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Tracking the growth story of FMCG segment in India

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Abstract
By 2030, India will have a large cohort of ‘Generation Z’ consumers who would have grown up in an India with ubiquitous internet, smartphones, digital media and digital consumption platforms. As they start earning and consuming, they will actively use technology-enabled consumption models, and have a big influence on the consumption behaviour of their households. The Advantage India will gain momentum growth reflecting in the transformation of rural India, accelerating MSMEs, Cutting edge technology, online shopping platforms and others have offering for the FMCG segment in India. The Fast-Moving Consumer Goods (FMCG) market in India is the fourth largest sector in the economy. The present paper presents the snapshot of the FMCG sector in India.

Keywords: Goods, services, GDP, economy

Introduction

Fast moving consumer goods (FMCG) are the 4th largest sector in the Indian economy. There are three main segments in the sector – food and beverages which accounts for 18 per cent of the sector, healthcare which accounts for 32 per cent and household and personal care which accounts for the remaining 50 per cent.

The FMCG sector has grown from US$31.6 billion in 2011 to US$ 49 billion in 2016. The sector is further expected to grow at a Compound Annual Growth Rate (CAGR) of 20.6 per cent to reach US$ 103.7 billion by 2020.

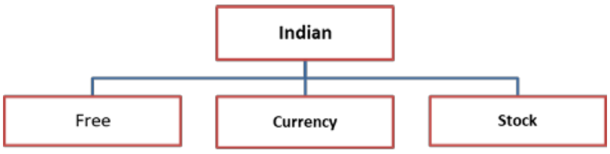
Accounting for a revenue share of around 60 per cent, urban segment is the largest contributor to the overall revenue generated by the FMCG sector in India and recorded a market size of around US$ 29.4 billion in 2016-17. Semi-urban and rural segments are growing at a rapid pace and accounted for a revenue share of 40 per cent in the overall revenues recorded by FMCG sector in India. The rural FMCG market in India is expected to grow at a CAGR of 14.6 per cent from US$ 29 billion in 2016 to US$ 100 billion by 2020. (R.Jayanthi, 2017) [7]

Formation of FMCG products in Indian market

Free Markets - free markets are operational under the 'laissez-faire' conditions - where there is no government intervention. A free market may get distorted if there exists a monopolistic situation (seller controlling major portion of the supply) or a monopolistic situation (a buyer having power on majority of the demands). In case of these distortions, the government or business bodies make an entry to ensure that the free markets operate smoothly.

Currency Markets - Currency markets are among the largest traded markets in the globe, on a continual basis. Money flows are continuous around the globe - governments, banks, investors and consumers - all of them are involved in buying and selling currency round the clock. That is the velocity of money is huge with so many constantly changing hands.

Stock Markets - Stock markets seem to be the backbone of any economy - and of late they have become the most complex structure allowing investors the scope of buying and selling shares in multitude companies. Majority of the Indian stock markets are operating on an electronic network, with a physical location being maintained for buyers separately. This is the place where the parties involved can interact with each other directly (Nararajan *et al.* 2013).



Distinguishing features of Indian FMCG business
FMCG companies sell their products directly to consumers. Major features that distinguish this sector from the others include the following:

1. Design and Manufacturing

a. **Low Capital Intensity** Most product categories in FMCG require relatively minor investment in plant and machinery and other fixed assets. Also, the business has low working capital intensity as bulk of sales from manufacturing take place on a cash basis.

b. **Technology -** Basic technology for manufacturing is easily available. Also, technology for most products has been fairly stable. Modifications and improvements rarely change the basic process.

c. **Third-party Manufacturing-**Manufacturing of products by third party vendors is quite common. Benefits associated with third party manufacturing include (1) flexibility in production and inventory planning; (2) flexibility in controlling labor costs; and (3) logistics - sometimes it is essential to get certain products manufactured near the market.

