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An evaluation of Indian FMCG sector: A study

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Abstract
FMCG production touches every aspect of human life. These products are frequently consumed by all sections of society and a significant portion of their income is spent on these goods. Apart from this the sector is an important contributor to the Indian economy. The sector has seen phenomenal growth over the last few years, in fact even during periods of recession. The future of the FMCG sector is very promising due to its inherent potential and favorable changes in the environment. This paper discusses an overview of the field, its critical analysis and future prospects.

Keywords: FMCG brands, FMCG sector, Indian economy

Introduction
The Fast Moving Consumer Goods (FMCG) sector is a major contributor to the Indian economy. This fourth largest sector of the Indian economy employs about 3 million people, accounting for 5% of the country's total factory employment. These products are consumed every day by every section of the society, regardless of social class, income group, age group etc., FMCG sector is more beneficial due to low penetration level, well-established distribution network, low operating cost, low per capita consumption. Large customer support for most products and simple production processes result in fairly low capital investments.
The industry is highly competitive due to the presence of multinational companies, local companies and the unorganized sector. Unbranded and unpacked products are sold by unbranded players in a large part of the market. More than 50 per cent of the total revenue of FMCG companies comes from products priced at Rs 10 or less. This spreads to local brands in small towns and rural areas where brand awareness is low. Domestic players have been competing hard in multinationals over the last 10 years; In fact they have a lot of MNCs in growth and market cap between 2010 and 2019. Meanwhile, profits of domestic companies have increased by 24% against 14% growth of multinational companies.
Urban India accounts for 66% of total FMCG consumption, while rural India accounts for the remaining 34%. However, in the individual FMCG category, such as personal care, fabric care and hot beverages, rural India accounts for more than 40%. According to Assocham's analysis, companies like Hindustan Unilever Limited and Dabur India make up half of their sales from rural India, while Colgate Palmolive India and Marico account for about 37% respectively.

Objectives
- To analyze the Indian FMCG sector
- To study the growth of Indian FMCG sector

Methodology
Research Design
Research design is used to do this research. The purpose of this study is to provide a brief overview of the field and to critically analyze it. The study is based on secondary data collected from reports, books, journals, periodicals and newspapers.

Part A) Fast Moving Consumer Goods
Fast moving consumer goods are affordable products that require less purchasing effort. These are non-durable products that are sold in packaged forms. These products are purchased in small quantities and frequently by the end customer. The major FMCG segments can be classified as personal care, home care, branded and packaged food and tobacco.

Personal care: It includes oral care; Hair care; Skin care; Individual washing (soap); Cosmetics and toilets; Deodorants; Perfume; Paper products (tissues, diapers, sanitary); Shoe care etc.

Home care: These include fabric wash (laundry soap and synthetic detergent); Household cleaners (dish / dish cleaners, floor cleaners, toilet cleaners, air fresheners, disinfectants and mosquito repellents, metal polish and furniture polish).

Branded and packaged food and beverages: These include health drinks; Soft drinks; Staples / cereals; Bakery products (biscuits, bread, cakes); Breakfast food; Chocolate; Ice cream; Tea; Coffee; Processed fruits, vegetables and meat; Dairy products; Bottled water; Branded flour; Branded rice; Branded sugar; Interest etc.

Inspirits and Tobacco: It's hard to break down a specific product-wise sale for everything.
According to a recent report by Nielsen, the share of the food segment fell to 43% and the share of personal care increased to 22%.
FMCG brands have high brand equity due to its unique characteristics and extensive customer base. According to the "Most Trusted Brands Survey 2019" conducted by Brand Equity, 16 of the top 20 brands were FMCG. Like FMCG brands Colgate, Dettol, Maza and Magi were among top 5 brands.

