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Fast Moving Consumer Goods (FMCG) Markets in India

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Abstract:

Fast Moving consumer Goods (FMCG) is the fourth largest industry in the country. The market share of Indian FMCG is estimated to grow from US\$30 billion in 2011 to US\$ 74 billion in 2018. Food products are the major segment with 43 per cent followed by personal care with 22 per cent. India has many key drivers like high fast growing population, organized retail markets, increased growth of urbanization, high disposable income etc. National and international marketers have equal roles in the industry. The established and organized brands have big threat from unorganized sector with similar products.

Keywords: FMCG, GDP, SWOT analysis, rural and urban shift, per capita income, disposable income, MSPs, NERGA

1. Introduction

Packed consumer products are popularly known as FMCG goods. It includes all consumables except groceries and pulses which people buy at regular intervals for their daily use. It consists of toiletries and soaps, toothpaste and shampoos, shaving goods, polishes, packaged food items and other household accessories and some type of electronic goods. These items are very commonly used by the consumers. Though the absolute profits made by the FMCG are low, they sell in bulk quantities; therefore, their cumulative profit will be very high. FMCG products have very short life either by their high demand by customers or by their perishability. For instance Products like fruits, vegetables, dairy products and packed food materials etc have short life.

1.1. Important Characteristics of FMCG

1.1.1. From the Consumers' View

- i. Frequent buying
- ii. Little effort for the purchase as the products is for daily use. The brand loyal consumers have to search for the products.
- iii. Normally low priced

1.1.2. From the Marketers' View

- i. High volume of goods
- ii. Very low contribution margin
- iii. Vast distribution networks
- iv. Big stocks

2. Scope of FMCG industry in India – the Key Drivers

India is blessed with many plus points for the remarkable economic developments over decades, FMCG market is not an exception, and there is a conducive growth prospects in India than all other countries. The major plus points are:

2.1. Very Large and Fast Growing youth Population

The population of India consists of 17.99 per cent of the world population. [This means that one out of every 6 person in this planet is an Indian. As per the latest UN report India has emerged with world's largest youth population with 356 million people between the age of 10 to 24 years, China with 269 million followed by Indonesia (67 million), USA(65 million), Pakistan(59 million)ⁱ. This, coupled with a large population and rapidly evolving consumer traits, has converted into large market opportunities for FMCG.

2.2. Emergence of Organized Retail Business

One of the pillars of Indian economy is its organized retail market segment which is estimated to be 500 billion US dollars and accounts for its contribution to Indian GDP is 14 to 15 per centⁱⁱ. Due to the hyper hike in the retail sector, the real estate boom in the construction of shopping malls, hyper markets etc. are booming day by day which enhanced the FMCG sector year by year.

2.3. Growing Urbanization

One of the important issues caused by Indian independence is the process and speed of urbanization. The process of urbanization is very fast in India than other countries of the world. It was 11.4 percent, according to 1901 census and it was 28.53 per cent in 2001 census raised to 30 per cent in 2011 censuses and expecting a hike of 40.76 per cent in the future.ⁱⁱⁱ

2.4. Increased Disposable Income

As per the report of Ministry of Statistics and Programme Implementation, the disposable income of Indian population raised from Rs 116010870 million in 2013 to 127880080 million in 2014. The same reports say that the personal income in India reported a record low of Rs 91540 million in 1950 to a record high of Rs 127880080 million in 2014.

