

Fast Moving Consumer Goods (FMCG) Sector in India: Growth, Trends and Challenges

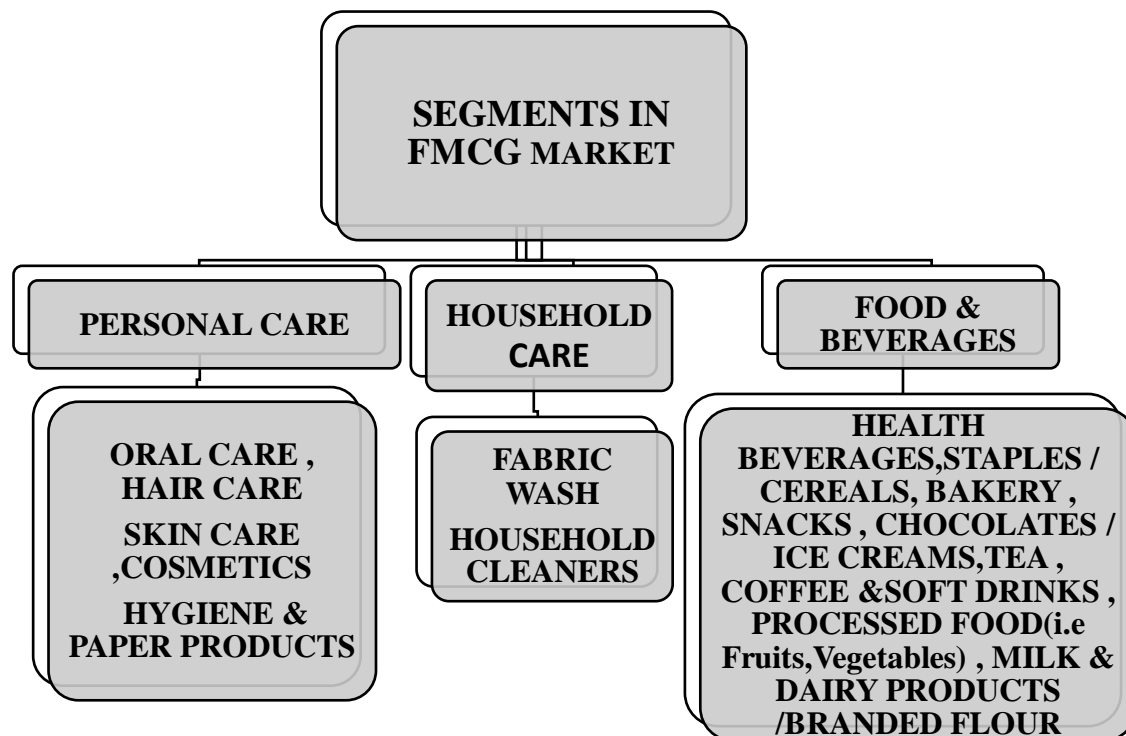
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INTRODUCTION

Fast Moving Consumer Goods Sectors is abbreviated as FMCG sector. FMCG are the goods which are often consumed on daily basis, it constitutes a large part of consumers' budget in all countries. Indian FMCG sector is one of the most important sectors of Indian economy, With the market size of \$13.1 billion and having an annual growth rate of 11% over the last decade . FMCG sectors becomes the fourth largest sector of Indian economy. During the period of 2006 to 2012 with an annual growth rate of 15.2%, Indian FMCG sector alone contributed 2.5% of Indian GDP. With a compound annual growth rate of 14.7%, Overall Indian FMCG market is expected to touch US\$ 110.4 billion during the period of 2012 to 2020 whereas rural FCMG market is expected to reach US\$ 100 billion by 2025 with a compound annual growth rate of 17.7%. The FMCG sector in India is characterized by the presence of organized and unorganized retailers competing with each other along with strong presence of multi- national corporations. Increasing urbanization, easier access, raising income levels, changes in life style, liberalized regulatory framework for foreign investment in India and strong demand in rural are the key drivers of growth of Indian FMCG sector .FMCG sector constitutes various sub sectors, it includes Personal Care Segment, Household Care Segment, Packaged food & Beverages and other products which are consumed at regular intervals. FMCG sector is primarily concerned with production, distribution and marketing of products which are purchased and consumed on daily basis. Within FMCG sector sole contribution of food and processing industry is 43% of overall market followed by personal care and house hold care contributing 22% and 12% of overall market respectively.

