), in marketing, brand loyalty consists of a
consumer’s commitment to repurchase the brand and can be demonstrated by repeated
buying of a product or service or other positive behaviors such as word of mouth
advocacy.

Brand loyalty exists when consumers have a preference for the products of
established companies. A company can create brand loyalty through continuous
advertising of its brand name products and company name, patent protection of products,
product innovation achieved through company R & D programmes, an emphasis on high
product quality and good after-sales service. Significantly brand loyalty makes it difficult
for new entrants to take market share away from established companies. Thus it reduces
the threat of entry by potential competitors because they may see the task of breaking
sown well established customer preference as too costly. (Hill and Jones)

It was Copeland (1923) who first took up research on Brand Loyalty, almost a
century ago, it is still a topic of contemporary research. It is from Consumer Behaviour
that then concept of loyalty has been derived from (Chegini, 2010). The complexity of the
construct has led to variety of definitions e.g. Copeland 1923, Brown 1952, Jacoby and
Howard 1999, Riechheld 2003. In the marketing lexicon ‘Brand Loyalty’ has emerged as
one of most the widely defined words. It has been interpreted in many ways and has been
often approached with highly differing definitions by various researchers (Morgan, 1999)
With every passing year, the number of players in the market has been increasing and they are competing with each other with similar products and services (Tripathi, 2009). It has become imperative for the players to protect the long-term interest of their customers to enhance and sustain their own profitability for longer time (Dick and Basu, 1994; Garbarino & Johnson, 1999; Grossman, 1998). Many researchers have advocated long term relations between the customers and the organisation for enhancing sales, continuous profits, lower costs and other tangible benefits (Reichheld & Sasser, 1990; Berry, 1995; Bolton, 1998). This forces the firms to consider customer loyalty as a source of competitive advantage (Bhartwaj et al., 1993).

1.9.1 BRANDS

The word ‘brand’ is derived from the old Norse word ‘brandr’ which means ‘to burn’ as brands were and still at present means by which owners of livestock mark their animals to identify them (Keller, 1998)

According to the American Marketing Association (Keller, 1998) a brand is a “name, term, sign, symbol, design, or a combination of the intended to identify the goods and services of one seller or group of seller and to differentiate them from those of competition.” Therefore, to create a brand a name, logo, symbol, package design or other attributes have to be chosen to get the identification of a product and getting it distinguish from other brands. All these different components of a brand, which help in identifying and differentiating a brand can be called brand elements.

According to Keller (2008) “Brand” is used for the same purpose, to identify and distinguish products and services. To create a brand means ability to choose a name, logo, symbol, design or other characteristics for a product to differentiate it from others. Brand
elements are generally chosen on the basis of six criteria which are memorability, meaningfulness, likability, transformability, adaptability and protect-ability. He further adds that Building a brand is a long-term investment and requires a substantial investment of capital in order for a brand to establish itself in the marketplace. This is partly due to the fact that a brand must compete with other brands for a share of the attention of the consumer.

Brands represent enormously valuable pieces of legal property, capable of influencing consumer behavior, being bought and sold, and providing the security of sustained future revenues to their owner. The value directly or indirectly accrued by these various benefits is often called brand equity (Kapferer, 2005; Keller, 2003).

According to Sinclair (2000), with the increase in competition, marketers are realizing that the true worth of the firm is not the tangible assets it owns but the value ascribed to the brands it is developing to satisfy the needs of the consumer.

Building a brand is a lifelong process based on commitment and it takes time, planning and perseverance to bring intangible outputs in the form of greater customer satisfaction, reduced price sensitivity, fewer customer defections, a greater share of customer’s wallets, more referrals and a higher percentages of repeat business (Knapp, 2000). For a customer a brand points to the source of the product, and protects both customer and the produces from competitors who make attempts to offer identical products (Aaker, 1991. Brands provide the basis on which consumers are able to identify a products and services. A successful brand is identifiable product, service, person or place which can be augmented in such a way that the buyer or user perceives relevant, unique added values which match their needs most closely.
Knapp (2000) believes that brands are not just the result of advertising message rather it is what it is being perceived by the consumer’s mind. As consumer’s mind keep on changing, a brand must track these impressions constantly to occupy a distinctive position in the mind of the consumer. He opines that the less distinctive a brand is in the mind of the consumer, the more room it yields for competitors and the less genuine a brand becomes.

1.9.2 Characteristics of a brand

According to Lambin (2000) a brand identifies the producer and since the brand owner commits himself to give specific and constant level of quality, it creates a long-term responsibility on the brand owner. A brand provides a simple way to memorise the brand characteristics and to put a name to a certain assortment of benefits. This makes routine purchase behaviour possible and easier. This reduces the time spent on shopping. He also opines that the brand serves as a guide to his decision making process when he is confronted by a need or consumption situation. Brand, being a set of attributes that are both tangible and intangible, provides information to the consumer to solve his problem at a low personal cost.

