



An overview of Indian FMCG industry

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Abstract

Fast Moving Consumer Goods (FMCG) industry play very important role in Indian economy. It is the 4th largest sector in Indian economy. India has more than 50% of its population below the age of 25 and more than 65% below the age of 35, so we can say that India has more young people in its population, so there is chance of growth in FMCG industry. Due to covid situation, portion of personal care products are increase. There is positive impact of GST on FMCG products, so demand has been increased. Compare to urban market, there are more opportunity in rural market but due to poor supply chain infrastructure and limited cold chain infrastructure rural market is not developed.

Keywords: FMCG Sector

Introduction

The Fast Moving Consumer Goods (FMCG) industry in India are the 4th largest sectors in the Indian economy and over the years has been growing at a very steady rate. FMCG sector play very important role in Indian economy. Fast Moving Consumer Goods (FMCGs) are defined as products which are sold quickly and relatively low costs. These are mainly non-durable consumer goods which are used frequently or daily by a consumer. This sector mainly divided into three segments in which first one is food and beverages which accounts for 19 per cent of the sector, second one is healthcare which accounts for 31 per cent and household and personal care which accounts for the remaining 50 per cent¹.

Objectives

- To present the overview of an Indian FMCG Industry
- To study the growth and development of an Indian FMCG Industry
- To analyse the opportunities and challenges of an Indian FMCG Industry

Methodology

The study is based on secondary data which is collected from books, reports, journals, periodicals, newspaper and websites. Exploratory research design is used for conducting this study. The objectives of this study are to provide brief overview of the FMCG Industry and analyse it.

Classification of FMCG Sector

FMCG sector mainly divided into three segments which are personal care, house hold care and food and beverages.

Personal Care

Rising income and promotion are key factors driving the personal care sector. Personal care segment include hair care, skin care, bath products and oral care. Purchase of personal care items

declines during the last two months of the year 2016 due to demonetisation. Post demonetisation smaller pack of the products has been launched. The urban cities have difficult time where rural India remains stable due to small currency transactions.

It can be divided into the following categories:

- Skin Care - Creams, Lotions, Gellies
- Hair Care - Hair oil, Shampoos
- Personal Wash - Soaps
- Oral Care – Toothpaste

Skin care

Saving cream and razors are the most used items in personal care by men. Majorities of the demands for cosmetics come from working men and women. The organic skin care category grows at over 20% annually and is expected to reach a total of \$157 million in 2020.

Hair care

The shampoo segment is the largest segment in the hair care industry with a market of \$818 million. Shampoo segment is dominated by Hindustan Unilever. Marico parachute and Dabur are leader in coconut hair oil segment.

Personal wash and oral care

Presently, soap and bath category is estimated to have a market of \$1 billion. More than 90% household use soap. In toothpaste Patanjali Dantkanti dominated the market. Other players include Colgate and HUL pepsodent andclose up.

H0ousehold care

This segment includes dish wash soaps and liquid detergent, fabric care, home insecticides, surface care, air-care etc. Improved lifestyle and rising awareness for personal hygiene are driving the market for household care products.

Food and beverages

▪ Food

The packaged foods include baked goods, snacks, chocolates, ice cream, and dairy product. In baked product, biscuits are one of the most popular items in India. Parle is the leader in biscuit brand and Britannia industry specialized in bakery goods and dairy products. Another Indian company MTR Foods specializes in ready-to eat foods allowing working middle-class consumers to conveniently recreate traditional Indian dishes. Prominent international brands in this segment include Nestle's Maggi instant noodles and ready-to-eat meals, PepsiCo's Lay's and Kurkure snacks, and Hindustan Unilever Ltd.'s Kissan condiments, juices, and jams. India is the largest producer and consumer of milk in the world. Local vendors contribute to the majority of the dairy segment. India-based Amul provides milk-based products such as ghee, butter etc.

▪ Beverages

Tea is the one of the most popular beverages of India and it is famous across north, west and east India. The south India prefers coffee. HUL leads the segment of Tea with Brooke Bond Red Label, Brooke Bond 3 Roses, Brooke Bond Taj Mahal, Taaza and the Lipton tea brand. Tetley Tea, a product of Tata Global Beverage is also a popular brand. Cold drinks such as soft drinks and fruit drinks are becoming more common in the country. Coca-cola and PepsiCo dominate this category. Packaged water is increasingly gaining market across India as the Indian population does not trust the quality of municipal water supplied to households. ParleAgro's Bisleri, PepsiCo's Aquafina and Coca-Cola's Kinley, and Tata's Himalaya are the most well-known brands. Other local brands are available across regional areas. Alcoholic beverages are also popular in India.

Development of FMCG industry in India

India has always been a country with full of population, be it the 1950. In that sense, the FMCG market potential has always been very big. However, from the 1950's to the 80's investments in the FMCG industry was very limited due to low purchasing power and the government's favouring of the small scale sector. Hindustan Lever Limited (HLL) was probably the only MNC company that producing FMCG products in India. At that time, HLL focused only on urbane area. There too, the consumer had limited choices. However, Nirma's entry changed the whole Indian FMCG scene. Nirma made FMCG products like detergents very affordable even to lower middle class of the society. Nirma become a great success story and laid the roadmap for others to follow.

