

**International Journal of Innovative Research in Science,  
Engineering and Technology**

*(An ISO 3297: 2007 Certified Organization)*

**Vol. 3, Issue 1, January 2014**

# **FAST MOVING CONSUMER GOODS RETAIL MARKET, GROWTH PROSPECT, MARKET OVERVIEW AND FOOD INFLATION IN INDIAN MARKET – AN OVERVIEW**

**RALLABANDI SRINIVASU**

Professor & Director –Operations, St. Mary’s Group of Institutions, Hyderabad, India.

**Abstract:** The fast-moving consumer goods (FMCG) sector is an important contributor to India’s GDP. Fast moving consumer goods (FMCGs) constitute a large part of consumers’ budget in all countries. This study is aimed at to shed light on competitive conditions prevailing in the FMCGs retail trade sector. This study also focused on the analysis of competitive within the sector, and draws lessons for competition policy. FMCG Industry is characterized by a well established distribution network, low penetration levels, low operating cost, lower per capita consumption and intense competition between the organized and unorganized segments. India’s FMCG sector creates employment for more than three million people in downstream activities. It is currently growing at double-digit rate and is expected to maintain a high growth rate. Indian buyers were a bit conservative partly due to lesser disposable income and partly due to fewer competitive and more variety of products. Food inflation could restrict consumers’ demand and pricing flexibility for FMCG while lowering consumers’ purchasing power that diverts purchases away from certain FMCG.

**Keywords:** FMCG, Indian FMCG Retail Market, FMCG Growth Prospect, FMCG Market overview, FMCG Network and FMCG Food Inflation.

## **I. FMCG INTRODUCTION:**

India’s FMCG sector is the fourth largest sector in the economy and creates employment for more than three million people in downstream activities. Its principal constituents are Household Care, Personal Care and Food & Beverages. The total FMCG market is in excess of Rs. 85,000 Crores. It is currently growing at double digit growth rate and is expected to maintain a high growth rate.

Fast Moving Consumer Goods (FMCG) - alternatively known as consumer packaged goods (CPG) are products that are sold quickly and generally consumed at a regular basis, as opposed to durable goods such as kitchen appliances that are replaced over a period of years. The FMCG industry primarily engages in the production, distribution and marketing operations of CPG. FMCG product categories comprise of food and dairy products, pharmaceuticals, consumer electronics, packaged food products, household products, drinks and others. Meanwhile, some common FMCG include coffee, tea, detergents, tobacco and cigarettes, soaps and others. The big names in this sector include Sara Lee, Nestle, Reckitt Benckiser, Unilever, Procter & Gamble, Coca-Cola, Carlsberg, Kleenex, General Mills, Pepsi, Mars and others.

In recent years, the fast moving consumer goods sector (FMCG) is witnessing increased use of sales promotion activities all over the world. This sector is characterized by products having low unit value and requiring frequent purchases and consumer behavior reflecting less loyalty, impulse buying, and low involvement on the part of a consumer (Kotler, 2003).

# International Journal of Innovative Research in Science, Engineering and Technology

(An ISO 3297: 2007 Certified Organization)

Vol. 3, Issue 1, January 2014

Products which have a quick turnover, and relatively low cost are known as Fast Moving Consumer Goods (FMCG). FMCG products are those that get replaced within a year. Examples of FMCG generally include a wide range of frequently purchased consumer products such as toiletries, soap, cosmetics, tooth cleaning products, shaving products and detergents, as well as other non-durables such as glassware, bulbs, batteries, paper products, and plastic goods. FMCG may also include pharmaceuticals, consumer electronics, packaged food products, soft drinks, tissue paper, and chocolate bars.

The fast-moving consumer goods (FMCG) sector is an important contributor to India's GDP. It is the fourth largest sector of the Indian economy. The FMCG market is estimated to treble from its current figure in the coming decade. Penetration levels as well as per capita consumption of most product categories like jams, toothpaste, skin care and hair wash in India are low, indicating the untapped market potential. The growing Indian population, particularly the middle class and the rural segments, present an opportunity to makers of branded products to convert consumers to branded products. The Indian rural market with its vast size and demand base offers a huge opportunity for investment. Rural India has a large consuming class with 41 per cent of India's middle-class and 58 per cent of the total disposable income.