Classification of Fmcg Market



(A) Personal Care Segment

Personal care segment of FMCG sector is estimated to be worth US\$ 4 billion per annum .Personal care segment can be further categorised into Personal hygiene segment such as bath and shower products, deodorants etc., hair care segment , skin care segment e.g. colour cosmetics and fragrances segments etc. Since the disposable income of Indian population is growing and changes in lifestyles of Indian consumers leads each of these segments has brought unique trends and growth patterns specially in the largest segment of personal hygiene which has grown at the rate of 5% per annum over the last five years. Second largest segment of this category is hair care products that has seen much higher growth rate of 9-10% during the same period.

The hair care market includes different category of hair products such as hair oils, shampoos, hair colorants & conditioners, and hair gels. Nearly about 72% of hair oil market is accounted by coconut oil market.

- With growing trends of working female population , higher literacy rates, increasing awareness, growing disposable income , life style changes and wider choice and availability of products lead people more concerned about personal grooming, which ultimately contributes to the growth and penetration of skin care products in India.
- Contribution of Tooth paste is 60% whereas tooth powder contributes 23% and tooth brushes contributes 17 % to the overall oral care market in India.

(B) House Hold Care Segment:

Household care segment which includes Fabric wash market and Household cleaners products.. Estimated market size of fabric wash market and household cleaner market is US\$ 1 billion and US\$ 239 million respectively .Production of synthetic detergents is 2.6 million tonnes per year. During the demands of detergent in last five year has been increasing with an annual growth rate of 10 to 11%. Detergent and powders are replaced to bars by urban customers because of increasing penetration of washing machines , increasing working female population , convenience of usage and aggressive advertising. Besides, Unorganised small players also contribute significant volumes to total detergent market.

(C) Food & Beverages:

Food processing industry is one of the fastest growing industries in India , ranking fifth in terms of production growth , consumption and export . Looking at the reports by CII-McKinsey regarding packaged food segment about to touch 6 lakh crore by 2030 with an annual growth rate of 9%. This segment is mostly dominated by milk, sweet and savoury snacks and processed poultry. Another segment which is expected to touch 2,200 crore in next four years is Ready –to-drink tea and coffee market according to the estimates of World Tea and Coffee Expo 2015. Indian Soft drink market is highly seasonal with consumption varying from 25 million crates per month during peak season in summers whereas it shrinks to 15 million crates per month during off season but its estimated market is 1 billion US\$. Indian soft drink market is dominating by two most popular brands, Coca cola and Pepsi. Urban population contributes nearly 75% of revenues to food and Beverage industry

GROWTH DRIVERS OF FMCG SECTOR IN INDIA

Following are the major growth drivers of Fast Moving Consumer Goods Sector in India:

- **Rising income levels:** Individual's ability to spend on purchase of goods and services is determined by per capita disposable income. According to the estimates of BRICs report, due to growth of industrial and service sector, India is likely to witness a rise in disposable income from current DS\$ 556 per annum to US\$ 1,150 by 2017. Rising income levels, increasing urbanization, changes in lifestyles leads Indian customers switching from unbranded to branded products, spending more on convenience goods has contributed the growth of FMCG sector in India .As the major portion of disposable income is spent to maintaining quality life style bolsters the growth of Indian FMCG sector. Total expenditure on consumption of FMCG products is expected to reach US\$3600 billion by 2020 from US\$1411 in 2014.
- **FDI Support:** India is the most attractive destination for foreign investment in FMCG sector. Previously, Indian government maintained control over the FDI investment in FMCG sector in order to protect the domestic players but now slowly and gradually the restriction on FMCG has been removed and caps on FDI in single brand retail