He further adds that in a market economy, we witness diversity of taste and preference. Organizations counter this diversity by differentiating the products both on tangible and intangible attributes. This differentiation in turn provides opportunity to the consumer to demonstrate his being different and give him chance to express his personality through his brand choice. Lambin is of the opinion that brand also provides legal protection regarding its unique features or aspects through property rights such as patents, trade marks and copy rights against counterfeiting or imitations. He further adds
that brands acts as competitive weapon and provides organisations with an opportunity to position itself within the market and claim its distinctive feature and also counter-claim the features of the competitors in those markets where competitive advertisement is legal.

According to Keller (1998), through brands, a bond or pact is developed between the brands and consumers. Consumers repose their trust and loyalty with the brands with the implicit understanding and hope that the brand will behave in certain ways and will provide utility through consistent product performance and appropriate pricing, distribution and promotional programmes and actions. The continuity of purchase from the consumers depends largely on length of time the advantages and benefits realized from the brand. According to Kapferer (1999) brands helps the consumers to project their own self-image. Consumers being social animals, judge themselves on certain choices and that’s why a large part of social identity revolves around brands.

According to Keller (1998), brands are not only beneficial to consumers but also to organisations. Brands apart from helping the organisations in handling also assist the organisations in maintaining inventory, accounting and other operational functions. Its intellectual property rights ensure the organization to safely invest in it and reap the benefits of a valuable asset. Brands are emerging as an important assets to the organisations and subject to investment and evaluation in the same way as other organizational assets. According to Kapferer (1999), brand helps organisations as a tool for financial strength. Strong brands may command a premium price in addition to providing an added margin due to economies of scale and market domination.
1.9.3 Brand Equity and Brand Loyalty

Aaker (1991) defines brand equity as “a set of brand assets and liabilities to a brand, its name and symbol that adds to or subtracts from the value provided by a product or service to a firm and/or to that firm’s consumers. For assets and liabilities to underlie brand equity they must be linked to the name and/or symbol of the brand.”

According to Keller (1998) ‘brand equity’ is the willingness of someone to continue to purchase your brand or not. Thus, the measure of brand equity is strongly related to loyalty and measure segments on a continuum from entrenched users of the brand to convertible users.

Brand equity consists of five categories of assets and it create value for both the consumer and the organization (Aaker, 1991). Brand loyalty is an important element in the brand equity framework, both as an influencer of brand equity and as a method of enhancing value. Brand loyalty exists only when the product has been purchase and there is use experience. Brand Loyalty’s distinction from other dimensions of brand equity lies in that it is more closely tied to use experience. According to Aaker (1991) Brand loyalty is a basis of brand equity that is created by many factors and top of which is the use experience. He further says Brand would not exist if there is loyalty towards a product but no loyalty towards a brand. Travis (2000) even goes to extent of saying that among all the dimensions, brand loyalty is the most important dimension and the core of a brand’s equity, being, in some authors’ views, the ultimate objective and meaning of brand equity.

Keller (2008) considers brand equity from a customer based perspective as being the differential effect of brand knowledge on consumer response to the marketing of the
brand. Brand knowledge is defined in terms of awareness and image, brand awareness being the consumers’ ability to identify the brand under different conditions (recognition and/or recall), while brand image being defined as a set of brand associations held in consumer’s memory. Thus, brand loyalty is viewed as the reflection of brand strength, being the essential output of what brand awareness and brand image can generate.

1.9.4 Importance and value of brand loyalty

Brand loyalty ideally measures the health of the company (Bennett & Rundle-Thiele, 2005). Studies have reported that a 5% increase in consumer retention can generate a profit of 25–95% over 14 industries (Reichheld & Detrick, 2003). Additionally, those loyal customers are more likely to advocate for the brand and recommend it to relatives, friends and other potential consumers (Schultz, 2005).

According to Aaker (1995) many firms take their consumers for granted, and they lose them when competitors attack. “With a high level of brand loyalty, a firm can allow itself the luxury of pursuing a less risky follower strategy.” Kapferer (1999), “a brand can only be strong if it has a strong supply of loyal consumers”. He believes that an existing base of loyal consumers provides important sustainable, competitive advantage to an organization because loyal consumers are more profitable and are less sensitive when it comes to the price they should pay for the brand. They are the source positive word-of-mouth source. Above all loyal consumers are five times less costly to contact than non-loyal consumers.

Traditionally, among the advantages of a high degree of brand loyalty, the branding literature includes the ability to apply premium pricing policies, the greater negotiation power in relation to distribution channels, the reduced selling costs, the higher barriers to
potential new entries into the product category, and the increased success potential of brand extensions to related product categories (Reichheld and Teal, 1996).

