



An Overview of Indian Fmcc Sector

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ABSTRACT

FMCG product touches every aspects of human life. These products are frequently consumed by all sections of the society and a considerable portion of their income is spent on these goods. Apart from this, the sector is one of the important contributors of the Indian economy. This sector has shown an extraordinary growth over past few years, in fact it has registered growth during recession period also. The future for FMCG sector is very promising due to its inherent capacity and favorable changes in the environment. This paper discusses on overview of the sector, its critical analysis and future prospectus.

KEYWORDS

FMCG brands, FMCG sector

INTRODUCTION

The Fast Moving Consumer Goods (FMCG) sector is the key contributor of the Indian economy. This fourth largest sector of Indian economy provides employment to around 3 million people which accounts for approximately 5% of the total factory employment in the country. These products are daily consumed by each and every strata of the society irrespective of social class, income group, age group etc. FMCG sector is more lucrative because of low penetration levels, well established distribution network, low operating cost, lower per capita consumption, large consumer base and simple manufacturing processes for most of products resulting in fairly low capital investments.

The industry is highly competitive due to presence of multinational companies, domestic companies and unorganized sector. A major portion of the market is captured by unorganized players selling unbranded and unpackaged products. More than 50 per cent of the total revenues of FMCG companies come from products worth Rs 10 or less¹. This has made the proliferation of localized brands which are offered in loose form in small towns and rural part where brand awareness is low. In last 10 years domestic players are giving tough competition to multinationals; in fact they have outstripped many MNCs in growth and market cap. Between 2005- 2014 the profit of domestic companies increased by 24% against 14% increase of multinational companies.

Urban India accounts for 66% of total FMCG consumption, while rural India accounts for the remaining 34%. However, rural India accounts for more than 40% of the consumption in major FMCG categories such as personal care, fabric care and hot beverages. As per the analysis by ASSOCHAM, companies like Hindustan Unilever Ltd and Dabur India generate half of their sales from rural India while Colgate Palmolive India and Marico constitute nearly 37% respectively.

OBJECTIVES

- To understand the concept of FMCG
- To present an overview Indian FMCG sector
- To study the growth of Indian FMCG sector
- To critically analyze Indian FMCG sector

METHODOLOGY

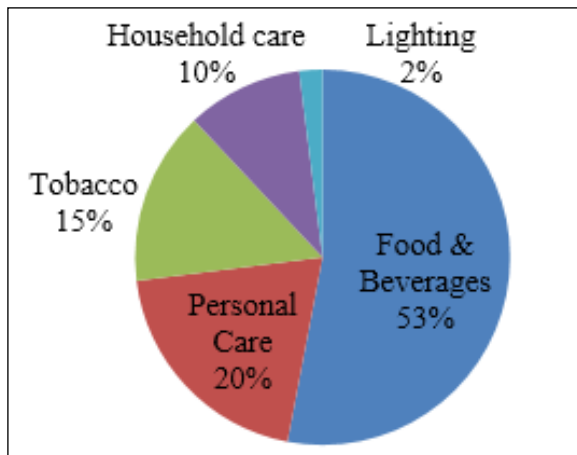
Exploratory research design is used for conducting this study. The objective of this study is to

provide brief overview of the sector and critically analyze it. The study is based on secondary data which is collected from thesis, reports, books, journals, periodicals and news papers.

Part A) Fast Moving Consumer Goods

Fast Moving Consumer Goods are inexpensive products that require little shopping efforts². These are non-durable products which are sold in packaged forms. These products are purchased by the end-consumer in small quantities and frequently. The main FMCG segments can be classified as Personal Care, Household care, Branded and Packaged food and Tobacco³.

- **Personal Care:** It consists of oral care; hair care; skin care; personal wash (soaps); cosmetics and toiletries; deodorants; perfumes; paper products (tissues, diapers, sanitary); shoe care etc.
- **Household Care:** It comprises of fabric wash (laundry soaps and synthetic detergents); household cleaners (dish/utensil cleaners, floor cleaners, toilet cleaners, air fresheners, insecticides and mosquito repellants, metal polish and furniture polish).
- **Branded and Packaged Food and Beverages:** It consists of health beverages; soft drinks; staples/cereals; bakery products (biscuits, bread, cakes); snack food; chocolates; ice cream; tea; coffee; processed fruits, vegetables and meat; dairy products; bottled water; branded flour; branded rice; branded sugar; juices etc.
- **Spirits and Tobacco:** An exact product-wise sales break up for each of the items is difficult.



Graph no. 1 FMCG segments' market share

(Source: The Indian FMCG Industry, Dinodia Capital Advisors, September 2012)

As per recent Nielsen report the share of food segment decreased to 43% and personal care share increased to 22%.