is 100% whereas it is 51% in multi-brand retail under automatic route, paves the way for international player to enter in to Indian markets. Over the last five years, Indian FMCG sector has been attracting huge FDI inflows accounting to 4% of total FDI inflows in India. Out of total FDI inflows in FMCG sector food processing sector is largest recipient of FDI inflows with 48%. Growing trends of FDI in FMCG sector promotes employment , development of strong distribution network and supply chain , launching of new innovative products for Indian customers. The support of FDI is the biggest growth driver of FMCG sector in India.

- **Growth of Modern Retail:** in late 90's and early years of 21st century Indian FMCG market was highly unorganised. The Format of modern retail is gaining popularity in last few years because of growing awareness, increasing urbanization, easier excess of goods, changes in lifestyles and higher disposable income boost the spending's of Indian consumers in retail stores. Indian FMCG sector is operating through 7.8 million organised retail outlets. The expenditure on Modern retail is expected to touch US\$ 180 billion by 2020 from US\$ 60 billion in 2015. Indian organised retail market is expected to touch 30% of overall organised retail market from current levels of 6% . In order to strengthen the rural distribution network several projects such as Aadhar, Choupal Sagar, Hariyali bazaar were initiated . All these statistics represents the influence of modern retail over FMCG sector .
- **Huge Unexplored Export Potential :** India is one of the world's largest producers of number of FMCG products but its exports are a very small in proportion of the overall production. India is emerging as biggest exporter of many food and dairy products such as Tea, Coffee, Basmati Rice, milk & dairy products, fruits , vegetables etc. Indian Food processing industry is the fifth largest industry in terms of production , consumptions and exports . Total exports of food processing industry was 26,076 crore in 2015-16. India has a unique added advantage of connectivity with Middle East, Japan, Singapore , Malaysia because of its geographical location .But India is unable to avail these opportunities because of high cost and low quality of marketing channel. India is least competitive in global market , this unexplored export potential seems to offers huge opportunity for Indian players.
- **Rural Penetration:** India is a vast country with 6 lakh villages and 5500 towns, offering huge opportunities for FMCG players to tap this market. Rural areas are expected to be the major growth driver of FMCG sector because per capita disposable income in rural as well as in urban areas set to increase at a very fast pace paving the way for leading players to develop strong distribution network in rural areas. With increasing usage of social media , internet penetration , technological advancements rural market is expected to reach US\$ 100 billion during the period of 2012 to 2025 with a compound annual growth rate of 17.7%. Per capita disposable income of rural population set to increase to US\$ 631 with compound annual growth rate 4.4% . Rural Indian consumers spend 50% of their total spending on FMCG products. Rising income levels as well as spending's of rural consumers , increasing connectivity of rural areas with urban areas also effecting the life style of rural consumers, now they are demanding better quality branded products used by urban consumers.
- **Demographic Dividend:** When the proportion of working population to total population is high, it offer demographic dividend to a nation .India is a young country offer huge demographic dividend to FMCG players since the average age of Indian population would be 28 year by 2020. Life style changes of Indian youth , increasing pay packages , increasing working female population , etc. of fering huge business opportunity to FMCG players.
- **Changing Retail Format:** Retail market in India is estimated to reach USD450 billion by 2015, with the growth of organised retail accounting for a 14–18 per cent share is likely to boost revenues of FMCG companies. Growth of India's FMCG purchased through modern trade is surpassing growth of FMCG purchased in traditional trade .In 2012, market size of the organised FMCG sector was only 6 % of the overall organised retail market and is expected to reach 30 % by 2020. This represents the influence of modern retail over the FMCG sector. FMCG companies are now collaborating with major retail players to increase brand communication and to boost their share in modern retail.