Several authors contend that a direct relationship exists between a firm’s loyal customer base and its profitability (Reichheld & Sasser, 1990; Reinartz & Kumar, 2002; Aaker, 2002; Knox, 1998; 1998; Berry, 1995). Brand loyalty leads to brand equity which leads to business profitability (David Aaker, 1992). Vavra (1995) emphasizes that brand loyal customers not only repeat purchase, but also become "advocates" of the product. This positive word-of-mouth behavior is an oft forgotten consequence of loyalty.

More precisely, a loyal customer base implies increased revenues for the firm (Reichheld, 1993, 1996; Berry, 1995). On the one hand, customer loyalty leads to higher repurchase rates, on the other hand loyal customers display a greater tendency to purchase additional goods, for example through cross selling opportunities. Moreover, customer loyalty results in a higher predictability of sales and profit streams (Aaker, 2002; Clark & Payne, 1994; Reichheld, 1996). Typically, loyal customers generate low customer turnover (Reichheld & Sasser, 1990), and often introduce new customers to the firm through word of mouth recommendations (Reichheld, 1996; Reichheld & Sasser, 1990; Zeithaml et al., 1996).

In addition, a loyal customer base can lead to decreased costs (Reichheld, 1993; Berry, 1995), since it costs less to provide services to loyal and satisfied customers (Reichheld, 1996). Research has shown that loyal customers are less price sensitive (Reichheld and Teal, 1996) and the expense of pursuing new customers is reduced (Dowling and Uncles, 1997), while organizational profitability is positively affected by the level of brand loyalty.

Brand loyalty can enhance marginal cash flow and profitability, as loyal customers often accept to pay a price premium for their favorite brands, are easily stimulated to new usage situations and tend to increase intensively and extensively their
spending on the brand (Davis, 2002). The marketing communication spending is also reduced as loyal customers are already confident in the purchase decision and process information rapidly, instruments like sales promotions or advertising being less intensive needed in this case in comparison to brands with low loyalty degree.

**Figure 1.1 Advantages of Brand Loyalty**

According to Burgess and Harris (1998), the value of brand loyalty can also be seen in organisation’s profitability and long-term survival depending upon the level of loyalty the organization enjoys from its consumers. Aaker (1995) is also of the view that brand loyalty is one of the factors that helps an organization in its current performance and results in long term profits. Customer loyalty is furthermore essential, as it represents an important basis for developing a sustainable competitive advantage (Dick & Basu, 1994) over competing brands in inter- and intra-market competition.
From the point of view of many marketers, loyalty to the brand - in terms of consumer usage - is a key factor. Most important of all, in this context, is usually the ‘rate’ of usage, to which the Pareto 80:20 rule applies. Kotler’s (2010) ‘heavy users’ are likely to be disproportionately important to the brand. As a result, suppliers often segment their customers into ‘heavy’, ‘medium’ and ‘light’ users; as far as they can, they target ‘heavy users’.

1.9.5 Brand Loyalty - a complex construct

Brand loyalty is a complex construct, leading to emergence of numerous definitions (Copeland, 1924; Brown, 1952). In the study of Brand loyalty, two major approaches have been Attitudinal Loyalty and Behavioural Loyalty. The former is often understood as a favourable expression of preference for the brand (Morgan, 1999; Dick &
Brand loyalty has been defined in various ways by different researchers. Some researchers like Burgess and Harris, 1998; Chaudhuri, 1999; Dick & Basu, 1994; Iwasaki & Havitz, 2000; Oppermann, 2000; Pritchard, Havitz, & Howard, 1999) feel that both brand attitudes and buying habits encompass the measurement of brand loyalty. Chaudhuri and Holbrook (2001) and Pritchard, et al., (1999) measured brand loyalty as two distinct constructs—purchase/behavior-based loyalty and attitude-based loyalty, while most researchers combined the two measures into one construct.

In one of the most referenced sources on brand loyalty, Jacoby and Chestnut (1978) wrote that even though there had been considerable research into brand loyalty, measurement of the construct was questionable. This feeling was based on the authors' perceived ambiguity of the meaning of brand loyalty, and the concurrent problems of establishing validity and reliability for an ambiguous construct.

Although the concept of loyalty has existed for decades, there is no consensus over what loyalty is or how it should be measured (Rundle-Thiele and Mackay, 2001). Many definitions of loyalty exist. But, it is generally described as the propensity of a buyer to purchase the same brand repeatedly. Faithfulness, consistency, and a lack of switching all might be useful in defining loyalty.

1.9.6 Concept of Brand Loyalty

The very first mention of the idea was attributed to Copeland (1923) and, since then, numerous definitions have appeared in the literature (Jacoby and Chestnut, 1978).
This explains as how important this concept is in marketing theory. In fact, Aaker (1991) stated that ‘the brand loyalty of the customer base is often the core of the brand’s equity’.