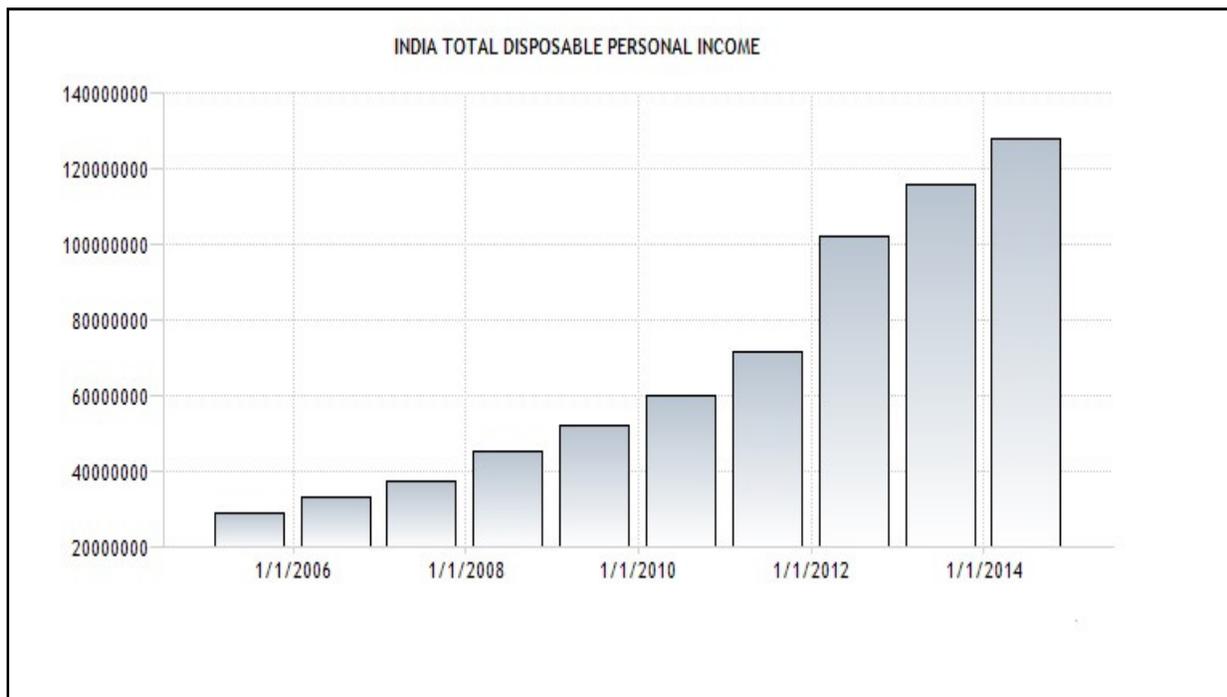


Figure 1: India Total Disposable personal income

Source: Ministry of Statistics and programme Implementation (MOSPI)

During 2016 the personal income expected to increase to Rs 145114820.31million. It is expected that in the coming years of 2020,2030 and 2050 the projected disposable personal income will be Rs169470157.86, Rs181805195.72 and Rs183463323.66 million respectively.

In the past decade India's GDP has grown by 7.27 per cent, the projected growth rate expected by Indian planning commission is 9 to 9.5 per cent by 2017 accompanied by a rise in the per capita income. There will be a major force behind the increase of consumption pattern and it will account for 59 per cent of India's total consumption by 2025.

2.5. Consumption Pattern of Indian Middle Class

This is one of the important plus points for the hike of Indian FMCG market. As per a recent study India will be the largest consumer market by 2025 after the US, Japan, China and UK^{iv}