2. Marketing and Distribution
Marketing function is sacrosanct in case of FMCG companies. Major features of the marketing function include the following: -

a. **High Initial Launch Cost**-New products require a large front-ended investment in product development, market research, test marketing and launch. Creating awareness and develop franchise for a new brand requires enormous initial expenditure on launch advertisements, free samples and product promotions. Launch costs are as high as 50-100% of revenue in the first year. For established brands, advertisement expenditure varies from 5 - 12% depending on the categories.

b. **Limited Mass Media Options-**The challenge associated with the launch and/or brand-building initiatives is that there are few no mass media options. TV reaches 67% of urban consumers and 35% of rural consumers. Alternatives like wall paintings, theatres, video vehicles, special packaging and consumer promotions become an expensive but required activity associated with a successful FMCG.

c. **Huge Distribution Network-**India is home to six million retail outlets, including 2 million in 5,160 towns and four million in 627,000 villages. Super markets virtually do not exist in India. This makes logistics particularly for new players extremely difficult. It also makes the new product launches difficult since retailers are reluctant to allocate resources and time to slow moving products. Critical factors for success are the ability to build, develop, and maintain a robust distribution network.

FMCG market in India
The FMCG sector is one of the largest sectors of the Indian economy. According to an FMCG industry overview, revenues of the FMCG sector reached $ 52.75 bn in FY18, and are estimated to reach $ 103.7 bn in 2020. As consumption in India grows at an unprecedented rate, the FMCG industry remains a key sector for investors. Acknowledging these trends in the FMCG industry profile, the Government of India has undertaken various initiatives to promote the sector. For instance, 100% FDI is permitted in SBRT and cash-and-carry models of retail, and the minimum capitalisation for foreign FMCG companies to invest in India is $ 100 mn. Even the implementation of GST in India has had far-reaching consequences for the sector, as the highest selling FMCG products such as soap, toothpaste and hair oil now come under the 18% tax bracket (as opposed to the previous 24%).

FMCG Giants of India
The list of the top ten FMCG giants, based on their market value is presented below in Table 1.

Table 1: Top Ten FMCG Giants (Based on their market value in 2013)

Sr. No	Name (Company)	Brands/Products Offered	Brief Profile
1	ITC Ltd.	Sunfeast, Candyman, Aashirwaad, *Mint-*O, Bingo, Superia, Fiama Di Wills.	A market leader in the Tobacco business ITC offers products in the personal care category, health care category and food and beverages category.
2	Hindustan Unilever Ltd.	Sunsilk, Dove, Lifebuoy, Surf Excel, Clinic Plus, Rin, Lux, Pepsodent, Fair & Lovely, Close Up, Ponds Whitening, etc.	A foremost player in the Indian FMCG industry, the company offers products in almost all product categories in personal, household food and beverages categories.
3	Nestle India Ltd.	Milo, Nescafe, Kit-Kat, Milky bar, Milk Maid, Bar-One, Nestea.	The company is a subsidiary of Nestle, Switzerland. It offers products in the categories of food and beverages.
4	Parle Agro	Appy, Frooti, Hippo, Bailey, Parle- G.	Parle Agro is a privately owned company and was established in 1984. The company offers food products and beverages.
5	Britannia Industries	Britannia Cakes, Rusks, Biscuits, Cheese.	The company was established in 1892. The company was initially named as The Britannia Biscuit Company Limited and later renamed as Britannia Industries Limited in 1979.
6	Marico Ltd.	Parachute Coconut Oil, Saffola, Mediker, Nihar coconut Oil.	Marico offers products in health care and personal care
7	Godrej Consumers	Hair Colours, Oils, Shampoos, Detergents and Toiletries	Godrej Consumer Products Ltd offers products in the household care and personal care categories.

	Products Ltd.		
8	Colgate Palmolive (India) Ltd.	Colgate Toothpaste, Colgate Brushes.	Colgate Palmolive caters mainly to personal and health care categories. Toothpastes, brushes, soaps, detergents are the major product categories it offers.
9	Procter & Gamble India.	Pantene, Olay, Tide, Vicks, Ariel, Gillette and Head & Shoulders.	P & G operates in the personal care, health care and household care segments.
10	Amul	Amul Milk, Ice Cream, Butter, Chocolates, Cheese, Curd, Shirikhand and Ghee.	Amul was established in 1946 and stands for Anand Milk Union Limited and is based in Anand, Gujarat. Good quality and low prices are the company's forte.

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10. www.amul.com

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, and cumbersome and lengthy export procedures are major constraints.

• **Policy framework:** FDI into Retail sector (single-brand & multi-brand retail), License 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 decline.