Aaker (1991) considers that brand loyalty reflects “how likely a customer will be to switch to another brand, especially when that brand makes a change in price, product, features, communication or distribution programmes.”

According to DeWulf et al. (2001) behavioural loyalty can be defined as “a composite measure based on a consumer’s purchasing frequency and amount spent at a provider compared with the amount spent at other providers from which the consumer buys”

A consistent bias in a purchase pattern towards a brand is an indication of behavioural brand loyalty. A simple procedure using purchase sequences is the "three in a row" criterion (Tucker (1964); McConnell (1968). According to this measure, an individual is considered brand loyal if he buys a particular brand on three consecutive purchase occasions. A more advanced measure is related to the number of brand runs which is also based on sequence of purchase. A brand run is any sequence of consecutive purchases of the same brand. An example of run test can be understood through a purchase sequence of AABBBABBB. In this sequence, brand A and B consists of three brand runs. If brand loyalty exists, the number of brand runs will be small. An added benefit of the more advanced measures is that they can be used to study the order of the choice process (Bass et al. (1984); Massy et al. (1970).

According to Chaudhuri & Holbrook (2001) attitudinal loyalty is a degree of dispositional commitment in terms of some unique value association with the brand.
According to Bloemer and Kasper (1995), brand loyalty implies a deep-seated commitment to brands and there is sharp distinction between repeat purchase behaviour is the actual re-buying of a brand whereas loyal includes antecedents or a reason or fact occurring before the behaviour. Bloemer and Kasper further delineate brand loyalty into “spurious” and “true” loyalty. Spurious loyalty represents biased behavioural response expressed over time by some decision making unit, with respect to one or more alternate brands, as a function of inertia. True brand loyalty includes the above, but replaces inertia with a psychological process resulting in brand commitment.

Jacoby and Chestnut (1978) defined four kinds of loyalty based on the sequence of purchasing a particular brand, how much of that brand is purchased, the probability of purchasing that brand, and a synthesis of variables by combining several behavioral criteria such as the number of switches for the loyalty object and the number of brands available Building on Jacoby and Chestnut's classification, Iwasaki and Havitz (1998) suggested three additional components of behavioral loyalty: duration, frequency of purchases, and intensity. Attitudinal definitions of consumer loyalty base loyalty on customers' preferences, intentions, or strength of affection for a brand.

Cunningham (1956) Single-brand loyalty is the proportion of total purchases represented by the largest single brand used. Dual-brand loyalty is the proportion of total purchases represented by the two largest single brands used. Day (1969) “There is more to brand loyalty than just consistent buying of the same brand – attitudes, for instance”

Jacoby & Kyner (1973) defined brand loyalty as “(1) the biased (i.e., nonrandom), (2) behavioral response (i.e., purchase), (3) expressed over time, (4) by some decision-making unit, (5) with respect to one or more alternative brands out of a set of such brands, and (6) is a function of psychological (decision-making, evaluative) processes.”
Dick and Basu (1994) defined loyalty as the relationship between the relative attitude toward an entity (e.g., brand, service, store, or vendor) and patronage behaviors such as repeat purchase. They insist that the nature of relative attitude is likely to provide a stronger indication of repeat patronage than is the attitude toward a brand determined in isolation.

Wilkie (1994) defined brand loyalty as a “favorable attitude toward, and consistent purchase of a particular brand”. But such a definition is too simple for understanding brand loyalty in the context of consumer behavior. This definition implies that consumers are brand loyal only when both attitudes and behaviors are favorable. However, it does not clarify the intensity of brand loyalty, because it excludes the possibility that a consumer’s attitude may be unfavorable, even if he/she is making repeat purchases. In such a case, the consumer’s brand loyalty would be superficial and shallow rooted.

The foregoing review implies that neither the behavioral nor attitudinal loyalty approach alone provides a satisfactory answer to the question “what is loyalty?” Day (1969) argued that genuine loyalty is consistent purchase behavior rooted in positive attitudes toward the brand. His two-dimensional conceptualization of loyalty suggested a simultaneous consideration of attitudinal loyalty and behavioral loyalty, which profoundly influenced the direction of loyalty research. (Jacoby & Chestnut, 1978; Knox & Walker, 2001).

David Aaker (1992), a leading authority on brands notes that one of the brand assets at the source of value, brand loyalty implies both a consistent pattern of purchase of a specific brand over time and a favourable attitude towards a brand.
A number of researchers have operationalized loyalty using a composite approach (Dick & Basu, 1994; Backman, 2004; Pritchard et al., 1999).

