



## **Fast Moving Consumer Goods (FMCG) Sector in India: A study**

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### **Abstract**

Fast-moving consumer goods (FMCG) are products that are sold quickly and at relatively low cost. Examples include non-durable goods and soft drinks, toiletries, over-the-counter drugs, processed foods and other consumables.

FMCG is the 4<sup>th</sup> largest sector in the Indian economy and is valued at about USD 49 billion as of 2016 (as per IBEF). Household & Personal Care is the leading segment accounting for 50% of the overall market. This is followed by Healthcare at 32% and Food & Beverages comes next in terms of market share at 18%. Under Household & Personal Care, Hair care accounts for about 23% followed by Oral care at 15%, Home care at 6% and Skin care at 5%. Credit Appraisal is the process by which a lender appraises the technical feasibility, economic viability and bankability including creditworthiness of the prospective borrower.

However, in the last few years, the FMCG market has grown at a faster pace in rural India compared with urban India. Semi-urban and rural segments are growing at a rapid pace and FMCG products account for 50 per cent of total rural spending.

FMCG companies play a pivotal role in our daily lives. From tooth paste, soaps, daily use items etc. FMCG companies have dominated the Indian market and are set to grow further. The FMCG industry has seen some big players but disruption by new players has also changed the Indian scenario. The top Indian FMCG companies include names like HUL, ITC, Nestle and New Entrant Patanjali.

The main purpose of this paper is to study and analyze about Fast-moving consumer goods (FMCG) Sector in India. This paper focuses on Significance of FMCG Sector, Evolution of FMCG in India, Three main segments of FMCG, Growth in Indian FMCG Sector, Challenges in FMCG Sector, Market Share of Companies in a few FMCG Categories as of October 2017, Top 10 FMCG Companies of India 2017, Strategies Adopted in FMCG, Advantages of FMCG Sector, Trends of FMCG Sector and Scope of the FMCG Sector.

Data has been collected from multiple sources of evidence, in addition to books, journals, websites, and newspapers.

**Keywords:** growth, consumer, GST, rural, urban and FMCG sector

### **Introduction**

Fast moving consumer goods (FMCG) are the 4th largest sector in the Indian economy. There are three main segments in the sector – food and beverages which accounts for 18 per cent of the sector, healthcare which accounts for 32 per cent and household and personal care which accounts for the remaining 50 per cent.

The FMCG sector has grown from US\$31.6 billion in 2011 to US\$ 49 billion in 2016. The sector is further expected to grow at a Compound Annual Growth Rate (CAGR) of 20.6 per cent to reach US\$ 103.7 billion by 2020.

Accounting for a revenue share of around 60 per cent, urban segment is the largest contributor to the overall revenue generated by the FMCG sector in India and recorded a market size of around US\$ 29.4 billion in 2016-17. Semi-urban and rural segments are growing at a rapid pace and accounted for a revenue share of 40 per cent in the overall revenues recorded by FMCG sector in India. The rural FMCG market in India is expected to grow at a CAGR of 14.6 per cent from US\$ 29 billion in 2016 to US\$ 100 billion by 2020.

Growing awareness, easier access, and changing lifestyles are the key growth drivers for the consumer market. The Government of India's policies and regulatory frameworks

such as relaxation of license rules and approval of 51 per cent Foreign Direct Investment (FDI) in multi-brand and 100 per cent in single-brand retail are some of the major growth drivers for the FMCG market.

FMCG companies play a pivotal role in our daily lives. From tooth paste, soaps, daily use items etc. FMCG companies have dominated the Indian market and are set to grow further. The FMCG industry has seen some big players but disruption by new players has also changed the Indian scenario. The top Indian FMCG companies include names like HUL, ITC, Nestle and New Entrant Patanjali.

### **Objective of the study**

The objective of the present study is to review the following:

1. Significance of FMCG Sector
2. Evolution of FMCG in India,
3. Three main segments of FMCG
4. Growth in Indian FMCG Sector
5. Challenges in FMCG Sector
6. Market Share of Companies in a few FMCG Categories as of October 2017
7. Top 10 FMCG Companies of India 2017
8. Strategies Adopted in FMCG

- 9. Advantages of FMCG Sector
- 10. Trends of FMCG Sector
- 11. Scope of the FMCG Sector

**Research Methodology**

The study has been done mainly on the basis of secondary data and information available from books and published works and reports.