RECENT TRENDS IN FMCG SECTOR

- With growing population , increasing disposable income and largest contribution of individual spending on FMCG products as nearly as 40% on grocery items and 8 to 10% on personal care products, Indian FMCG sectors emerges as one of the largest FMCG markets of World.

- Next to China, India becomes the second largest developing economy having total consumer expenditure on food items above US\$ 120 billion.
- The Indian FMCG sector is characterized by volume driven where profit margins are earned by selling large quantities. The facts which have acted as a catalyst in bolstering rural demand for FMCG products are in literacy levels, higher government spending on welfare programs, growing support to agricultural sector, and better infrastructure and Direct to home and mobile connections. Due to increasing penetration of mass communication media such as televisions, new papers, increasing internet connectivity into rural areas change the taste of rural customers specially towards daily routing products such as refined edible oils, salty snacks, healthcare and personal care products. These segments of FMCG sector witnessing high growth rate in rural areas.
- In order to boost the purchasing power of rural buyers, several measures are taken by government such as an increase in employment under National Rural Employment Guarantee Act, loan waiver schemes, setting higher minimum support price for crops, granting loans and financial assistance for opening micro and small scale industries in rural areas.
- Indian firms under FMCG sectors operate under entire value chain ranging from supplying of raw material to final processed and packaged goods to all segments whether it is personal care segment, household care segment or food processing segment. For instance, portfolio of Amul Dairy Products Limited includes supply of milk as well as processed dairy products such as curd, butter, ghee, cheese etc.

KEY CHALLENGES

In order to increase the disposable income in rural areas several initiatives are launched by Center and State governments such as financial assistance through self – help groups, granting low interest rate loans for establishment of micro and small scale industries, setting higher minimum support prices for agricultural products etc. All these measures spur the demand of FMCG products in rural areas. Whereas in urban areas, rising trends of professional education and skill development resulting in the heavy pay packages raised the standard of Indian population. It escalates the demand of personal care, household care products and westernized premium products etc. According to a study by The Associated Chamber of Commerce and Industry of India, it is expected that Indian FMCG sector will witness the growth rate of 18% over in the next 4 to 5 year becoming the biggest component of consumer expenditure by the end of 12th five year plan. For this to happen, it is necessary to sell FMCG products more quickly at relatively low prices. However the FMCG sector also facing number of challenges, including:

- **High inflation:** Rising price levels is the biggest challenge in front of Indian FMCG players. High inflation rate raise the cost of production which ultimately hits the margins of firms. Indian markets are highly price sensitive especially in rural areas and semi-urban areas as depleting their disposable income for the demands of daily need products
- **Rising cost of inputs:** The fluctuation in Commodity prices make it difficult to finalize raw material prices, thus affecting the final price of the product. It is very difficult for FMCG firms to pass on the increased costs to customers without compromising sales volumes
- **Marketing costs:** In order to face the intense competition in FMCG sector, huge spending by multi-national corporation and big Indian corporate giants are expected to incur high advertising & promotion costs which ultimately added to the cost of final products unnecessarily increase the selling price of products makes the FMCG products out of range to wider section of poor and lower middle class consumers.
- **Private labels:** Lower quality or local products which closely resemble with their respective category leaders serves the masses in rural and semi-urban areas; adversely effects the sale and margins of FMCG firms up to a great extent.
- **Counterfeits and pass-offs:** Counterfeits and pass-offs are the products which are selling at low prices in rural and semi-urban market limits the scope of FMCG products in these markets. It harms the growth trends of this sector.
- **Foreign exchange fluctuations:** Since the foreign exchange rates are determined by market forces. Depreciation of Indian as compared to foreign currency hits the margins of companies which primarily depends on imported raw material.
- **Infrastructure bottlenecks:** Poor market connectivity due to inadequate transportation facilities, cost unavailability of power, inadequate storage facilities and highly fragmented nature of demand are some of the dire challenges faced by manufactures and distributors of this sector.

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