FMCG brands have high brand equity due to its unique characteristics and broad consumer base. As per "Most Trusted Brands Survey 2014" conducted by Brand Equity, out of top 20 brands 16 were FMCG. FMCG brands like Colgate, Dettol, Maza and Magi were among top 5 brands.

Table No 1 Most trusted Brands of 2014 (FMCG)

Brand	Ranking	Brand	Ranking
Colgate	1	Britania	11
Dettol	3	Rin	13
Maza	4	Parle	14
Magi	5	Lifeboy	15
Lux	6	Tata salt	16
Surf Excel	7	Cadbury Dairy Milk	18
Clinic Plus	8	Kurkure	19
Frooti	10	Glucon- D	20

(Source : Economic Times)

Part B) Overview of Indian FMCG Sector History

The Indian Fast Moving Consumer Goods (FMCG) industry began to shape during the last fifty odd years. The growth of FMCG industry was not significant between 1950's to the 80's. The FMCG industry previously was not attractive from investor's point of view due to low purchasing power and the government's favoring of the small-scale sector.

FMCG's growth story further continued following the deregulation of Indian economy in early 1990s. With relatively lesser capital and technological requirements, a number of new brands emerged domestically as well, while the relaxed FDI conditions led to entry of many global players in this segment. These factors made FMCG market in India highly competitive and one of the important contributor in the Indian economy. In the mid - nineties, the growth of the sector was very fast where as it declined rapidly at the end of the decade. The initial growth was due to increase in product penetration and consumption levels⁴. Riding on a rapidly growing economy, increasing per-capita incomes, and rising trend of urbanization, the FMCG market in India is expected to further expand to \$100 billion by 2025⁵.

Growth of FMCG sector

The Indian FMCG sector growth between 2006 to 2013 has been phenomenal (approximately 16%). The industry has tripled in size over the last 10 years , growing much faster than in past decades.



Graph no. 2 Growth of Indian FMCG sector

(Source: Nielsen)

Even during the slowdown of the Indian economy, the FMCG sector has registered a growth rate of 14.5 percent for the year 2007-08 ⁶. According to Nomura, the volatility in agriculture sector has not had much impact on FMCG sector⁷. The comparison of past ten years' performance of top 50 Global FMCG companies versus the Indian top 50 FMCG compa-

nies shows that India has outperformed global growth across all major FMCG categories⁸. As per Pricewaterhousecoopers Private Limited, India is second biggest market for Soaps & cleansers in Asia after China. The growth for Indian FMCG sector for Food, beverages and tobacco segment is promising in near future.

Part C) Analysis Of FMCG Sector

PEST analysis

i) Political

- **Tax Structure:** Complicated tax structure, high in direct tax and changing tax policies are challenges for this sector.
- **Infrastructure Issues:** Performance of FMCG sector is very much dependent on government spending on Agricultural, Power, and Transportation Infrastructure.
- **Regulatory Constraints:** Multiplicity permits and licenses for various states, prevailing outdated labor laws, cumbersome and lengthy export procedures are major constraints.
- **Policy framework:** FDI into Retail sector (single-brand & multi-brand retail), Licenses rules in setting up of Industry, Changes in Statutory Minimum Price of commodities are barriers for growth of this sector.

ii) Economical

- **GDP Growth:** Growth of FMCG industry is consistent with the Indian economy. It has grown by 15 % over past 5 years. It shows good scope for this sector in near future.
- **Inflation:** Inflationary pressures alter the purchasing power of consumer which Indian economy is facing in recent years. But it has not affected much to Indian FMCG sector.
- **Consumer Income:** Over the past few years, India has seen increased economic growth. The GDP per capita income of India increased from 797.26 US dollars in 2006 to 1262.4 US dollars in 2014 . It resulted in increase of consumer expenditure
- **Private Consumption:** The Indian economy, unlike other economies, has a very high rate of private consumption (61%).

iii) Social

- **Change in consumer Profile:** Rapid urbanization, increased literacy, increase in nuclear families and rising per capita income, have all caused rapid growth and change in demand patterns, leading to an explosion of new opportunities. Around 45 per cent of the population in India is below 20 years of age and the young population is set to rise further.
- **Change in Lifestyle :** In past decade changes are taking place in consumption pattern of Indian consumer with more spending on discretionary (52%) than necessities (eg food, clothings). In last decade the apparel, footwear and healthcare segments have registered highest growth whereas essentials such as cereals, edible oil, fruits and vegetables shown decline⁹.
- **Rural focus:** As market is getting saturated, companies are focusing on rural area for penetration by providing consumers with small sized or single-use packs such as sachets.

iv) Technology

- Effective use of technology is seen only in leading companies like HUL, ITC etc.
- E- Commerce will boost FMCG sales in future. More than 150 million consumers would be influenced by digital by 2020 and they will spend more than \$45 billion on FMCG categories -CII

SWOT analysis

i) Strengths

- **Low operational costs:** One of the important strength of this sector is low operational cost.
- **Presence of established distribution networks in**

both urban and rural areas. A well established and wide distribution network of both MNC and Indian FMCG companies increased an access for consumers.