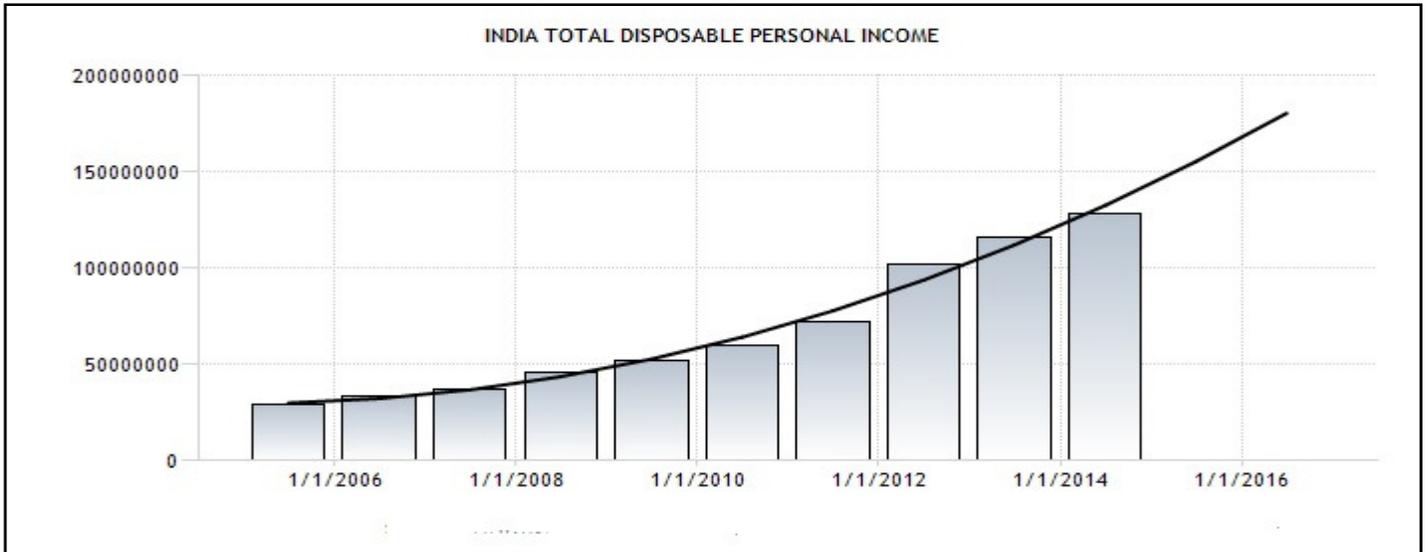


Figure 2: Total Disposable personal income

Source: <http://www.tradingeconomics.com/india/disposable-personal-income/forecast>

3. Stating the Problem

The FMCG sector in India is one of the fast moving segments in India, perhaps the fourth largest segment of Indian economy. The estimated projection growth is US\$30 billion in 2011 to US\$ 74 billion in 2018.

Increasing awareness of the market, easier access to such products, overall changes in the lifestyle are the key and important growth drivers,

Food products with 43 percent are the leading segment in this sector. Personal care comes with 22 per cent and fabric care come next with 12 per cent market share.

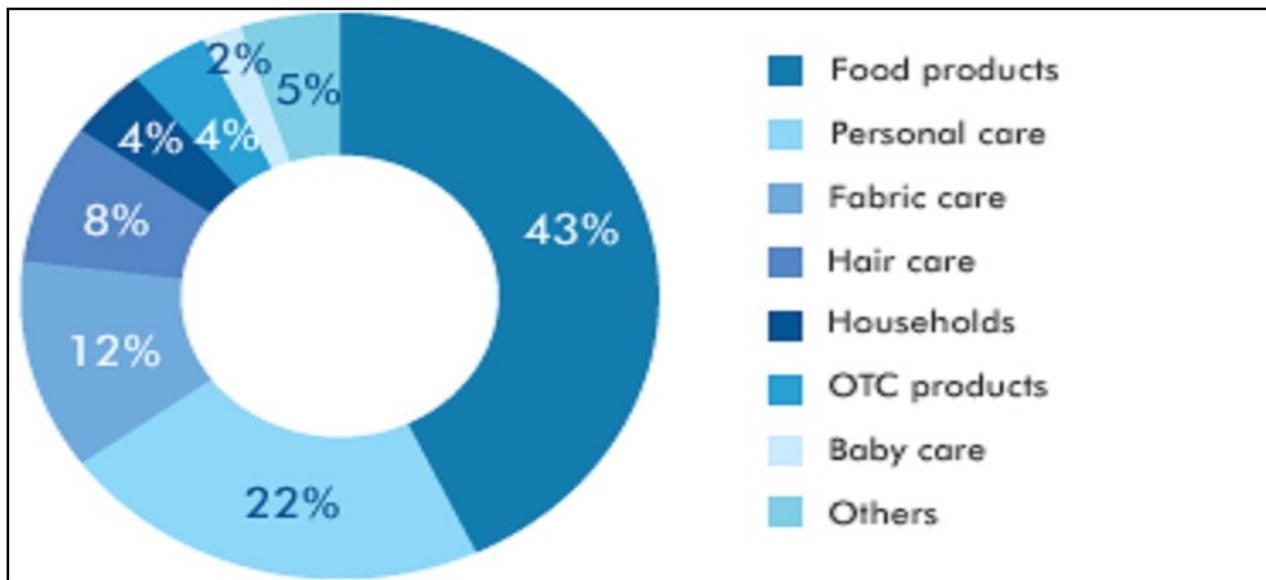


Figure 3: Market share of Indian FMCG

Source: From Primary data collected

3.1. Rural Area Rise

Rural areas show a key driver for FMCG products. The growth is high in rural area while comparing urban areas. Rural area shows 16 per cent rise while the share of urban areas is 12 per cent. Therefore, most companies are concentrating on rural area with direct marketing techniques, better infrastructure etc. Companies are manufacturing exclusive products for the rural consumers.

The Government of India is supporting the rural customers with higher minimum support prices (MSPs), loan waiving for purchase of products, disbursements of goods and services through the National Rural Employment Guarantee Act (NREGA) programme. These types of programmes increased their purchasing power which in turn helped the boosting of FMCG market.