Table 1: Most trusted Brands of 2019 (FMCG)

Brand	Ranking	Brand	Ranking
Colgate	1	Britania	11
Dettol	3	Rin	13
Maza	4	Parle	14
Megi	5	Lifeboy	15
Lux	6	Tata salt	16
Surf Excel	7	Cadbury dairy milk	18
Clinic plus	8	Kukure	19
Frooti	10	Glucon-D	20

Source: Economic Times

Part B) Overview of Indian FMCG Sector

History

The Indian Fast Moving Consumer Goods (FMCG) industry has taken off in the last fifty odd years. The growth of the FMCG industry between 1950 and 1980 was not significant. The FMCG industry was previously unattractive from an investor point of view due to low purchasing power and the government favoring the small scale sector. The story of FMCG growth continued in the early 1990s, following the regulation of the Indian economy. With relatively low capital and technical requirements, a number of new brands also emerged locally, while the slowdown led to the entry of many global players into the sector due to the status of FDI.
These factors made the FMCG market in India highly competitive and a significant contributor to the Indian economy. In the mid-nineties, the growth of the sector was very rapid where it declined rapidly in the late decade. The initial growth was due to increased production penetration and consumption levels. The FMCG market in India is expected to grow to 100 billion by 2025 on the back of a ride on a fast-growing economy, rising per capita income, and a growing trend of urbanization.

Growth of FMCG sector

The growth of the Indian FMCG sector between 2010 and 2019 has been phenomenal (about 16%). The industry has tripled in size in the last 10 years, growing much faster than in previous decades.
Even during the recession of the Indian economy, the FMCG sector recorded a growth rate of 14.5 per cent for the year 2018-19. According to Nomura, the instability of the agricultural sector has not had much impact on the FMCG sector. A comparison of the performance of the top Global0 Global FMCG companies against the top 500 Indian FMCG companies in the last ten years shows that India has surpassed global growth in all the major FMCG categories. According to PricewaterhouseCoopers
India is the second largest soap and scavenger in Asia after China. The growth of the Indian FMCG sector for the food, beverages and tobacco sector is promising in the near future.

Part C) Analysis of FMCG sector

i) Political

(a) Tax Structure: Complex tax structure, direct tax and changing tax policies are challenges for the sector.
Infrastructure issues: The performance of the FMCG sector is heavily dependent on government spending on agriculture, electricity and transport infrastructure.

(b). Regulatory hurdles: transcendental permits and licenses for various states, existing old labor laws, some of the graves and lengthy export processes are the main hurdles.

(c). Policy Framework: FDI in the retail sector (single-brand and multi-brand retail), licensing rules for setting up industries,
The change in the legal minimum price is an obstacle to the development of this sector.

ii) Economic

GDP Growth: The growth of FMCG industry is consistent with the Indian economy. It has increased by 15% in the last 10 years. It shows a good opportunity for this field in the near future.

Inflation: Inflationary pressures change the purchasing power of consumers which the Indian economy has been facing in recent years. But the Indian FMCG sector has not been much affected.

Consumer Income: The last few years have seen an increase in economic growth in India. India's per capita income increased from 797.2. US dollars in 2010 to 2140.3 US dollars in 2019. This has resulted in increased consumer costs

- **Private consumption:** The Indian economy, like other economies, has a very high rate of private consumption (61%).

iii) Social

Consumer profile changes: rapid urbanization, rising literacy, growing nuclear families and growing per capita income have all led to rapid growth and a change in demand patterns, leading to an explosion of new opportunities. About 45 per cent of India's population is under the age of 20 and the number of young people is set to increase.

Lifestyle changes: Over the past decade, Indian consumer spending patterns have been changing by spending more on necessities (e.g. food, textiles) than on prudent (3%). The apparel, footwear and healthcare segments have seen the highest growth in the last decade while essential items like cereals, edible oils, fruits and vegetables have seen a decline.

Rural Focus: As the market is becoming saturated, companies are focusing on entering rural areas by providing customers with small size or single-use packs.

iv) Technology

Technology Effective use of technology is found only in leading companies like HUL, ITC etc.

E-commerce will boost FMCG sales in the future. By 2020, more than 150 million customers will be affected by digital and they will spend more than 45 billion on FMCG categories-CII.