**Significance of FMCG sector**

- Strong MNC presence.
- Intense competition between organized and unorganized players.
- Easy availability of important raw materials.
- Cheaper labor cost.
- Large market.

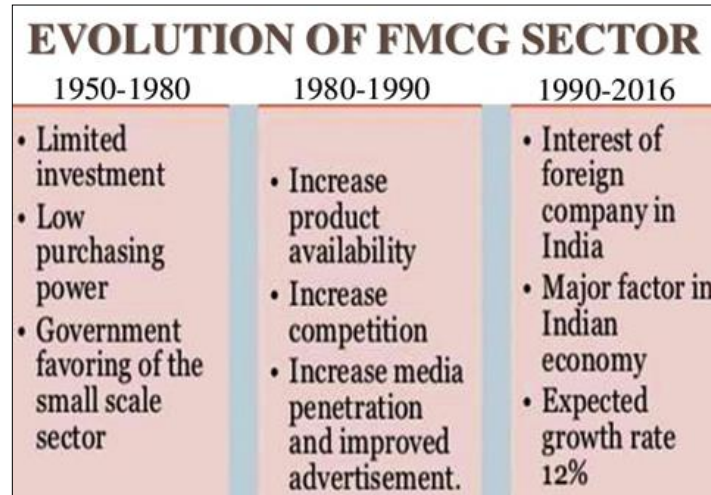


Fig 1

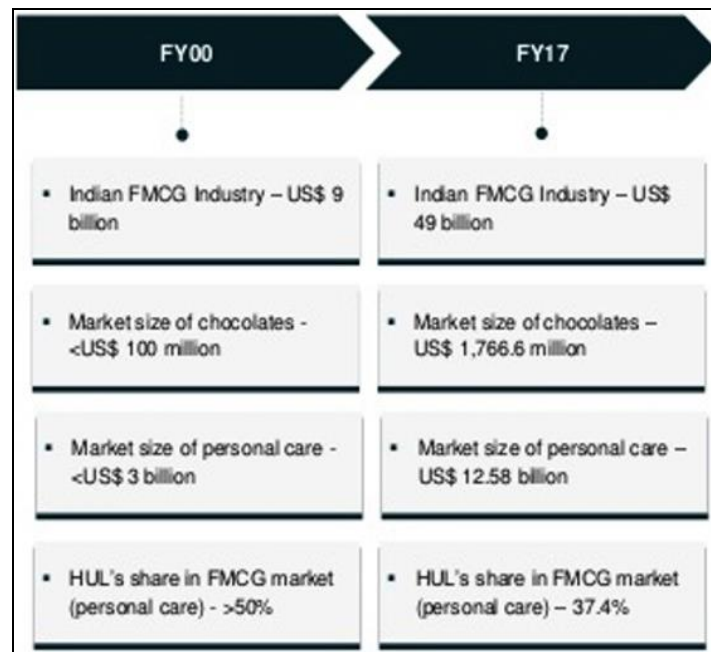


Fig 2

**Evolution of FMCG in India**

- FMCG is the 4th largest sector in the Indian economy
- Household and Personal Care is the leading segment, accounting for 50 per cent of the overall market. Hair care (23 per cent) and Food and Beverages (18 percent) comes next in terms of market share.
- Growing awareness, easier access and changing lifestyles have been the key growth drivers for the sector
- The number of online users in India is likely to cross 850

million by 2025.

- Retail market in India is estimated to reach US\$ 1.1 trillion by 2020 from US\$ 672 billion in 2016, with modern trade expected to grow at 20 per cent - 25 per cent per annum, which is likely to boost revenues of FMCG companies
- People are gracefully embracing Ayurveda products, which has resulted in growth of FMCG major, Patanjali Ayurveda, with a m-cap of US\$ 14.94 billion. The company aims to expand globally in the next 5 to 10years.