The FMCG product category in India is also witnessing severe competition like the US markets. A plethora of sales promotion offers are made ranging from simple price-offs to innovative contests and gift offers trying to lure the deal-prone consumers (Dang and Koshy, 2004).

Fast moving consumer goods (FMCGs) constitute a large part of consumers' budget in all countries. Retail trade in these products, that is, their supply to households, has attracted considerable interest from consumers and policy-makers because a well-functioning retail sector is essential for daily provision of these essential products at high quality and low cost. The retail sector for FMCGs is the process of a drastic transformation. New, "modern" retail formats, like chain stores and hyper/supermarkets, have rapidly diffused in almost all major urban areas, and increased their market share at the expense of traditional formats (grocery shops, green groceries, etc.) in the last couple of decades. This rapid transformation has raised concerns about competitive conditions in the sector. (Mazzarotto (2001) and Dobson *et al.* (2001).)

FMCG Industry is characterized by a well established distribution network, low penetration levels, low operating cost, lower per capita consumption and intense competition between the organized and unorganized segments. The Rs 85,000-crore Indian FMCG industry is expected to register a healthy growth in the third quarter of 2008-09 despite the economic downturn. The industry is expected to register a 15% growth in Q3 2008-09 as compared to the corresponding period last year. Unlike other sectors, the FMCG industry did not slow down since Q2 2008. the industry is doing pretty well, bucking the trend. As it is meeting the every-day demands of consumers, it will continue to grow.

Through the nineties, the FMCG markets grew at almost 15% per annum in value. Suddenly, in 2000 FMCG market growth stalled and then declined for the next four years. The rapid opening up of the economy resulted in many new avenues of expenditure for the consumer's growing income. A sharp drop in interest rates from 18% to 8% led to explosive demand for consumer durables like white goods, two wheelers and automobiles. Mobile phone ownership and usage exploded due to its amazing lifestyle and convenience benefits as well as lower prices. Entertainment, leisure and travel sectors also boomed. The lure of new avenues of expenditure in products and services led to consumers restricting their spending on FMCG. Consumers' downgraded to lower priced substitutes from higher quality brands.

## II. FMCG RETAIL MARKET:

The retail market for fast moving consumer goods (FMCGs) consists of various retail channels. The International Standard Industry Classification (ISIC, Revision 3) classifies retail channels into seven categories at the 4-digit level: ISIC 5211 retail sale in non specialized stores, ISIC 5219 other retail sale in non-specialized stores (department stores, etc), ISIC 5220 retail sale of food, beverages and tobacco in specialized stores, ISIC 5231 retail sale of pharmaceutical and medical goods,

# International Journal of Innovative Research in Science, Engineering and Technology

*(An ISO 3297: 2007 Certified Organization)*

**Vol. 3, Issue 1, January 2014**

cosmetic and toilet articles, ISIC 5251 retail sale via mail order houses, ISIC 5252 retail sale via stalls and markets, and ISIC 5259 other non-store retail sale.

The FMCG supplying industries employed 203 thousands people in 2000 (down from 216 thousands in 1998). These industries lost further 10,000 jobs during the economic crisis in 2001.

The FMCG sector is witnessing demand growth again, driven by improving reach, organized retail and innovative channels, higher usage – driven by affordability and rising incomes driving aspiration levels. As a result, we see an improvement in sales growth for the FMCG industry. Consumer Demographics & Buying Patterns of Indian Consumers.

FMCG is one sector which caters to the daily and more basic needs of consumers and therefore don't have a chance to run out of focus. From oral care products to packed food to detergents, soaps, mosquito coils, etc, are the various categories of products that FMCG market makes available to lakhs of consumers across the country