• **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

Growth prospects

With the presence of 12.2% of the world population in the villages of India, the Indian rural FMCG market is something no one can overlook. Increased focus on farm sector will boost rural incomes, hence providing better growth prospects to the FMCG companies. Better infrastructure facilities will improve their supply chain. FMCG sector is also likely to benefit from growing demand in the market. Because of the low per capita consumption for almost all the products in the country, FMCG companies have immense possibilities for growth. And if the companies are able to change the mindset of the consumers, i.e. if they are able to take the consumers to branded products and offer new generation products, they would be able to generate higher growth in the near future.

Category	Products
Food and Beverages	Health beverages; soft drinks; staples/cereals/ bakery products (biscuits, bread, cakes); snack food; chocolates; ice cream; tea; coffee; soft drinks; processed fruits; vegetables; dairy products; bottled water; branded flour; branded rice; branded sugar; juices etc.
Household Care	Fabric wash (laundry soaps and synthetic detergents); household cleaners (dish/utensil cleaners, floor cleaners, toilet cleaners, air fresheners, insecticides and mosquito repellents, metal polish and furniture polish).
Personal Care	Oral care; hair care; skin care; personal wash (soaps); cosmetics and toiletries; deodorants; perfumes; feminine hygiene; paper products.

Raghunath D. (2018). Fast Moving Consumer Goods Retail Market, Growth Prospect, Market Overview towards Fmcg Market in Indian Market. Journal of Emerging Technologies and Innovative Research, 71-79.

Table 2: SWOT analysis of India's FMCG sector

Strengths	Weaknesses
1. Low operational costs 2. Presence of established distribution networks in both urban and rural areas 3. Presence of well-known brands in the FMCG sector	1. Lower scope for investing in technology and achieving economies of scale, especially in small sectors 2. Low exports levels 3. Me-too products, which illegally mimic labels of established brands. These products narrow the scope for FMCG products in rural and semi-urban markets
Opportunities	**Threats**
1. Untapped rural markets 2. Rising income levels, leading to higher purchasing power of consumers 3. Large domestic market with a population of over one billion 4. Export potential 5. High consumer goods spending	1. Removal of import restrictions resulting in cheap alternatives to domestic brands 2. Slowdown in rural demand 3. Tax and regulatory structure

Source: Selvakumar, D. M. (2013). Fast-Moving Consumer Goods: A Bright Future in India. 10-13.

Driving factors

Three of the main driving factors to supplement this rise would be the inculcation of niche players, role of Government and the transformed face of food and grocery.

Niche Player: Key Path for E-Growth

The recent growth in usage of online platform has led to increased investment in e-commerce firms and opened a market to new players to set up their base. Consumers attracted to personalization and unique product offerings. The new economy is being driven not only by the c nsumers who are purchasing products and services according to their preferences, but also by entrepreneurs fulfilling their passions and gaining financial success.

Government Support

The recent announcement of GST helps e-retail competitors streamline their supply chain and simplify their tax structure, while rationalizing seamless integration of goods and services across the country. The incorporation of GST ensures absolute clarity in regards to application of direct taxes on transactions undertaken by online businesses. The Government has provided a stable environment for E-Commerce platforms to harness growth and development.

Transformation of Food and Grocery Market

More consumers are opting for convenience and the adaptation of a digitally charged ecosystem, big and small players are slowly infiltrating the market with their food and grocery-based offerings. The ultimate shift from traditional market of neighborhood kiranas to snap online purchases has given competitive pricing and the convenience of shopping from the comfort of one's own home.

Recent trends

1. Changing life style

Approach to different pricing, improved lifestyle and chemical-free products have become the new standard for Indian consumers to get the upper hand Ayurveda.

2. Reinforcement

Ayurvedic FMCG companies are integrating their accessible business portfolios which are moving towards divestments, mergers and acquisitions. The example in the Indian market, Dabur India stakes maximum Indian market share for health care category. It shows its existence in a specific herbal field. In foreign countries, Saudi Arabia and Egypt have 69% and 62% hair oil market share respectively in India. It strengthens their market power.

