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AN OVERVIEW OF INDIAN FMCG SECTOR

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ABSTRACT

The Fast Moving Consumer Goods (FMCG) sector is the key contributor to the Indian economy. This fourth largest sector of Indian economy provides employment to around 3 million people which accounts for approximately 5% of the total factory employment in the country. These products are daily consumed by each and every stratum of the society irrespective of social class, income group, age group, etc. FMCG sector is more lucrative because of low penetration levels, well-established distribution network, low operating cost, lower per capita consumption, large consumer base and simple manufacturing processes for most of the products resulting in fairly low capital investments.

KEYWORDS: *Social Class, Income Group, Age Group, Low Capital Investments*

INTRODUCTION

The industry is highly competitive due to the presence of multinational companies, domestic companies, and unorganized sector. A major portion of the market is captured by unorganized players selling unbranded and unpackaged products. More than 50 per cent of the total revenues of FMCG companies come from products worth Rs 10 or less1. This has made the proliferation of localized brands which are offered in loose form in small towns and the rural part where brand awareness is low. In the last 10 years, domestic players are giving tough competition to multinationals; in fact they have outstripped many MNCs in growth and market cap. Between 2005- 2014 the profit of domestic companies increased by 24% against 14% increase for multinational companies.

OBJECTIVES

- To understand the concept of FMCG
- To present an overview of Indian FMCG sector

METHODOLOGY

The research design is used for conducting this study. The objective of this study is to provide a brief overview of the sector and critically analyze it. The study is based on secondary data which is collected from thesis, reports, books, journals, periodicals and newspapers.

SWOT Analysis

Strengths

- Low operational costs: One of the important strength of this sector is low operational cost.
- Presence of established distribution networks in both urban and rural areas. A well established and wide distribution network of both MNC and Indian FMCG companies increased access for consumers.
- Presence of well-known FMCG brands: The Presence of strong brands in the Indian FMCG sector not only results in increased sales but also provides an opportunity in the future.

Weakness

- Low scope for investing in technologies and achieving economies of scale, especially in small sectors.
- “Me- too products, which illegally mimic the labels of established brands. These products narrow the scope of FMCG products in rural and semi-urban markets.
- Less innovative abilities and systems: the Indian FMCG sector, especially small players are lagging behind in adopting innovative approaches for fulfilling needs of the consumers.

Opportunities

- Untapped rural market, changing lifestyle: An untapped, huge and fragmented rural market is an opportunity for FMCG players. The Penetration level for many FMCG product categories is very low, especially in the rural area.
- • Rising income levels, i.e. increase in purchasing power of consumers: According to Mckinesy Global Institute report, in next two decades income level of Indian consumer will almost triple and India will become world’s fifth – largest consumer market by 202510.India’s middle-class size will increase to 583 million, or 41% of the population. Extreme rural poverty has declined from 94% in 1985 to 61% in 2005 and is projected to drop to 26% by 2025. This will result in the increased purchasing power of Indian consumer.

Threats

- Large domestic market with more population of median age 25 years: India has a large young population, 54 % of Indians are under 25 years of age. A rising productive population fuels growth and drives personal consumption
- High consumer goods spending: The rising income is resulting in high spending into consumer goods. According to a Nielsen report, the spending on consumer goods set to triple to $ 5 billion by 201511.
- Export potential to neighboring countries like Bangladesh, Pakistan, Srilanka.
- The entry of MNCs with liberalization: In the post-liberalization era Indian market has become highly competitive. Many multinational companies have entered into the Indian market.
- The removal of import restrictions resulted in the replacement of domestic brands.
- Rural demand is cyclical in nature and also depends upon monsoon to a large extent.
- Complicated, changing and uneven tax structure is one of the major threats for the FMCG sector.

- New packaging norms made mandatory for all companies to sell products in standard size packs.

FINDINGS & DISCUSSION

Indian FMCG sector has almost tripled in the last decade, much faster than the past decades. Even in the meltdown years of FY 2008 and FY 2009, the FMCG industry witnessed sustained growth rates of 14% and 11% respectively this sector was relatively recession-proof12. This growth in the FMCG sector is due to an increase in demand, developments in the supply side and favorable changes in Government Policy.

CONCLUSIONS

Today, Fast Moving consumers goods have become an integral part of human life. This sector is recession proof and created huge employment opportunity in India, hence becoming one of the key pillars of the Indian economy. FMCG companies should encash opportunities like increasing consumer income, changing consumer lifestyle, aspiring rural consumer, consistent economic growth by utilizing their strengths. The competition from the unorganized sector can be overcome by increasing brand awareness and by reducing cost through sharing resources such as distribution network. Favorable developments happening in demand side, supply side and systematic drivers shows that this sector has a very bright future.

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