Oliver (1999) defined loyalty as “a deeply held commitment to re-buy or re-patronize a preferred product/service consistently in the future, thereby causing repetitive same brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior.” In other words, the behavioral component focused on purchase loyalty, whereas attitudinal loyalty includes a dispositional commitment in terms of some unique value associated with the product or service.

Jacoby and Chestnut (1978) offered a detailed conceptual definition of brand loyalty including both behavioural and attitudinal dimensions.

Brand loyalty (1) the biased (i.e. non-random) (2) behavioural response (i.e purchase), (3) expressed over time. (4) by some decision making unit, (5) with respect to one or more alternative brands out of a set of such brands, and (6) is a function of psychological (decision making, evaluative) processes.

Sometimes, consumers come across a new or resurgent competitor providing compelling reasons to switch, their ties to the brand may be tested for the first time. Aaker, (1991), the attachment a consumer has to brand is a measure of brand loyalty and reflects how likely the consumer is to switch to another brand, especially when the brand is changed, either in price or product features.

Brand loyalty has been defined in the literature as a repeat purchase that is a result of a preference, attitude or market share. These differences in view are reflected in the behaviouralist or cognitive schools of thought. In addition, more recent research has
introduced the affective component (Kim, Lim and Bhargava 1998) as an explicit element of brand loyalty, thus making brand loyalty tri-partite construct containing affective, cognitive and behavioural aspects. These three elements can be summarised as consisting of two key dimensions: attitudinal and behavioural loyalty (Baldinger and Rubinson 1996). Attitude captures the affective and cognitive aspects of brand loyalty, such as brand preference and commitment (Mellens, Dekimpe and Steenkampe 1996). In contrast, behavioural brand loyalty is reflected in the observed repurchase of a brand from a number of available brands (Ehrenberg 1988).

Marketers agree that brand loyalty consist of both attitudes and actual behaviours towards a brand and that both must be measured. Attitudinal measures are concerned with consumer’s overall feelings (i.e. evaluation) about the product and the brand and their purchase intentions. Behavioural measures are based on observable responses to promotional stimuli—repeat purchase behaviour rather than attitude towards the product or brand.

It has been suggested that loyalty includes some degree of pre-dispositional commitment towards a brand. Brand loyalty is viewed as multi-dimensional construct. It is determined by several distinct psychological processes and it entails multivariate measurements. Customers’s Perceived Value, Brand trust, Customer satisfaction, repeat purchase behaviour and commitment are found to the key influencing factors of brand loyalty. According to Punniyamoorthy et al. (2007) commitment and repeated purchase behaviour are considered necessary conditions for brand loyalty followed by perceived value, satisfaction and brand trust.

According to Heiens and Pleshko (1996), identifying both a behavioral and attitudinal commitment has been shown to be an effective way to operationalize loyalty.
Baloglu (2001), Pritchard and Howard (1997), and Rowley and Dawes (2000) have utilized cluster analysis of behavioral consistency and psychological attachment items.

Attitudinal definitions of consumer loyalty are based on customers' preferences, intentions, or strength of affection for a brand (Iwasaki and Havitz, 1998).

Attitudinally loyal customers can contribute to higher profits because the firm will not need to keep using promotions and price discounts to generate repurchase. Instead, a firm can generate regular and loyal purchasing behavior, even at a premium, without having to offer any additional incentive because of the positive brand attitude that has already been created over time (Schiffman and Kanuk, 2004).

Jacoby and Chestnut (1978) defined four kinds of loyalty based on the sequence of purchasing a particular brand, how much of that brand is purchased, the probability of purchasing that brand, and a synthesis of variables by combining several behavioral criteria such as the number of switches for the loyalty object and the number of brands available.

Brand loyalty emerged in the marketing literature as a consistent preference for a given brand. Yet, this basic definition did not satisfy Brown (1952), who included past purchase behavior as an important indicator of brand loyalty. Ten years later, stochastic modeling (largely based on purchase history) was used to determine brand loyalty (Feuhn 1962). The stochastic philosophy essentially maintains that marketers are unable to influence buyer behavior in a systematic manner.

On the other hand, the deterministic philosophy suggests that behaviors do not just happen, they can be “a direct consequence of marketers” programs and their resulting impact on the attitudes and perceptions held by the customer” (Rundle-Thiele, 2005).
Researchers holding a deterministic view hence advocate the need to understand the loyalty phenomenon from an attitudinal perspective.

Loyalty programmes can be seen as vehicles to increase single-branded loyalty, decreases price sensitivity, induce greater consumer resistance to counter offers or counter arguments (from advertising or sales people), dampen the desire to consider alternative brands, encourage word-of-mouth support and endorsement, attract a larger pool of customers, and/or increase the amount of product bought. Although the applied marketing literature suggests that there are very high expectations for customer loyalty programmes, in reality they are surprisingly ineffective and it has been suggested that almost 50% of programmes partly or completely miss their business objectives (Reinartz and Kumar, 2002).

