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Market of Fast Moving Consumer Goods in India

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Abstract

The main driver of the Indian economy is the fast-moving consumer goods (FMCG) industry. About 3 million people are employed in this, the fourth-largest sector of the Indian economy, making up about 5% of all factory jobs in the nation. People from all walks of life, regardless of age, income level, or social position, regularly consume these products. The FMCG industry is more profitable due to its low penetration rates, well-established distribution network, cheap operational costs, low per capita consumption, huge customer base, and generally straightforward manufacturing processes that require relatively small capital investments for the majority of items.

Keywords: *fast-moving consumer goods (FMCG), industry, Indian economy*

Introduction

Due to the existence of both domestic and multinational corporations as well as the unorganized sector, the business is extremely competitive. Unorganized players that sell unbranded and unpackaged goods take up a significant share of the market. Products costing Rs 10 or less account for more than 50% of FMCG companies' overall sales1.Due to limited brand awareness, this has led to the growth of localized brands that are sold in loose form in small towns and rural areas. Over the past ten years, local companies have been a formidable rival to multinational corporations; in fact, their growth and market capitalization have surpassed several MNCs. Domestic enterprises saw a 24% increase in profit between 2005 and 2014, compared to a 14% growth for global corporations.

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Of India's total FMCG consumption, 66% comes from urban areas, with the remaining 34% coming from rural areas. Nonetheless, over 40% of consumption in significant FMCG categories including hot beverages, fabric care, and personal care is attributed to rural India. According to ASSOCHAM's analysis, businesses like as Hindustan Unilever Ltd. and Dabur India receive half of their revenue from rural India, whilst Colgate Palmolive India and Marico account for approximately 37% and 36% of their sales, respectively.

Fast Moving Consumer Goods:

Fast-moving consumer goods are low-cost items that need little shopping labor. These products come wrapped and are not very durable. The final consumer purchases these goods frequently and in little amounts. The four primary FMCG segments are tobacco, branded and packaged foods, household care, and personal care.

Personal Care: Oral care, hair care, skin care, personal wash (soaps), cosmetics and toiletries, deodorants, perfumes, paper goods (tissues, diapers, sanitary napkins), shoe care, etc. are all included in personal care.

Household care: That includes metal polish and furniture polish, air fresheners, insecticides and mosquito repellents; dish/utensil cleaners, floor cleaners, toilet cleaners, and fabric wash (laundry soaps and synthetic detergents).

Packaged and Tagged Food and Drinks: This category includes: soft drinks; health drinks; cereals; bakery goods (cakes, biscuits, bread); snacks; chocolate; ice cream; tea; coffee; dairy products; bottled water; branded flour; branded rice; branded sugar; juices, etc.

Spirits and Tobacco: It's challenging to pinpoint the precise product sales breakdown for each of the two categories. A recent Nielsen survey shows that the personal care segment's share climbed to 22% while the food segment's share dropped to 43%.

FMCG brands have a strong consumer base and distinctive qualities, which contribute to their high brand equity. According to Brand Equity's "Most Trusted Brands Survey 2014," 16 of the top 20 brands were FMCG. Among the top 5 brands were FMCG companies including Colgate, Dettol, Maza, and Magi.

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Overview of Indian FMCG Sector History:

Over the course of the last fifty years or more, the Fast Moving Consumer Goods (FMCG) industry in India has taken shape. The FMCG industry did not experience considerable expansion from the 1950s to the 1980s. Historically, the government's preference for the small-scale sector and the FMCG industry's low purchasing power made it unappealing to investors. The growth trajectory of FMCG persisted after the Indian economy was deregulated in the early 1990s. Numerous new brands arose locally as well, with comparatively lower capital and technological needs, and many global businesses entered this market as a result of the FDI rules being loosened. These elements made the FMCG sector in India extremely competitive and a significant driver of the country's economy.

The sector grew quite quickly in the middle of the 1990s, but by the end of the decade, it was rapidly declining. The first growth was brought about by higher levels of consumption and product penetration. With India's economy expanding quickly, per capita earnings rising, and urbanization trending upward, the FMCG market is predicted to reach $100 billion by 2025.

Growth of FMCG

The expansion of the FMCG sector in India from 2006 to 2013 was remarkable, accounting for almost 16 percent. In the last ten years, the industry has tripled in size, expanding far more quickly than in previous decades. For the 2007–08 fiscal year, the fast-moving consumer goods (FMCG) sector had growth of 14.5 percent, despite the slowdown in the Indian economy. Nomura claims that the FMCG sector7 has not been significantly impacted by the volatility in the farm sector. India has exceeded worldwide growth across all major FMCG categories, according to a comparison of the top 50 global FMCG businesses' performance over the last ten years with that of the top 50 Indian FMCG companies. China is the largest market in Asia for soaps and cleansers, with India coming in second, according to Price Waterhouse Coopers Private Limited. In the foreseeable future, the Indian FMCG industry's expansion in the food, beverage, and tobacco segments appears optimistic.