3. Premiumization

Consumers are eager to buy premium goods at high prices on behalf of ease, health and wellness. Premiumization is actually a means of growth. In India, everyone is a candidate to be superior, earns more, uses healthy products and receives more payments. When pharma companies offer more benefits to consumers in the same product form, this premiumization is created. It's just about saying that if companies launched hair oil keep hairs moist only, it becomes the base hair oil. But if hair oil prepared to contain Ayurvedic ingredients, that prevents hair loss and provide nourishment, then all of us are ready to pay extra money for it. At current scenario, many toothpaste companies are selling their product with the badge of Ayurveda. The trend is going to be natural influencing Global as well as Indian market. Indian market is influenced at small scale, while globally people are building big storms to be natural.

4. Innovation

Consumers have started demanding customized products especially in accordance with their personal taste and needs. Many Ayurvedic companies have established innovative product portfolios for a new customer. They are moving ahead through revolutionizing and improving natural products for youth. From Kwatha (for the treatment of cold and cough) in a sachet, tea sticks formats, gel toothpaste, ready-to-drink (aloe vera and amla) juice.

5. Market consolidation

Numerous companies are continuous investigating the business perspective of foreign and several regional marketplaces. Emami group seized ₹ 1,651 crores for the Rs 730 crore Kesh King brands of hair and scalp care products from Zandu Pharmaceutical and SBS Biotech in 2008.27,28. The multinational brand (HUL, ITC) has emerged to be affected. Unilever is promoting Lever Ayush with an advertisement with celebrity, who is currently piggybacking on the change of Ayurveda. In reality, Unilever is paying no attention to the multinational corporations (MNCs) eligibility for its advertising.

6. Network distribution
Companies are currently focused on improving their distribution network to increase their connectivity in rural India. Patanjali and Sri SriTattva, leading Ayurvedic FMCG companies, is trying to decrease its paramount time by building its supply channel additional competent and getting retail stores directly from the manufacturing unit.

7. Packing systems
For offering safety and quality products, the industries were offering active and intelligent packaging technologies. This technologies are enhanced the shelf life of products as well as safer. In addition companies are opening smaller stock-maintenance units at a lower price. This helps them maintain margin, keep the volume from price-alert customers and enhance their customer base.31

8. Increased hiring from tier II/III cities
A report from the Confederation of Indian Industry (CII) and the Boston Consulting Group (BCG) showed that e-commerce is participated in a major way for the development of the FMCG sector. The report recommends that companies are focusing their attention on tier II and III cities and rural areas, as purchasing power from these areas will be very tremendous. Small town and cities of India are considered to contribute more to the future demand for FMCG sector, whereas e-commerce companies will contribute to a large portion of sales for these companies. It has been said in the report that companies will need to pay attention to level II and III cities and rural areas because their profits will be an essential source of demand for the region as more and more consumers go ahead with non-branded to branded sections.

9. Global trend
The acquisition of old Indian tradition has changed into harsh terms with heritage brands, although with a modest turn. Like Dabur, who has decided to take their products in the United States, Mexico and Canada with Amazon's Global Sales Program? Permission for that Dabur makes more than 30% of income from international operations. Other players like the Himalayas receive huge international revenues, which can be targeted by Dabur across amazon.

Suggestions
- Innovation plays a vital role in brand preferences made by consumers. The FMCG companies should innovate on their products on a timely basis, adapting to the changing business environments and according to the customers' needs and wants.
- FMCG companies must mainly focus on the overall quality of their products, as it is major factor which affects the purchase of a product.
- FMCG companies must give importance to promotional activities when there is an increase in the price of a particular product. This study proves, that a large number of respondents believe that promotion plays a vital role when there is an increase in the price of the product.
- It is suggested for FMCG companies to offer various schemes in order to attract the customers, as this study shows that the schemes offered by FMCG companies do have an impact on customers' buying behaviour.
- The FMCG companies must be careful when they promote a product through advertisement and other marketing methods etc., as few consumers feel that FMCG companies are not fair in attracting their customers. When they advertise a product, the information provided should involve facts.
- As there are very few customers who give importance to the brand ambassador endorsing a product, the companies must be extremely careful while they chose the person to endorse a product.
- It is suggested for a brand to take feedback from their consumers on a regular basis in order to avoid the pitfalls and also to maintain and constantly improve the quality of the product.

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