Brand loyalty is more than simple repurchasing, however, customer may repurchase a brand due to situational constraints, a lack of viable alternatives or out of convenience (Michael et al., 2002). Such loyalty is referred to as ‘Spurious loyalty’. True brand loyalty exists when customers have a high relative attitude towards the brand which is then exhibited through repurchase behaviour (Dick and Basu, 1994.). This type of loyalty can be a great asset to the firm, customers are willing to pay higher prices, they may cost less to serve, and can bring new customers to the firm. (Riechheld and Sasser, 1990).

1.10 ELEMENTS OF MARKETING STRATEGY AND MARKETING MIX

According to McCarthy and Preerault (2000) a marketing strategy specifies a target market and a related marketing mix both inter-related to each other. It is a big picture of what a firm will do in a particular market. A target market is a fairly
homogenous group of consumers to whom a company wishes to appeal; and a marketing mix is combination of the controllable variables which the company puts together to satisfy the needs of this target group.

According to Kotler & Keller (2006), marketing strategies are based on segmenting, targeting, and positioning. According to Smith, (1956) Marketing activities require “precise utilization of both product differentiation and market segmentation as components of marketing strategy” in which the segment must be large enough to be profitable. Targeting has been confined merely to the selection of specific segment(s), e.g., gender and/or age in a demographic segment. According to Kotler & Armstrong (2008), firms “must decide on a value proposition – on how it will create differentiated value for targeted segments and what position it wants to occupy in those segments”. Loyalty strategies, therefore, are created by having the suitable marketing mix – product, price, place, promotions (McCarthy, 1971) and a value proposition to target the segments and to have the appropriate positioning in the minds of the targeted consumers in comparison to competitors (Kotler & Armstrong, 2008).

1.10.1 Segmentation

For ascertaining the preferences of the customers and to communicate offering to the customers in a better way, firms engage in a division of the total market into smaller homogeneous groupings which tend to have similar characteristics such as taste, needs, wants or preferences. Ferrel Hartline (2011) firms generally concentrate on a few market segments within an industry to avoid costs and to have knowledge of customer expectations.
1.10.2 Targetting

According to Brennan, Baines and Garneau (2003), targetting involves the process of assessing the usefulness of every segment and designing a strategy which best suites the segment and the firm would wish to concentrate its efforts. According to Kotler et al. (2008) three basic factors which include segment size and growth, segment structural attractiveness and firm’s objectives and resources influence targetting.

1.10.3 Positioning

According to Jobber (2001) a differential advantage required to be created in the minds of the target market. This advantage can be accomplished through brand names and images, service, design, guarantees, packaging and delivery.

Kotler & Keller (2006) define the Brand Positioning as “the act of designing the company’s offer and image so that it occupies a distinctive and valued place in the targeted customer’s mind” while Cowley (1996) says that positioning means to own a profitable and respectable place in the mind of a customer. To position the brands, markets are divided into homogeneous segments of the customer on the basis such as behaviour, demography, psychology and geography etc. According to Keller (2008) Segmenting Markets on the basis of geography is a famous approach and is used frequently.

1.10.4 Product

According to Doole and Lowe (2004) the product is an attribute or value which is offered to a market for attention, acquisition or consumption that might satisfy a want or need. Product strategy is vital to the designing of total marketing communication strategy. According to Keller (2008) a firm’s total planning begins with the choice of product to
offer to its target market, pricing structure, selection of marketing channels, promotional plans that are the variables of marketing strategy. It is only when the needs and wants of the target market are identified that a product is made functional (Kotler et al., 2008). Keller (2008) through a conceptual framework of the product should be prepared to analyze it alongwith competing offerings to identify the unmet needs and wants of the target market.

1.10.5 Packaging

Etzel, Walker and Stanton (2001), the packaging reflects the image of the brand and the marketer and is often the consumers’ first point of contact with the physical product. In this regard, the package needs to satisfy the consumers’ physical and emotional needs. Therefore, packaging can be viewed as the most intimate form of advertising.

Peter and Olson (1999) suggest that many consumers will first evaluate the packaging of the product before choosing to examine the product in more detail. Some consumers will go through a two step process in evaluating a product.

According to Waterschoot and Van den Bulte (1992), it is packaging that provides convenience, protection, durability and attractiveness will always prove to be popular among consumers who can instantly recognize a brand because of its packaging. They also believe that a strong brand with its dynamic product packaging is a crucial and indispensable part of the marketing mix which influences the purchasing decisions of consumers.