### Three main segments of FMCG

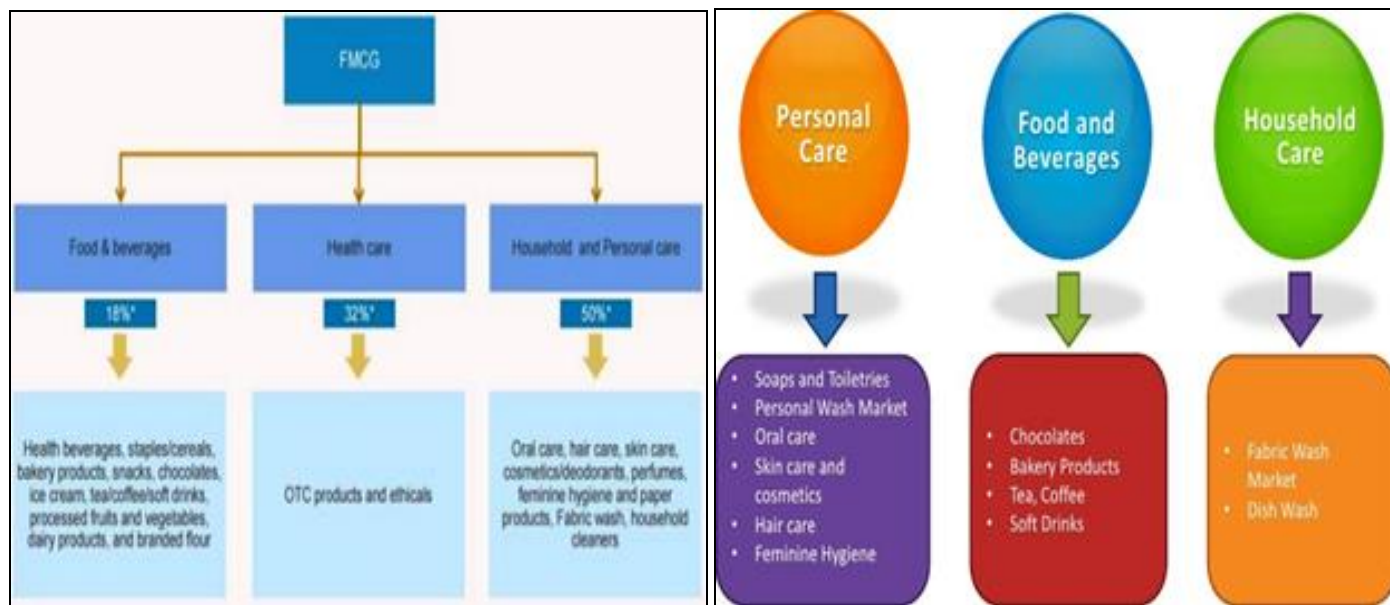


Fig 3

### Some of the major developments in the FMCG sector are as follows:

- Future Retail will acquire Hyper City, which is owned by Shoppers Stop for Rs 911 crore (US\$ 139.7 million) to further consolidate its business and have a better footing in the hypermarket segment.
- Indian biscuits giant, Britannia Industries Ltd (BIL), is setting up its largest plant ever, in Ranjangaon, Maharashtra, with an investment of Rs 1,000 crore (US\$ 156.89 million). The plant will have an annual capacity of 120,000 tonne and will be completed within the next two years.
- ITC Ltd has forayed into the frozen food market with the launch of frozen prawns and further plans to launch frozen vegetables and fruits, in a move towards reaching Rs 1 trillion (US\$ 15.54 billion) in revenue by 2030.
- Indian FMCG major, Patanjali Ayurved, is targeting a 10-fold growth in sales and is set to achieve a turnover of Rs 1 lakh crore (US\$ 15.52 billion) over the next five years.
- Dabur India Ltd set up its largest manufacturing plant globally, spread over 30 acres, at a cost of Rs 250 crore (US\$ 38.56 million) in Tezpur, Assam, which will produce Dabur's complete range of Ayurvedic medicines, health supplements, and personal care products among others.
- Hatsun Agro Product Ltd, the fifth-largest ice cream maker in India, plans to expand its business in Maharashtra, and might acquire a Greenfield project or farm in the state for the same.