### **III. FMCG SECTOR IN INDIAN MARKET – OVERVIEW:**

India's FMCG sector was valued at INR60,000cr in 2004 after a growth of 4% during 2003-04. According to a report by the Federation of Indian Chambers of Commerce and Industry (FICCI), several FMCG registered double-digit growth in value terms, for example, shaving cream (20%), deodorant (40%), branded coconut oil (10%), anti-dandruff shampoos (15%), hair dyes (25%) and cleaners and repellents (20%). On the contrary, negative growth of up to 8% was registered in products such as personal healthcare, laundry soaps, dish wash, toilet soap, toothpaste and toothpowder. In 2008, India's FMCG sector had a value of INR86,000cr and analysts projected a growth of 15% in 2010 (2009: 12%) as the economy shows signs of recovery. According to the FICCI-Techno report, the FMCG sector will grow at a rate of 10-12% within the next decade to reach INR206, 000cr by 2013 and INR355, 000cr by 2018. The implementation of the proposed Goods and Services Tax (GST) and the less restrictive foreign direct investment (FDI) policies are expected to contribute to the growth of the FMCG sector to INR225, 000cr by 2013 and INR456, 000cr by 2018. With a total market size in excess of USD14.7bn, India's FMCG industry is the fourth largest sector in its economy and plays a vital role in India's socio-economic front with nearly eight million stores selling FMCG and employing some 25mn people as wholesalers, distributors and others. Besides that, the FMCG sector purchases nearly INR9,600cr worth of agricultural products and processes them into value-added products while the sector accounted for nearly 40% of the media industry's revenue.

Sales in the FMCG sector grew by a staggering 14.8% during the six-month period ended September 2009 but only expanded 7% during the two-month period ended November 2009. As a result of lower growth in the sector, India's top 10 FMCG companies experienced deceleration in sales growth from 9.9% during the first half of the financial year (April-September 2009) to a growth of 3.3% during the October- November period. In addition, contributing factors such as price increase of 50-100% for most agri-commodities as well as higher crude oil prices caused operating margin to fall during the October-December quarter.

## International Journal of Innovative Research in Science, Engineering and Technology

(An ISO 3297: 2007 Certified Organization)

**Vol. 3, Issue 1, January 2014**

**Table 1: FMCG Category and Products**

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.

Source: India Brand Equity Foundation (IBEF)

The Indian FMCG sector has a market size of \$13.1 billion. Well-established distribution networks, as well as intense competition between the organised and unorganized segments are the characteristics of this sector. FMCG in India has a strong and competitive MNC presence across the entire value chain. It has been predicted that the FMCG market will reach \$33.4 billion in 2015 from \$11.6 billion in 2003. The middle class and the rural segments of the Indian population are the most promising market for FMCG, and give brand makers the opportunity to convert them to branded products. The Indian economy is surging ahead by leaps and bounds, keeping pace with rapid urbanization, increased literacy levels and rising per capita income. The FMCG sector consists of consumer non-durable products, which broadly include personal care, household care and food and beverages. It is largely classified into organized and unorganized segments. The sector is buoyed by intense competition between these two segments. Besides competition, it is marked by a robust distribution network coupled with increasing influx of MNCs across the entire value chain. The sector continues to remain highly fragmented.

India's FMCG sector creates employment for more than three million people in downstream activities. The total FMCG market is in excess of Rs 850 billion. It is currently growing at double-digit rate and is expected to maintain a high growth rate.

<b>Rural and Urban FMCG Potential Profile</b>		
<b>Particulars</b>	<b>Urban</b>	<b>Rural</b>
Population 2001-02 (million household)	53	135
Population 2009-10 (million household)	59	153
Per cent distribution (2009-10)	28	72
Market (towns/villages)	3,768	627,000
Universe of outlets (million)	1	13.3