According to Boone and Kurtz (2004), the packaging of a product should serve three basic benefits, namely, Protection against damage (contamination and spoilage) and pilferage; Complement the branding of the product; and Generate cost savings.
According to Thompson and Arsel (2006) Designing an innovative and attractive package requires marketers to explore new avenues with regard to colours, graphics, shapes and size. Some companies have been so successful in the design of their packages that patents have been awarded to these companies and their packaging designs evoke both loyalty and brand insistence among consumers.

1.10.6 Pricing

According to Kotler P., Armstrong, Saunders, & Wong (1999) price is what a customer have to pay to acquire a product, or cost of a product to a customer. Price is considered to be the most significant factor that affects consumer’s choice.

According to Dewhirst and Davis (2005), the marketers of fast moving consumer goods have to contend with a highly competitive marketplace. A powerful tool in this type of an environment is the price charged for the product. Consumers can sometimes switch brands if there is only a minor difference in the price of competing products. It is therefore of great importance to marketers to carefully consider all relevant factors before setting the price of the product.

The price of a product needs to be carefully aligned to the value perceptions that consumers attach to the brand in their minds. It is critical that the price is acceptable to the target market. Grewal et al. (1998) conducted research into consumers’ perceptions of price with regards to their beliefs of value for money in the exchange process. Their findings indicate that the price of a product has a direct impact on the outcome of the product being sold. Consumers have internal reference prices which are used as a benchmark to evaluate the price of products. Their suggestion to marketers of fast moving consumer goods is to ensure that the price of the product is communicated to emphasize the value and unique features of the product that will help differentiate it from the
offerings of competitors. The findings of Chang and Wildt (1994) are supported by the findings of Grewal et al. (1998), who also believe that consumers have a perception of the quality of the product in their minds and it is this perception that determines whether the target market will be happy with paying the asking price for the product in question.

1.10.7 Place

Place refers to the availability of the product to the targeted customers. (Kotler P., Armstrong, Saunders, & Wong, 1999) A company can adopt multiple channels to get its product to the customers. These channels can be direct and indirect. Choice of channel has strong affect on sales. (Keller, 1998)

Kotler et al. (2008) is of the view that that developing appropriate channel strategy is imperative to consider the final consumer in order to specify their wants and needs relative to purchase and use of the product. Secondly, it is necessary to determine the appropriate channel that links the ultimate consumer to the channel strategy including considering the possibility of selling directly to consumers. Finally, it is also important to motivate the middlemen to perform the services expected from them.

Woodside and Trappey (1992) suggest that consumers carefully choose the stores that they like to frequent and often choose stores based on the brands that are stocked by these stores.

1.10.8 Promotion

Promotion is one of the four elements of marketing mix (product, price, place and promotion). It is the communication link between sellers and buyers for the purpose of influencing, informing, or persuading a potential buyer's purchasing decision. (Dave, 2010) Kotler (2002) defines promotion as the activities a company performs in order to
communicate to its existing and potential customers. Multiple channels are used to communicate to different parties and different means could be used to do promotion.

The specification of five elements creates a promotional mix or promotional plan. These elements are personal selling, advertising, sales promotion, direct marketing, and publicity. (Rajagopal, 2007). A promotional mix specifies how much attention to pay to each of the five subcategories, and how much money to budget for each. Sales promotion is one of the four aspects of promotional mix; the other three parts of the promotional mix being advertising, personal selling, and publicity/public relations.

Promotions have become a key instrument in maintaining brand equity. Advances in technology have assisted marketers to create more innovative and creative promotional messages. Wansink and Ray (1992) identify the two major objectives of promotions as being to get consumers to choose the brand and then to consume the brand. The most effective way to build the popularity of the brand, according to Anschuetz (1997), is to advertise it in a very effective manner.

A study by Sharma (2007) finds that nowadays consumer is not easily swayed by a celebrity in an ad but he needs full fledge information about the product also, followed by brand name, overall appeal, and music/jingle. Advertisements being endorsed by celebrities are found to be less attractive and that the use of celebrities may not change the buying behavior found to be less attractive and that the use of celebrities may not change the buying behavior.

1.10.9 Advertising

Anschuetz (1997) asserts that advertising is key to building and maintaining the popularity of a brand in the competitive fast moving consumer goods sector. Dewhirst
and Davis (2005) are of the view that when new products are launched into the marketplace, the popularity of the brand can assist the product with trial usage among consumers. Keller (2008) asserts that advertising themes and appeals should reflect the objective and task defined for promotional programme. They may be based on product for company attributes that are thought to be important to customers.

Ottesen (2001) opined that choosing between alternative media like television, magazines, newspapers and direct mail is quite difficult and depends on several factors. Knowing media habits of the target audience can help in deciding among the alternatives. Sometimes product attributes necessitates the use of certain media. In case of television, visual and audio attributes of the product can be projected. Newspaper allows advertisers for quick action to confront competitors and magazines are the better option for complicated messages because the reader can spend more time reading the message.