3.2. Urban Shift

A rise in the per capita income and increase in the disposable income among the urban population urged a shift of consumer behavior from essential goods to premium goods. In response to this shift firms have started to enhance their premium production. The multinational players seeking India as a strategic source hub for FMCG products and the Indian players are striving for cost-competitive product enhancement to cater the international markets.

As per a study conducted by AC Nielsen top 62 of 100 brands owned by MNC's and the rest by Indian Companies. 62 brands are owned by 15 companies 27 brands are owned by Hindustan UniLever.

3.2.1. Top Ten Indian FMCG is

- i. Hindustan Unilever Ltd
- ii. ITC (Indian Tobacco Company)
- iii. Nestle India
- iv. GCMMF (AMUL)
- v. Dabur India
- vi. Asian Paints (India)
- vii. Cadbury India
- viii. Britannia India
- ix. Procter & Gamble Hygiene and Health Care
- x. Marico Industries

4. SWOT Analysis

4.1. Strength of FMCG

The operation cost is very low, Many has excellent distribution network throughout the country irrespective of rural or urban areas, Lot of famous well known brands in FMCG sector, Deep rooted understanding about the local culture of the consumers and knowledge about the consumer traits, Favorable government policy. Indian government is trying to attain international competitiveness to the FMCG companies through lifting restrictions, reduced excise duty, 100 percent export oriented units can be set up with government approval and use of foreign names etc. Approval for Foreign Direct Investment (FDI) up to 100 per cent for foreign equity and 100 per cent for NRI and overseas corporate investment is allowed for most of the food processing sector except malted food and beverages.

4.2. Weakness of FMCG

Big advertising cost- advertisement is an essential part of these types of products as high competition prevails in the market, To out boost the nearest competitor firms have to spend high amounts which will reduce the margin. Illegal labeled products of established brands narrow the scope of FMCG products. Counterfeit and pirated products of established brands will negatively affect the sustainability of branded goods.

4.3. Opportunities of FMCG

Changing life style of the society, untapped rural market, increased purchasing power due to better personal income of the population, large number of youngsters in India (explained earlier) as the most common users of FMCG products are in the age group of 17 to 25. Indian population spends more on consumer goods. Export potential as the horizons in foreign countries are expanding for our FMCG products.

4.4. Threats of FMCG

Cut throat competition from local and MNC's. The standardization norms for packaging initiated by the government of India increased the cost of production, Frequent increase of oil prices steadily leads to hike in the distribution cost. The frequent declining value of Indian Rupee with other currencies especially with US dollar will reduce margin of many companies who imports raw materials. High bargaining power of consumers is another bottleneck in increasing margin.

5. Findings

- Rivalry among competing companies: Rivalry in FMCG industry is very severe. The organized and unorganized sector trying to grab the market. The unorganized sector always trying to attract the local market with low priced look like brands of the branded products. The market players always try to tap all sources of tactics to come over the competitor. Large Intensive advertisements, price wars, unscrupulous offers etc made the rivalry among players unethical sometimes.
- Potential entry of new comers: FMCG industry has no barrier for the new comers as there is no rules and regulation for the entry. So that the number of players are increasing every day. Some will exist and some will find no place other than the mere entry. This will make the consumers skeptical about the products. The entrance will make huge investments in promoting brands as initial expense, setting distribution networks and tight competition. But the consumers can't see these brands for long time as it will vanish due to consumer rejection. This sector is not capital intensive too.

- Potential development of substitute products: There are complex and never ending consumer needs .Lot of substitute products are available in the market which can replace the original branded one. The large range of choices and needs give sufficient room for fresh product development that can replace the existing one. This leads to higher consumer expectation.
- Bargaining power of Suppliers: The bargaining power of suppliers of materials and intermediate goods are not very big. There is lot of substitute suppliers available and raw materials are also available. There is no monopoly situation in the supply side as the suppliers are also competing themselves.
- Bargaining power of consumers: Bargaining power of consumers is very high. This is because in FMCG industry the switching cost of most of the goods is low and there is no threat of buying product over another .Customers are always try for new products off the shelf.

6. Conclusion

One of the drawbacks noticed in the FMCG industry is less Research and Development and less innovation. Companies that perform well have good insight and promoting new generation products. Another important thing noticed by the researcher is that both Indian and International markets are concentrating on health and wellness area. The stress behind this trend is that consumer preference is very high in these brands. The next area getting attention is food and beverages .Therefore, players in the market are listening this call and focused on creating new emerging brands in health and wellness .

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