### Some of the major initiatives taken by the government to promote the FMCG sector in India are as follows

- In the Union Budget 2017-18, the Government of India has proposed to spend more on the rural side with an aim to double the farmer's income in five years; as well as the

cut in income tax rate targeting mainly the small tax payers, focus on affordable housing and infrastructure development will provide multiple growth drivers for the consumer market industry.

- The Government of India's decision to allow 100 per cent Foreign Direct Investment (FDI) in online retail of goods and services through the automatic route has provided clarity on the existing businesses of e-commerce companies operating in India.
- With the demand for skilled labour growing among Indian industries, the government plans to train 500 million people by 2022 and is also encouraging private players and entrepreneurs to invest in the venture. Many governments, corporate and educational organisations are working towards providing training and education to create a skilled workforce.
- The Government of India has drafted a new Consumer Protection Bill with special emphasis on setting up an extensive mechanism to ensure simple, speedy, accessible, affordable and timely delivery of justice to consumers.
- The Goods and Services Tax (GST) is beneficial for the FMCG industry as many of the FMCG products such as Soap, Toothpaste and Hair oil now come under 18 per cent tax bracket against the previous 23-24 per cent rate.

### Growth in Indian FMCG sector

- The FMCG sector in India generated revenues worth US\$ 49 billion in 2016.
- By 2020, the revenues of the sector are forecasted to reach US\$ 104 billion.
- In the long run, with the system becoming more transparent and easily compliable, demonetisation is expected to benefit organised players in the FMCG industry.

- The growth in sales of major FMCG companies like Dabur, HUL, Marico, in the June-September 2017 quarter, is signaling the revival of consumer demand in India.
- Hair Care is the leading segment, accounting for 23 per cent of the overall market.
- Food Products is the 2nd leading segment of the sector accounting for 18 per cent followed by health supplements and oral care which has a market share of 16 per cent and 16 per cent, respectively.
- Accounting for a revenue share of around 60 per cent, urban segment is the largest contributor to the overall revenue generated by the FMCG sector in India and recorded a market size of around US\$ 29.4 billion in 2016-17.
- Semi-urban and rural segments are growing at a rapid pace and accounted for a revenue share of 40 per cent in the overall revenues recorded by FMCG sector in India.
- In the last few years, the FMCG market has grown at a faster pace in rural India compared with urban India.
- FMCG products account for 50 per cent of total rural spending.
- In FY17, rural India accounted for 40 per cent of the total FMCG market.
- Total rural income, which is currently at around US\$ 572 billion, is projected to reach US\$ 1.8 trillion by FY21. India's rural per capita disposable income is estimated to increase at a CAGR of 4.4 per cent to US\$ 631 by 2020.
- As income levels are rising, there is also a clear uptrend in the share of non-food expenditure in rural India.
- The Fast Moving Consumer Goods (FMCG) sector in rural and semi-urban India is estimated to cross US\$ 220 billion by 2025.
- Amongst the leading retailers, Dabur generates over 40-45 per cent of its domestic revenue from rural sales. HUL rural revenue accounts for 45 per cent of its overall sales while other companies earn 30- 35 per cent of their revenues from rural areas.
- Consumer products manufacturers ITC, Godrej Consumer Products Limited (GCPL) and HUL reported healthy net sales in FY17.
- Aggregate financial performance of the leading 10 FMCG companies over the past 8 quarters displays that the industry has grown at an average 16-21 per cent in the past 2 years.
- In December 2016, Godrej Consumer Products Ltd (GCPL) acquired remaining 49 per cent in Kenyan Co Charm Industries
- Reckitt Benckiser posted 14 per cent growth in sales in FY16, on the back of a forced distribution push in rural market, in support from the Swach Bharat Campaign.
- Biscuits and confectionery maker - Parle Products, is aiming to increase its market share in the premium biscuits category from 15 per cent in 2016-17 to around

20 per cent by 2017-18.

- ITC (FMCG) has generated highest revenue till FY17.
- Indian biscuits giant, Britannia Industries Ltd (BIL), is setting up its largest plant ever, in Ranjangaon, Maharashtra, with an investment of Rs 1,000 crore (US\$ 156.89 million). The plant will have an annual capacity of 120,000 tonne and will be completed within the next two years.

