



## Indian FMCG industry – The changing Scenario

**Sheetal Amol Nafde**

Assistant Professor Dr. Ambedkar Institute of Management Studies and Research Deekshabhoomi Nagpur

### ABSTRACT

The present taxation system of production based taxation will be altered to consumption based one with the introduction of GST which is considered as the most powerful tax reform that India has seen till now. The current article throws light on the Impact entry of Patanjali Ayurvedic Ltd. and the likely imposition of GST on the FMCG sector. The article signifies the positive impact of Goods and Services Tax on FMCG industry. Overall scenario of FMCG industry in India with the recent trends, overview and analysis is well covered in this article. The article concludes by focussing on the important growth drivers for the sector which are considered as Growing awareness among the consumers, easier access due to technological advancement and changing lifestyles.

### KEYWORDS

FMCG, GST, Patanjali Ayurvedic Ltd.

The Word FMCG stands for Fast Moving Consumer Goods ; products which are consumed at faster rate and are recurring in demand. The FMCG sector has grown at an annual average of about 11% over the last decade. The FMCG products are generally low cost products such as toiletries, Processed Food, Soft drinks etc. Indian FMCG industry is the fourth largest sector in the economy with total market size in excess of US \$ 49 billion.

Population of India makes our country an attractive destination for Multinational FMCG firms. All most all the MNCs have presence in India with their subsidiaries. Cadbury, Nestle, Unilever, Colgate, J&J are some of the major MNCs which have substantial exposure in Indian Market.

With Increasing purchasing power and rising middle class the FMCG industry is poised to grow at faster speed. The distribution network is key to success of any product as its effectiveness will enhance the consumer experience. Traditionally the FMCG industry depends on conventional distribution network of Stockiest, Wholesaler And retailer.

With the technological advancement and shift in consumer behaviour the ways of distributing the products is also changing. The Hyper markets, Super Markets and modern trades have become integral part of urban lifestyle. Easy home delivery and convenient payment options have made Online purchase of FMCG products very popular in Urban India.

Online shopping in India is taking new shape beyond Mobile, Apparel and electronics items as FMCG firms and modern retailers attempts to reach out the consumers to sell essential items such as Grocery , Toiletries through internet. FMCG companies have started using the online medium not only for promotion of product but also for sales. A recent report says that online distribution will influence one third of total sales of FMCG sector in next five years.

The huge potential of online purchasing has caught the attention of top FMCG companies such as Dabur, Bisleri, ITC, Marico which have started pushing their product thorough online route. Some of them have already launched their own e-commerce portal and many are selling their products through popular online companies such as Amazon and Flipkart . There are many Ecommerce companies like BigBasket, AaramShop.com which are exclusively selling only FMCG products on their platform.

Indian FMCG market can be divided into urban and rural markets. The purchasing behaviour in these markets gives one the inside into the changing scenario of the industry. A decade ago it was hard to associate the rural customers with Brands and value for money concept but with technology and growing rural economy

the rural customers also became cautious and aware about Brands. The top FMCG companies have become aggressive in distributing their products in these markets with retail outlets and strong distribution network.

Today's Indian Urban customers are some of the most confident in the world. They are value conscious, demanding and evolving bunch of buyers. They are more experimental and willing to try out new products. One can witness this with the growth and entry of foreign brands. Their focus is shifting from regular FMCG products of soaps, oils , creams to health and wellness product like Olive oils, Sugar substitutes, Breakfast Cereals. More and more customers are shifting towards online purchase of FMCG products.

### GST impact of FMCG sector

Goods and Service tax (GST) is a broad based, single, comprehensive tax levied on goods and services consumed in an economy. This is seen as the panacea for removing the ill-effects of tax-on-tax regime. This is the most significant tax reform, so far in India.

With the approval of GST bill the FMCG sector is likely to see a significant impact. The FMCG sector comprise more than 50 percentage of the food and beverage industry and another 30 percentage personal and household care sector thereby spanning the entire urban and rural part of the country.

FMCG companies have already started getting their system in place for business under GST. They are busy in tweaking their warehouse system and supply chains, modernising IT infra ahead of rollout of GST regime that will facilitate seamless interstate movements of Goods.

A four tier structure of 5%, 12%, 18% and 28% would in place as part of new tax regime. While mass market home and personal care and food products are expected to fall in the 5% bracket, premium products are expected to fall in 28% bracket. The 12 and 18% rates have been declared as standard rates, which could see mid price products across the FMCG sector from soaps to detergent, hair oil to toothpaste to fall in these brackets.

Overall the effect of GST is seen to be positive for FMCG sector as it will bring down the cost of essential products for the consumers and substantial savings can be generated by the companies in logistics and distribution costs as the GST will eliminate the need for multiple sale depots and warehouses. Effective distribution cost for FMCG companies accounts to 2 to 7% of their total turnover. Currently FMCG companies pay approximately 22-26% tax inclusive of duty, VAT and entry tax. The new GST rates will yield in significant reduction in tax likely to be around 18%.

---

**The new entrant in FMCG sector - Patanjali Ayurved Ltd.**

Patanjali Ayurved Ltd is an Indian FMCG company established by Yoga Guru Baba Ramdev in the year 2006. The Company produces products in the category of personal care and food .

A The ago it was modern trade which changed the way Indians' shopped. This time around it is Patanjali Aurveda – the latest force to disrupt the branded consumer goods sector. Its raging popularity and strong brand resonance have some incisive lessons for the Indian FMCG sector.

It has changed the entire perception of FMCG sector, most of its products are cheaper than its peer in the same category which shows that a brand doesn't have to charge premium to resonate better with its consumers. Patanjali Aurved has shifted the focus back to Aurveda and Naturals.

All the top FMCG companies are spending huge amount on celebrities to endorse their product whereas Baba Ramdev himself promoting the herbal and organic Patanjali products. It has brought back the focus on product efficacy. Rising above the noise of advertising; the product has to deliver value to the consumer. Emergence of patanjali helps keep the established players on their toes and provides the consumers the benefits of more efficacious products at lower prices. It reminds the FMCG companies that peak margins cannot be sustained at the cost of the consumers.

**Conclusion**

The FMCG sector in India is going through a very ecstatic phase. Government's push for digital India, change in tax structure with GST , Improved transportation and logistics facilities and booming E commerce market makes FMCG industry a favourable sector.

Still in the organised FMCG market India has one of the lowest per capita consumption profiles across the world ; lower than china , Thailand and Philippines. There is immense appetite across the 6000 towns in India for increased FMCG consumption. Tomorrow's FMCG consumer will shop on it's own terms. It is up to the marketers to stay ahead of the curve and create favourable outcomes for themselves as they delight today's changing consumers and grow India's FMCG market.

**References:**

1. [https://www.ibef.org/Industry/Consumer Markets](https://www.ibef.org/Industry/Consumer%20Markets)
2. [info.shine.com/industry/fmkg/6.html](http://info.shine.com/industry/fmkg/6.html)
3. [economictimes.indiatimes.com/Industry/Cons. Products/ FMCG](http://economictimes.indiatimes.com/Industry/Cons_Products/FMCG)
4. <https://www.legalraasta.com/gst/impact-gst-fmkg-industry/>