PEST Analysis of the FMCG Industry

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i) Political

• Tax Structure: This sector has issues due to its complex tax structure, high direct tax rate, and shifting tax laws.

• Infrastructure Problems: Government spending on transportation, electricity, and agricultural infrastructure has a significant impact on the FMCG sector's performance.

• Regulatory Restrictions: State-specific multiplicity licenses and permissions, antiquated labor laws still in effect, and labor-intensive and drawn-out export procedures are some of the main regulatory restrictions.

• Policy framework: FDI into the retail sector (both single- and multi-brand retail), license regulations for industry establishment, and modifications to the statutory minimum price of commodities are impediments to the sector's expansion.

ii) Economical

• GDP Growth: The FMCG sector's expansion is in line with the expansion of the Indian economy. Its growth over the last five years has been 15%. It indicates that this industry has a bright future.

• Inflation: The Indian economy has been dealing with inflationary pressures recently, which change consumers' purchasing power. However, the Indian FMCG sector has not been significantly impacted.

• Consumer Income: India's economy has grown more rapidly in recent years. From 797.26 US dollars in 2006 to 1262.4 US dollars in 2014, India's GDP per capita income grew. As a result, consumer spending increased. In contrast to other economies, the Indian economy has a notably elevated rate of private consumption.

iii) Social

• Shift in consumer profile: Rising per capita income, increased literacy, the number of nuclear families, and fast urbanization have all contributed to quick demand pattern changes and rapid growth, which has created a plethora of new opportunities. In Indiana, almost 45% of the population is under 20, and this percentage is expected to continue rising.

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• Shift in Lifestyle: Over the last ten years, Indian consumers' consumption patterns have changed, with a 52% increase in discretionary expenditure over necessities (such as food and clothing). Over the past ten years, the fastest-growing industries have been clothes, footwear, and healthcare, while necessities like cereals, edible oil, fruits, and vegetables have experienced a fall in sales.

Focus on rural areas: As the market becomes saturated, businesses are concentrating on gaining traction in rural areas by offering small-sized or single-use products, such sachets, to consumers.

iv) Technology: E-commerce will increase FMCG sales in the future. Only well-known companies, like HUL and ITC, effectively exploit technology. By 2020, digital will have an impact on over 150 million consumers, who will spend over $45 billion on FMCG products.

SWOT Analysis:

Strength

- Low operating expenses: This industry's low operating costs is a key feature.
- Existence of well-established rural and urban distribution networks. Customers have easier access thanks to the well-established and expansive distribution networks of both MNC and Indian FMCG companies.
- Existence of well-known FMCG brands: The Indian FMCG sector benefits from the presence of strong brands in the market, which not only boosts sales but also creates opportunities going forward.

Weakness:

- Limited opportunity to invest in technology and realize economies of scale, particularly in smaller industries.
- "Me-too" goods, which falsely imitate well-known businesses' labels. The range of FMCG products available in rural and semi-urban markets is reduced by these goods.
- Less creative systems and abilities: The Indian FMCG industry, particularly small firms, is falling behind in implementing cutting-edge methods to meet customer expectations.

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Opportunities:

• Untapped rural market, shifting lifestyle: FMCG companies have an opportunity in this vast, fragmented, and untapped rural market. Many FMCG product categories have very low levels of penetration, particularly in rural areas.

• Growing income levels, or a growth in consumers' purchasing power: According to a McKinsey Global Institute estimate, Indian consumers' income levels would nearly triple over the next 20 years, making India the world's fifth-largest consumer market by 2025.The number of middle-class Indians will rise to 583 million, or 41% of the country's total population. From 94% in 1985 to 61% in 2005, extreme rural poverty is expected to diminish to 26% by 2025. Indian consumers will have more purchasing power as a result of this.

• Sizeable domestic market with a high proportion of people under 25: India has a sizable youthful population, with 54% of its citizens under 25. An increase in the working population promotes consumption and growth.

• High spending on consumer goods: Growing incomes are driving up consumer goods spending. A Nielsen survey states that by 2015, consumer goods consumption is expected to quadruple to $5 billion11.

• Possibility of exporting to Bangladesh and Pakistan.

Threats:

• MNC entry after liberalization: The Indian market is now quite competitive in the post-liberalization age. Numerous international corporations have made their way into the Indian market.

• Local brands were replaced as a result of the lifting of import restrictions.

• Demand in rural areas is cyclical and heavily dependent on the rainfall.

One of the main challenges facing the FMCG industry is the complex, shifting, and inconsistent tax system.

• All businesses are required by new packaging regulations to sell their products in standard size packaging.

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Conclusion:

Fast-moving consumer items are becoming an essential aspect of modern life. This industry has produced a great deal of employment opportunities in India and is recession-proof, making it a vital pillar of the country's economy. FMCG companies should use their capabilities to take advantage of opportunities such as rising consumer income, shifting consumer lifestyles, aspirations among rural consumers, and steady economic growth. It is possible to beat the competition from the unorganized sector by raising brand recognition and cutting costs by pooling resources like distribution networks. Positive developments in supply, demand, and systematic drivers indicate a very promising future for this industry.

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