*Source: Statistical Outline of India, NCAER*

**International Journal of Innovative Research in Science,  
Engineering and Technology**

*(An ISO 3297: 2007 Certified Organization)*

**Vol. 3, Issue 1, January 2014**

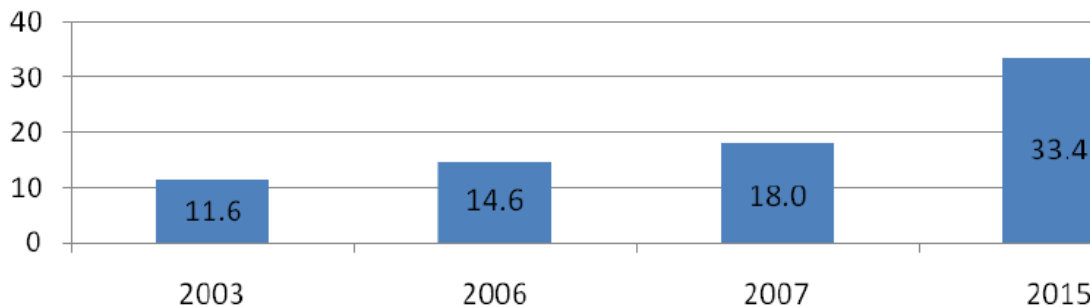
<b>Top 10 Companies in FMCG Sector</b>	
<b>S.No.</b>	<b>Companies</b>
1.	Hindustan Unilever Ltd
2.	ITC (Indian Tobacco Company)
3.	Nestlé India
4.	GCMMF (AMUL)
5.	Dabur India
6.	Asian Paints (India)
7.	Cadbury India
8.	Britannia Industries
9.	P&G Hygiene and Health Care
10.	Marico Industries

*Source: Naukrihub.com*

**Total Market Size**

- The Indian FMCG sector is the fourth largest sector in the economy with a total market size of US\$18 billion as of 2007.
- By 2015, the sector is predicted to scale up to US\$33.4 billion.
- The sector generates 5% of total factory employment in the country and is creating employment for three million people, especially in small towns and rural India.

**India's FMCG Market Size (In USD Billion)**



Sources: Naukri Hub, IBEF, Chennai Online

# International Journal of Innovative Research in Science, Engineering and Technology

(An ISO 3297: 2007 Certified Organization)

**Vol. 3, Issue 1, January 2014**

The FMCG industry is expected to yield higher growth on the back of higher disposable income led by income tax cuts, while FMCG prices are expected to hike. Prices of daily use products such as soaps, talcum powder, shampoos, hair dyes, diapers and sanitary napkins are expected to increase by 2-5%, while diapers and sanitary napkins that were previously fully exempt from excise are now slapped with a 10% duty. However, prices of deodorants and perfumes are expected drop by 5% while duty charges on medicinal and toilet preparations will be reduced from 16% to 10%. Most FMCG companies including HUL, Colgate-Palmolive, Nestle, Reckitt Benckiser and Dabur India Ltd have large manufacturing plants in excise-free zones that are not affected by a hike or cut in excise duty, while higher cost of production will inevitably cause price hike. Also, the establishment of five additional food parks will no doubt boost the food processing industry.

**Table 6: Union Budget 2010-11: Central Plan Outlay by Sectors**

in INR cr	2009-10 Budget Estimates	2009-10 Revised Estimates	2010-11 Budget Estimates
Agriculture and Allied Activities	10,629	10,123	12,308
Rural Development *	51,769	51,560	55,190
Irrigation and Flood Control	439	404	526
Energy	115,574	109,685	146,579
Industry and Minerals	35,740	30,694	39,019
Transport **	94,306	88,948	101,997
Communications	16,731	16,099	18,529
Science Technology and Environment	11,207	9,908	13,677
General Economic Services	6,270	5,446	7,554
Social Services ***	103,856	101,370	127,570
General Services	1,400	1,353	1,535
<b>Grand Total</b>	<b>447,921</b>	<b>425,590</b>	<b>524,484</b>