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Advertisers are using ‘fantasy’ to show that the use of a product can make one reach a higher level. It is mostly related to the consumers' wish by mentioning that the use of this product makes you to realize your wish.

1.10.10 Sales Promotion

Kotler, 2003, identified thirteen Sales Promotion tools which included samples, coupons, rebates, price packs, premiums, frequency programs, prizes, patronage
coupons, rebates, price packs, premiums, frequency programs, prizes, patronage to stimulate product interest, trial, or purchase. Examples of devices used in sales promotion include coupons, samples, premiums, point-of-purchase (PoP) displays, contests, rebates, and sweepstakes. (Dave, 2010)

Price discounts: A price discount is a temporary reduction of the list price of the product. The major strategic goal of a price discount is to discriminate between informed and uninformed consumers, or between loyal users and switchers. Research suggests that price discounts are particularly effective in inducing purchase acceleration and product trial (Gilbert & Jackaria 2002).

W.J. Stanton (1984) defines sales promotion as all those activities other than advertising, personal selling, public relations and publicity that are intended to stimulate customer demand and improve the marketing performance of sellers.

Sales promotions/trade promotions are about giving incentives to enhance sales, such as discounts or samples. (Keller, 1998). While Kotler (2002) provides various reasons for sales promotions, he says that sales promotions to end-customers increase short term sales and help building long term relationships, while trade promotions aimed on distributors and retailers so they buy large volumes and advertise the product more.

Public relations, according to Hollensen (2011) involve internal and external communications and include anticipation of criticism. According to Baker (2006), apart from customers who are the main targets, other constituents include such as employees, shareholders, government/politicians, the media, the general public implicitly or explicitly is required for a success public relations programme. According to Palmer (2009) public relations employ certain tools such as press release, press conference, lobbying and sponsorships.
1.10.11 Internet Marketing

The internet has emerged as an important channel to communicate their offerings and reach a wide target group. According to Chaffey, Ellis-Chadwick, Mayer, Johnson (2009), internet marketing is how the internet is used along with other traditional forms of media to acquire and provide information and services to customers. Other names associated with internet marketing are e-marketing, digital marketing, e-business and e-commerce. It provides a direct response tool which enables customers to react to offers and promotions which are channeled through other forms of media.

1.11 COMPETITIVE STRATEGIES

Porter, M.E. (1980), “Competitive strategy is taking offensive or defensive actions to create a defendable position in an industry, to cope successfully, with five competitive forces (threat of substitution, bargaining power of buyers, bargaining power of suppliers and rivalry among current competitors) and thereby yield a superior return on investment for the firm.”

Aaker (1988), “A business strategy includes the determination of the product market scope, intensity of the business investment, the functional area strategy, and the assets or skills to be employed. When multiple businesses are involved, the strategy includes the allocation of resources over the business units and the creation of synergy.”

Jauch and Gleuck (1988), “A strategy is a unified, comprehensive and integrated plan that relates the strategic advantage of the firm to the challenges of the environment. It is designed to ensure that the basic objectives of the enterprise are achieved through proper execution of the enterprise.”

The objective behind strategies is to gain strategic advantage over competitors from three different bases: Cost leadership, differentiation and focus. According to Fred
R. David (2009), these bases were called generic strategies by Porter. Cost leadership emphasizes on producing standardized products at a very low per unit cost for consumers who are price sensitive. Cost leadership strategy is employed to under price the competitors and thereby gain market share and sales and even driving some of the competitors out of the market. To successfully employ differentiation strategy it must be ensured by the firms that its overall costs in the value chain are lower than competitors’ total cost.

Differentiation strategy, according to Fred R. David (2009) is aimed at producing products and services which are unique in that particular industry and is meant for consumers who are relatively price-insensitive. There are two alternate types of cost leadership strategies, low cost strategy that offers products and services to a wide range of customers at the lowest price available on the market. Secondly, best value strategy that offers products and services to a wide range of customers at the best price-value available on the market. A differentiation strategy can be pursued only after carefully analyzing needs and preferences to determine the feasibility of incorporating one or more differentiating features into a unique product that features the desired attributes. Its successful implementation can give dividends to the firms in the form of leverage to charge a higher price for its product and to gain customer loyalty because customers may become strongly attached to the differentiation features.

Focus strategy emphasizes on producing products and services that serves the needs of small group of consumers, according to According to Fred R. David (2009). Low cost focus strategy focuses on offering products and services to small range also known as niche group of customers at the lowest price available in the market. On the other hand, best-value focus strategy offers products and services to a small range of
customers at the best value available on the market. Focus strategies are most effective when consumers have distinctive preferences or requirements and when rival firms are not attempting to specialize in the same target segment.