Private consumption Trend

Table 1

CAGR (%)	Food, Beverages, Tobacco	Personal Care
FY 81	11%	13.4%
FY 91	11.7%	11.9%
FY 01	11.9%	14.8%

*CAGR over a decade

One of the biggest changes take place in FMCG industry was the 'Sachet' bug. In the last three years, detergent companies, shampoo companies, hair oil companies, biscuit companies and

many of others introduced products in smaller package size at price. This is the single big innovation to reach new users in rural India.

These changes are good for the consumers, who can now choose a variety of products, from a number of companies, at different price. But for the players who cater to the Indian consumer, the future brings a lot more competition. In this environment, only the innovators will survive. From an investor's point of view, Indian FMCG companies do offer long-term growth opportunities. To choose the best investment opportunities look at the innovators that have been proactive about market needs.

Government policy for the industry

▪ Goods and services tax (GST)

Implementation of GST from April 1 2016. The rate of GST on services is likely to be 16 percent and on goods is proposed to be 20 percent. Due to implementation of GST may reduce the prices, bolstering consumption of FMCG products.

▪ Excise duty

Excise duty on other beverages and lemonade would be decreased to reduce retail sale price by 35%. Excise duty on various tobacco products other than beedi would be increased, resulting in retail price of tobacco products going up by 10-15%. Excise duty on instant tea, black tea and ice cream would be decrease to reduce the retail by 30 percent.

▪ Food security bill

The Food Security Bill has been passed recently by the Union Cabinet. As per the bill, 5Kg of food grains per person per month will be provided at subsidized prices by the State Governments under the targeted public distribution system. This is expected to result in higher inflow of investments into the agriculture sector in the coming years.

▪ Relaxation of license rules

Industrial license is not required for almost all food and agro-processing industries, barring certain items such as alcoholic beverages, cane sugar, and hydrogenated & animal fats as well as items reserved for exclusive manufacture in the small-scale sector.

Opportunities in FMCG sector

▪ Rural market

Rural consumption of FMCG products has outpaced urban consumption with the percentage increase in monthly per capita expenditure in rural markets surpassing its urban counterparts. Leading companies in the FMCG sector have a strong distribution network in rural India and are benefitting from the contribution of technological advances such as internet and better logistics services.

▪ Innovative product

Indian consumers are highly adaptable to new and innovative products. As Indian consumers become increasingly exposed to global products, their demand for innovative products has been increasing, which is resulting in higher R&D expenditure by the leading market players.

▪ **Premium product**

With growing disposable incomes, middle and upper middle class income consumers in urban areas have shifted their purchasing trends from essential to premium products. Premium brands are manufacturing smaller packs of premium products. In response, firms have started enhancing their premium products portfolio.

▪ **India as an export HUB**

With emergence of India as a strong regional economy, domestic and multinational FMCG players can leverage India as a strategic sourcing hub for cost-competitive products to cater to international markets. This has been witnessed as a strategy of several FMCG companies whose revenues from the international markets has been increasing.

▪ **Low market penetration**

Most of the household and personal care products sold in India still have low market penetration in rural and semi-rural areas. This offers a wide opportunity for market players to tap these markets by offering low cost, small packaging products.

Challenges of FMCG sector

▪ **Poor supply chain infrastructure**

Lack of storage and transport facilities coupled with rising costs of raw materials and energy has been a major challenge for the Indian FMCG market. Food items tend to have a significantly shorter shelf life and requires quick delivery systems, regular replenishment of products on the shelf, and vast different distribution and storage requirements.

In the F&B segment, shelf life can vary from seven days to three months on average, while in the HPC space the shelf life can be up to three years. Many small towns and villages in India lack adequate infrastructure, a major bottleneck in setting up supply chain networks. It is easier to bring home and personal care products to consumers in rural areas of India, as the shelf life is comparatively longer compared to food & beverage products such as milk, chocolate, and ice-cream, which have a shorter shelf life and need investments in cold storage facilities.

▪ **Limited cold chain infrastructure**

Growth of many categories have been severely constrained by the lack of cold chain infrastructure in the Indian market landscape.

▪ **Multiple micro markets**

Multiple micro-markets across geographies have distinct needs, which trigger category preferences that vary from state to state and from one district to another. This poses a continuous challenge for players to balance out the market needs and the inefficiencies related to customization.

▪ **Large geographical expansion**

Large states in India such as Madhya Pradesh present a problem of large distances between two adjacent markets. This has a crippling effect on viability of channel partners, which are serving the isolated markets.

Impact of GST on FMCG sector

The Union Cabinet's approved the Constitution amendment Bill for implementing the goods and services tax (GST) in the monsoon budget session (8-August, 2016 in Lok Sabha). This

system of taxation which is to be implemented in India proposes a comprehensive indirect tax imposed on manufacture, sales and consumption of goods and services at a national level.

If the GST rate is less than or equal to 18%, then it should be positive for most consumer goods companies. Indian FMCG sector contributes around USD6 billion in direct and indirect taxation. A shift from the current indirect tax system to the GST regime would have a positive impact on pricing of the products. Many FMCG companies that have manufacturing units in excise free zones enjoy excise holidays. Currently, no decision has been taken on the treatment of excise free zone units under the GST regime, and there is a possibility that the excise exemption schemes could be converted in to refund schemes.

Conclusion

Today FMCG sector has become integral part of Indian economy. This sector creates huge employment opportunity in India. This is the fourth largest sector in Indian economy. It is mainly divided into three segments i.e. food and beverages, household care and personal care in which personal care held more proportion of the industry. Government play important role in development of the industry, though there are many challenges in FMCG industry. Recently GST implies huge impact on FMCG sector.

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