**Challenges in FMCG sector**

India's FMCG market is highly fragmented which is a contrast to that in U.S where it is dominated by a few big players. Therefore, launching and growing market share around a product poses tremendous challenges. Initially a huge amount of money is invested for promotion and advertising and image building. This is very important for a market like in India where there are many players for the same product. Also the Indian population wants a better return value for their investment. So the game really lies in setting up a price point. Setting up logistics and distribution chains also possesses difficult challenges which are being tackled by constructing and increasing the existing network of railways and roadways and other modes of transportation for easy transportation for goods throughout the country.

**Market share of companies in a few FMCG categories as of October 2017**

	Market leader	Other Leading Players	
Hair oil	 30%	 19%	
Shampoo	 47%	 27%	
Oral care	 54.9%	 30%	 14%
Skin care	 54%	 12%	 3%
Fruit juice	 60%	 30%	

Fig 4

**Table 1:** Top 10 FMCG companies of India 2017

Rank	As per higher consumption rate	As per Revenue	Providing every house hold with exactly the product India wants.	According to the brand value and revenue earnings	By Revenue & Income	Providing different products for the use of the customer
1	Hindustan Unilever Limited	Hindustan Unilever Limited	Hindustan Unilever Limited	Hindustan Unilever Limited	ITC Limited	Hindustan Unilever Limited
2	ITC Limited	Patanjali Ayurved	Colgate-Palmolive	Colgate- Palmolive	Hindustan Unilever Limited	ITC Limited
3	Dabur India Ltd	ITC Limited	ITC Limited	ITC Limited	Britannia Industries Limited	Amul
4	Britannia Industries	Nestle India	Nestle India	Nestle India	Nestle India	Dabur India Ltd
5	Godrej Group	Godrej Group	Parle Agro	Parle Agro	Dabur India Ltd	Britannia Industries Limited
6	Parle Agro	Britannia Industries Limited	Britannia Industries Limited	Britannia Industries Limited	Marico Limited	Marico Limited
7	Amul	Dabur India Ltd	Marico Limited	Marico Limited	Patanjali Ayurved	Pidilite Industries
8	Pidilite Industries	Tata Global Beverages	Procter & Gamble	Procter & Gamble	Godrej Group	Godrej Group
9	Patanjali Ayurved	Marico Limited	Godrej Group	Godrej Group	GlaxoSmithKline	Parle Agro
10	Haldiram's	Colgate Palmolive	Amul	Amul	Colgate Palmolive	Colgate Palmolive

**Table 2:** Strategies adopted in FMCG

Rank	Top Largest FMCG Companies in India 2017	Top FMCG Companies in World 2017
1	Amul	Nestle
2	Britannia Industries Limited	Philip Morris
3	Dabur India Ltd	Pepsi
4	Godrej Group	Procter & Gamble
5	Haldiram's	Hindustan Unilever Limited
6	Hindustan Unilever Limited	Coca Cola
7	ITC Limited	Johnson & Johnson
8	Parle Agro	JBS
9	Patanjali Ayurved	Tyson Food Co.
10	Pidilite Industries	L'Oreal

**Promotions and offers**

- FMCG companies are trying to influence consumers with intelligent deals.
- Firms like ITC offers combo deals to the consumers. For example, in the case of soaps and cosmetics; 4 soap cases are offered at the price of 3, selling the range of deodorants for men and women at a discounted price
- Amazon India is planning to invest significantly over the coming months for expanding its grocery and food business, launching more products and categories and forming new partnerships with huge grocery and supermarket chains.

**Research online Purchase offline**

- The internet enables consumers to make their own research on the kind of products or commodities they want to purchase. 1 in 3 FMCG shoppers goes online 1st and then to the stores.
- Almost half of the automobile consumers follow Research Online Purchase Offline (ROPO) method.

**Production Innovation**

- Indian consumers have become choosy and are less likely to stay loyal to a brand.
- Dabur has launched its sugar free variant for Chyawanprash in India.
- As of March 2017, ITC, which ventured in coffee and chocolates segment under the Fabelle and Sunbean brands is planning to launch another premium range of items. By doing so, the company is planning to compete with brands like Nestle and Cadburys.