SWOT analysis

i) Power

Operational low operational costs: An important strength of this sector is low operational costs.

Urban Presence of established distribution networks in both urban and rural areas.

An established and extensive distribution network of both MNC and Indian

FMCG companies increased access for customers.

Well-known FMCG brand presence: The presence of a strong brand in the Indian FMCG sector not only leads to sales, but also provides opportunity in the future.

ii) Weakness

Technologies less scope to invest in technologies and achieve scale economy, especially in a small sector.

New Capabilities and Systems: The Indian FMCG sector, especially small players, is lagging behind in adopting innovative approaches to meet the needs of customers.

iii) Opportunities

Disorganized rural market, lifestyle changes: An unapplied, vast and fragmented rural market is an opportunity for FMCG players. Penetration levels are very low for many FMCG product categories, especially in rural areas.

Rising levels of income, i.e. increasing consumer purchasing power: According to a report by the McKinsey Global Institute, the income level of Indian consumers will almost triple in the next two decades and by 2025, India will be the world's fifth-largest consumer market. India's middle class will grow to 583 million or 41% of the population. Extreme rural poverty has fallen from 94% in 1985 to 61% in 2005 and is projected to reach 26% by 2025. This will increase the purchasing power of the Indian consumer.

Age the average local population of a large population is over 25 years: India has a large population, 54% of Indians are under 25 years of age. The growing productive population fuels growth and consumption

Consumer costs more consumer goods: Increasing revenue results in higher consumer goods costs. According to Nielsen's report, spending on consumer goods tripled Billion dollars in 2019.

iv) Threats

MNC with Liberalization Entry: In the post-liberalization era, the Indian market has become very competitive. Many multinational companies have entered the Indian market.

The removal of import restrictions resulted in the change of domestic brands. Rural demand is cyclical in nature and is also heavily dependent on monsoon.

- The complex, changing and unequal tax structure is a major threat to the FMCG sector.

New companies have made it mandatory for all companies to sell products in standard size packs.

Demand drivers

Continuous GDP growth (about 15% for the last five years), growing population, growing awareness, changes in consumer profile (younger population), increase in consumer income (increase of about 60% from 2010 to 2019), change in consumer spending pattern (no more spending) on non-food items), prudent income growth, lifestyle changes, growth in rural areas (growing share of non-agricultural sector), untapped rural market (low entries in many FMCG categories), rural consumers, high private consumption, increasing urbanization and huge export potential. Demand for this specialty has grown significantly as a result of recent corporate scandals.

Supply side drivers

The nature of FMCG production i.e. frequent consumption, low cost and readily available companies generate huge and constant demand. Apart from this the presence of strong brands in different FMCG categories has been developing the sector for years. Innovations in new products, e-commerce and marketing methods are helping companies improve the quality of service extended to their business. The growth in modern retail provided an opportunity for companies to expand their business.

Environmental drivers

Apart from this other macro and micro environmental factors such as economic recovery, favorable government policy, infrastructural development, availability of raw materials, low labor cost have created a favorable environment for the FMCG sector.

Result and Discussion

The Indian FMCG sector has almost tripled in the last decade, much faster than in the previous decade. The FMCG industry also saw a growth rate of 14% and 11% in FY10 and FY 2011 meltdown years, respectively, as evidenced by the relative slowdown in the sector. This growth in the FMCG sector is due to increased demand, growth in the supply side and favorable changes in government policy.

Conclusion

Today, the goods of the fast moving consumer have become an integral part of human life. The sector is a testament to the recession and has also created huge employment opportunities in India, making it one of the mainstays of the Indian economy. FMCG companies should generate opportunities such as increasing consumer revenue, changing consumer lifestyles, motivating rural consumers,

using its power to sustain economic growth. Unorganized sector competition can be overcome by increasing brand awareness and reducing costs through sharing resources such as distribution networks. Favorable developments in demand side, supply side and systematic drivers show that the sector has a bright future.

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