\* Includes provision for rural housing but excludes provision for rural roads

\*\* Includes provision for rural roads

\*\*\* Excludes provision for rural housing

Source: Ministry of Finance

#### IV. FMCG GROWTH PROSPECT:

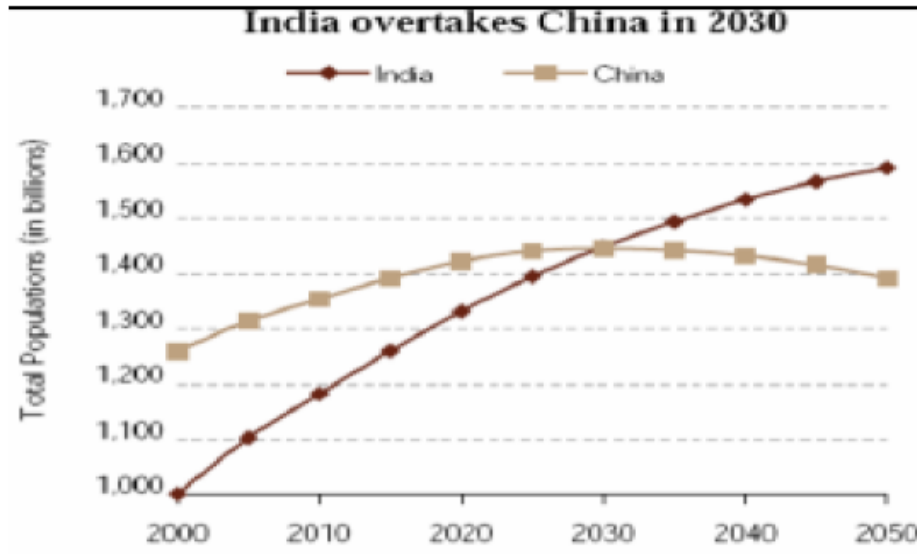
India has a population of more than 1.150 Billions which is just behind China. According to the estimates, by 2030 India population will be around 1.450 Billion and will surpass China to become the World largest in terms of population. FMCG Industry which is directly related to the population is expected to maintain a robust growth rate.



**International Journal of Innovative Research in Science,  
Engineering and Technology**

*(An ISO 3297: 2007 Certified Organization)*

**Vol. 3, Issue 1, January 2014**



Source: UN Population Division: Medium variant

**V. FMCG FOOD INFLATION:**

As a result of the 2007-08 food price crisis, international food prices reached its peak in 2008 but fell drastically a year later. Developing countries were largely affected by the hike in food prices, where share of expenditure on food accounts for a large proportion of total consumer spending.

According to Chart 3, developing countries such as Indonesia, India and China each spent 41.9%, 34.9% and 33.0% of their consumer spending on food in 2008. In 2010, due to speculation that the Indian central bank may hike interest rates after instructing banks to raise more cash reserves, the nation’s food prices inflated for a second week. An index that measures wholesales prices of lentils, rice, vegetables and other food products jumped 17.56% in the week to January 23 over the previous year. In addition, food inflation hiked 19.95% in the week to December 5, 2009, indicating the most significant increase since December 1998. Inevitably, high food inflation could restrict consumers’ demand and pricing flexibility for FMCG while lowering consumers’ purchasing power that diverts purchases away from certain FMCG.

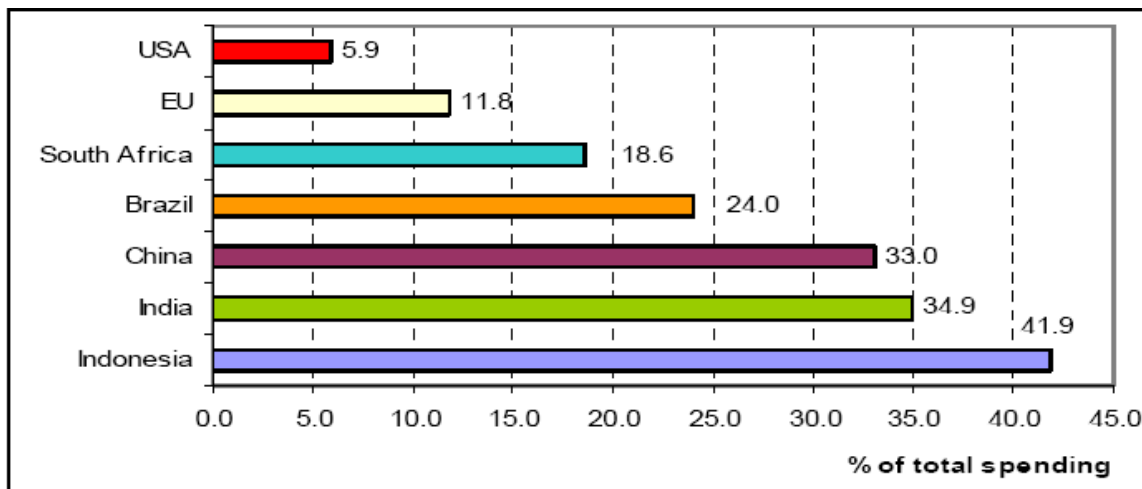
Table 3 indicated that retail price for rice in Bangalore had the most drastic hike in price, where its price increased two-fold from INR12 per kg in 2007 to INR36 per kg two years later. The only price drop shown in the table is the wheat price in Ahmadabad, in which its price fell 6.5% from INR12.3 per kg in 2007 to INR11.5 per kg the next year before rising a staggering 30.43% to INR15 per kg in 2009. Another notable increase is the price for rice in Ahmadabad, where a hike of INR10.2 per kg to INR23 per kg in 2009 from INR12.8 per kg two years earlier.