**Customization**

- Product Flanking: Introduction of different combinations of products at different prices, to cover as many market segments as possible.
- Emami, has decided to rework on its overseas strategy by planning manufacturing and acquisitions in overseas markets. The company plans to re-work on its product portfolio by getting into new categories with higher buying preference and revamp its distribution networks.

**Advantages of FMCG sector****Growing Demands**

- Rising incomes and growing youth population have been key growth drivers of the sector. Brand consciousness has also aided demand.
- India's consumer spending is expected to increase to US\$ 3.6 trillion by 2020 and India's contribution to global consumption is expected to more than double to 5.8 per cent by 2020.\*
- Tier II/III cities are witnessing faster growth in modern trade.

### Higher Investments

- Many players are expanding into new geographies and categories
- Modern retail share is expected to triple its growth from US\$60 billion in 2015 to US\$180 billion in 2020
- With an investment of US\$254.50 million, Wipro is diversifying and expanding its product range in energy drinks, detergents and fabric conditioners.
- Patanjali will spend US\$743.72 million in various food parks in Maharashtra, M.P, Assam, Andhra Pradesh and Uttar Pradesh.

### Attractive Opportunities

- Low penetration levels in rural market offers room for growth
- Disposable income in rural India has increased due to the direct cash transfer scheme
- Exports is another growing segment
- E-commerce companies like Amazon are strengthening their business in FMCG sector, by positioning their platform pantry as front line offering to drive daily products sales.

### Policy Support

- Investment approval of up to 100 per cent foreign equity in single brand retail and 51 per cent in multi-brand retail
- Initiatives like Food Security Bill and direct cash transfer subsidies reach about 40 per cent of households in India
- The minimum capitalisation for foreign FMCG companies to invest in India is US\$100 million

### Trends of FMCG sector

- **Foreign Direct Investment:** Foreign investments in this sector have grown gradually to reach the current size.
- **Economic progress:** Economic progress is favorably influencing the FMCG sector. Growth in FMCG sector majorly depends upon the performance of the economy.
- **Rising advertising by FMCG companies:** FMCG companies in India have increased their expenditure on advertisement and sales promotion by about 15-20% by in September - December 2017 on account of growing competition and in an effort to reach out to a wider target audience.
- **Growing contribution from rural markets:** Rural consumption holds the key for FMCG in 2017. The rural contribution to overall FMCG revenue has gone up from 30% five years ago to 35% now, on the back of increased government focus and support to the rural segment in the form of investments in rural infrastructure. Dabur generates over 40-45 per cent of its domestic revenue from rural sales. HUL rural revenue accounts for 45 per cent of its overall sales while other companies earn 30-35 per cent of their revenues from rural areas.

### Scope of the FMCG sector

- Continuous growth in sales and profit lead to right future
- Growth will be positive because of recent development in technology.

- GST motivates FMCG sector and export as well INDUSTRY.

### Conclusion

- FMCG is the 4th largest sector in the Indian economy. FMCG companies play a pivotal role in our daily lives. From tooth paste, soaps, daily use items etc.
- FMCG companies have dominated the Indian market and are set to grow further.
- The FMCG industry has seen some big players but disruption by new players has also changed the Indian scenario.
- The top Indian FMCG companies include names like HUL, ITC, Nestle and New Entrant Patanjali.
- Foreign investments in FMCG sector have grown gradually to reach the current size.
- Rural consumption holds the key for FMCG in 2017.
- FMCG companies in India have increased their expenditure on advertisement and sales promotion on account of growing competition and in an effort to reach out to a wider target audience.
- The Fast Moving Consumer Goods (FMCG) sector in rural and semi-urban India is estimated to cross US\$ 220 billion by 2025.
- FMCG companies are trying to influence consumers with intelligent deals.
- The Goods and Services Tax (GST) is beneficial for the FMCG industry as many of the FMCG products such as Soap, Toothpaste and Hair oil now come under 18 per cent tax bracket against the previous 23-24 per cent rate.
- Consumer products manufacturers ITC, Godrej Consumer Products Limited (GCPL) and HUL reported healthy net sales.
- FMCG Sector has a very bright future related to developments happening in demand side, supply side and systematic drivers.

“Don’t find customers for your products; find products for your customers”. – *Seth Godin*.

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