- **Presence of well-known FMCG brands:** The Presence of strong brands in Indian FMCG sector not only results in increased sales but also provides an opportunity in future.

ii) Weakness

- Low scope for investing in technologies and achieving economies of scale, especially in small sectors.
- "Me- too products, which illegally mimic the labels of established brands .These products narrow the scope of FMCG products in rural and semi- urban markets.
- Less innovative abilities and systems: Indian FMCG sector, especially small players are lagging behind in adopting innovative approaches for fulfilling needs of the consumers.

iii) Opportunities

- **Untapped rural market, changing life style:** An untapped, huge and fragmented rural market is an opportunity for FMCG players. The Penetration level for many FMCG product categories is very low especially in rural area.
- **Rising income levels, i.e. increase in purchasing power of consumers:** According Mckinesy Global Institute report, in next two decades income level of Indian consumer will almost triple and India will become world's fifth – largest consumer market by 2025¹⁰. India's middle class size will increase to 583 million , or 41% of the population. Extreme rural poverty has declined from 94% in 1985 to 61% in 2005 and is projected to drop to 26% by 2025. This will result into increased purchasing power of Indian consumer.
- **Large domestic market with more population of median age 25 years:** India has large young population, 54 % of Indians are under 25 years of age. A rising productive population fuels growth and drives personal consumption
- **High consumer goods spending:** The rising income is resulting into high spending into consumer goods. According to a Nielsen report, the spending on consumer goods set to triple to \$ 5 billion by 2015¹¹.
- **Export potential to** neighboring countries like Bangladesh, Pakistan, Srilanka.

iv) Threats

- Entry of MNCs with liberalization: In the post liberalization era Indian market has become highly competitive. Many multinational companies have entered in to the Indian market.
- The removal of import restrictions resulted in replacement of domestic brands.
- Rural demand is cyclical in nature and also depends upon monsoon to large extent.
- Complicated, changing and uneven tax structure is one of the major threats for FMCG sector.
- New packaging norms made mandatory for all companies to sell products in standard size packs.

FINDINGS & DISCUSSION

Indian FMCG sector has almost tripled in last decade, much faster than past decades. Even in the meltdown years of FY 2008 and FY 2009 the FMCG industry witnessed sustained growth rates of 14% and 11% respectively, this sector was relatively recession-proof¹². This growth in FMCG sector is due to increase in demand, developments in supply side and favorable changes in Government Policy.

Demand drivers

Consistent GDP growth (approximately 15% for last five years), increasing population , growing awareness, changes in consumer profile (more young population), increasing consumer income (approx 60% increase from 2006 to 2014), changing consumer expenditure pattern (More expenditure

on nonfood items), increasing discretionary income , changing lifestyle, growth in rural sector (increasing share of nonagricultural sector), Untapped rural market (Low penetration levels for many FMCG categories), aspiring rural consumers, high private consumption, rising urbanization and huge export potential are resulting in increased demand for FMCG products.

Supply side drivers

The nature of FMCG product i.e. frequently consumed, low priced & easily available generates huge and consistent demand for companies. Apart from this the presence of strong brands in different FMCG categories made this sector growing for years. New products, E-commerce and innovation in marketing methods are helping companies in improving service quality expanding their businesses. Also the growth in modern retail provided an opportunity to companies for expanding their business.

Environmental drivers

Apart from this other Macro and micro environmental factors such as Improving economy, favorable Government policy, Infrastructural development, availability of raw materials, low labor cost have created favorable environment for FMCG sector.

CONCLUSION

Today, Fast Moving consumers goods have become an integral part of human life. This sector is recession proof and created huge employment opportunity in India , hence becoming one of the key pillar of the Indian economy. FMCG companies should encash opportunities like increasing consumer income, changing consumer life style, aspiring rural consumer, consistent economic growth by utilizing its strengths . The competition from unorganized sector can be overcome by increasing brand awareness and by reducing cost through sharing resources such as distribution network. Favorable developments happening in demand side, supply side and systematic drivers shows that this sector has very bright future.

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