**International Journal of Innovative Research in Science,  
Engineering and Technology**

*(An ISO 3297: 2007 Certified Organization)*

**Vol. 3, Issue 1, January 2014**

**Chart 1: Share of Expenditure on Food in Total Consumer Spending in 2008**



Sources: Euromonitor; OECD; Eurostat

**VI. CONCLUSION**

The FMCG sector has had a much better time in recent months, with market showing signs of broad revival. The retail market in India is competitive. There are no legal restrictions on entry, and no discrimination against foreign companies. Prices across retail formats differ substantially for a market operating on a very thin profit margin. However, these differences are likely to stem from cost differences. Any single retailer may not seem to establish a dominant position in the national market. However, the relevant markets in the retail sector should be defined locally rather than nationally. These trends are likely to have a positive impact on product diversity and the quality of products/services offered by retail stores. Traditional wholesalers are the most likely losers, because large retailers tend to buy directly from suppliers. The transformation of the retail market is likely to have a long-lasting impact on wholesale trade and the distribution of FMCGs as well. Logistics companies that provide a wide range of complementary services will play an increasingly more important role in the distribution of FMCGs. Market share movements indicate that companies such as Marico Ltd and Nestle India Ltd, with domination in their key categories, have improved their market shares and outperformed peers in the FMCG sector. This has been also aided by the lack of competition in the respective categories. Single product leaders such as Colgate Palmolive India Ltd and Britannia Industries Ltd have also witnessed strength in their respective categories, aided by innovations and strong distribution. Strong players in the economy segment like Godrej Consumer Products Ltd in soaps and Dabur in toothpastes have also posted market share improvement, with revived growth in semi-urban and rural markets. Indian buyers were a bit conservative partly due to lesser disposable income and partly due to fewer competitive and more variety of products. The FMCG market declined in value in the last four years creating a major challenge for growth. It accounts for about 6.4% of total market capitalization, and is up, compared to 6.1% in December'04. The plethora of such brands was thrown open to Indian consumers during 1990s which witnessed a rise and growth in the FMCG industry. But from 2000 onwards there has been a negative growth of this industry. But since December'04, the sales of various brands belonging to key players and the overall FMCG industry performance have picked up and the intense sales promotional efforts, cut throat competitive strategies, stronger distributional efforts have helped various brands penetrate deeper into the markets and increased sales.



**International Journal of Innovative Research in Science,  
Engineering and Technology**

*(An ISO 3297: 2007 Certified Organization)*

**Vol. 3, Issue 1, January 2014**

**REFERENCES**

- Dang, Priya Jha and Koshy, Abraham (2004). “An Empirical View of the Different Types of Consumer Promotions in India,” Working Paper no. 2004-03-03, Indian Institute of Management, Ahmedabad.
- Dobson, Paul W., Roger Clarke, Stephen Davies and Michael Waterson (2001), “Buyer Power and its Impact on Competition in the Food Retail Distribution Sector of the European Union”, *Journal of Industry, Competition and Industry* (1): 247-281.
- Kotler, Phillip (2003). *Marketing Management*, 11th Edition, New Delhi: Prentice Hall India.
- Mazzarotto, Nicola (2001), *Competition Policy towards Retailers: Size, Seller Market Power and Buyer Power*, Centre for Competition and Regulation (CCR) Working Paper No: 01-4, University of East Anglia.
- Naukrihub Web Site: <http://www.naukrihub.com/india/fmcg/overview>