CHAPTER 2: FAST MOVING CONSUMER GOODS
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CHAPTER 2

FAST MOVING CONSUMER GOODS

2.1 INTRODUCTION

Fast Moving Consumer Goods (FMCG) are products that are of relatively low cost and have a quick turnover. They get replaced within a year. FMCG products include household items as soaps, detergents, household accessories, etc, personal care items as shampoos, toothpaste, shaving products, etc and food and beverages as snacks, processed foods, tea, coffee, edible oils, soft drinks etc.

Figure 2.1 FMCG industry

(Source: HUL)

(Notes: OTC is over the counter products, ethicals are a range of pharma products)

With the growing competition among FMCG manufacturers investment in FMCG industry especially in India is increasing.

Food products and personal care together make up two-third of the FMCG sector’s revenues as it is mentioned in the figure of market break-up by revenue statistics. In 2011, rural-urban market
breakup was 33.5% and 66.5%. Now, rural and urban markets account for 50%-50% of the FMCG market, signaling a shift towards rural markets. While online sales channels are available, still grocers are the most preferred sales channel for FMCG among customers.

**Figure 2.2 Market break-up of FMCG industry**

(Food products account for 43% of the overall market.)

The top Indian FMCG companies by market capitalization as per April-September data are: The rank denotes the ranking in Business Today’s “India’s Most Valuable Companies”. Besides these companies, top FMCG companies include GCMMF (Amul) and Asian paints. As the sector accounted for 2.0% of the country’s total FDI inflow over April 2000 to March 2013, industry has witnessed healthy FDI inflow.
Figure 2.3 Top FMCG Companies

(Source: Business Today’s “India’s Most Valuable Companies”)

Figure 2.4 Indian Consumers Spending Pattern

(Source: www.tradingeconomics.com | MINISTRY OF STATISTICS AND PROGRAMME IMPLEMENTATION (MOSP))
2.2 OUTLOOK

India has 17% of the world’s population and half of these are below 25 years of age which increases the numbers joining the Indian workforce with a median age of 25 years. In world consumer spending India’s share is set to enlarge from 1.9% in 2005 to 3.1% in 2020. Income in the hands of younger consumers while opening up new categories in the FMCG space with a higher propensity to spend is providing optimism to the economy. As more women are joining India’s workforce India is under changing phase. To introduce products in the convenience and health foods segments FMCG players are finding opportunities. With the innovations like single use sachets, distribution of smaller pack sizes to reach out to the rural and lower section of the economy is gaining demand, spending on women’s personal care products is also becoming far more acceptable. With innovative products which caters to regional or local tastes the needs of niche consumers is also benefiting in growth of the industry. The key growth drivers are:

- Growing GDP of India
- Urbanization
- Evolving life style of consumer
- Increase in income
- Changing spending pattern
- Changing consumer profile and mind set
- Growing modern retail

Some of the challenges this sector is likely to face are:

- Increasing rate of inflation, which is likely to lead to higher cost of raw materials.
- The standardization of packaging norms that is likely to be implemented by the Government by Jan 2013 is expected to increase cost of beverages, cereals, edible oil, detergent, flour, salt, aerated drinks and mineral water.
- Steadily rising fuel costs, leading to increased distribution costs.
- The present slow-down in the economy may lower demand of FMCG products, particularly in the premium sector, leading to reduced volumes.
2.3 THE CHALLENGE - NEW PRODUCT DEVELOPMENT (FMCG)

As far as the economic scenario is concerned India is surely on a roll. The last twenty years have really proved extremely beneficial for India. As far as GDP ranking is concerned India now stands only after Brazil. India has replaced Russia and grabbed the second position in the global forefront mostly due to the strategic planning and huge amount of expenditures on education in India. India is expected to cross the 8 % mark and move to 9 % GDP growth rate. In the world sheltering over one billion people India is the second largest populated country. Although India has not had a striking 10 % year over year economic growth as its neighbor China it has still managed to grow at a nominal rate. India’s GDP growth has been slow but careful. According to trade pundits India will take the third position as far as GDP growth in concerned by 2020 replacing Germany, the UK, and Japan. Only United States and China will be ahead of it. All the important sectors in India have shown positive signs of growth from the last five years.

Coca-cola, a leading soft drink manufacturer, wishes to invest a huge amount of money ($5 billion) to improve their manufacturing units and distribution channels in India (which is an increase of $3 billion over its previous commitment in India) as they see a high potential growth in the soft drink industry in the next few years and would like to become the most preferred soft drink in India.

➢ Consumers magnetism for FMCG

They build and maintain great relationships, consistently influence (in a good way) the people around them, consistently make people feel better about themselves--they’re the kind of people everyone wants to be around...and wants to be they.

- Compensate awareness way more than consumer talk.
- Don’t practice selective hearing.
- Position their stuff away.
- Provide before they receive--and often consumer never receive.
- Don’t act self-important…
- Comprehend other people are more important.
- Stand out the spotlight on others.
- Decide consumer words.
• Don’t discuss the failings of others...
• Voluntarily admit consumer failings.

➢ **Increase in Sales Efficiency & Effectiveness of FMCG.**

To help create sustainable, manageable and continuously improvable results of FMCG product strategic approach uses proven process management methods.

• Strategic factors which are important
• Improvement in the sales process for better results
• 21st century sales management move
• To create more effective sales compensation plans
• To develop or tweak channel strategy
• An effective inside sales approach to the existing sales toolkit
• To meet the needs of the sales process objectively evaluate appropriate CRM/MSA tools
• To make sales people better presenters
• To train sales people
• To take sales operations function to the next level

➢ **Inconveniences of FMCG Products Launch**

• Fast Growth
• Customer expectations not satisfied.
• New item exists in product mix.
• Unknown/new category and consumer education
• Revolutionary product with no market.

### 2.4 PROSPECTS OF FMCG

**Market research** - Market research is the key and without the necessary information about the customer it becomes difficult to understand the requirements. To buy as well as it provides
critical information and direction which identifies market needs and wants, product features, pricing, decision makers, distribution channels, motivation.

**Timing** – It is the element of the process coordinated. Whether the production schedule on the same time as the promotion? Whether the product should be ready when you announce it? Stick to the set time frame for the rollout. Many products need to be timed to critical points in the business cycle. Invite failure if you miss it. When the product lags behind in manufacturing there are marketing tales galore about companies making new product announcements and then having to re-announce. The result can be loss of credibility, loss of sales, and another failure.

**Capacity** – If the new product or service is successful, to cope with the success, do you have the personnel and manufacturing capacity? Extended lead times can be as deadly as bad timing.

**Testing** - Test market the new product and it should have the features the customer wants. Be sure the distributor and sales organization are comfortable selling it and the customer will pay the price which is being asked. Advertising and promotion needs to be tested as well.

**Distribution** – Who / Which distributor is going to sell the product? Is it possible to use the same distribution channels you are currently using? Can the same independent representatives or sales force be used? To convince a distributor, retailer, or agent to take on the new line is there sufficient sales potential in the new product? Everyone in the channel wants some assurance that the investment of time and money will be recovered since there are significant up-front selling costs involved in introducing new products.

**Training** - about the new product distribution channels will need to be trained and the sales organization involved in the marketing/selling, inside employees. Face-to-face training needs to be provided or perhaps some type of multimedia program will do the job, if the product is sufficiently complex. Literature may work, if the product is not that complex. Train before the product hits the shelves, not after because timing is critical.
**Promotion** - Advertising, trade shows, promotional literature, technical literature, samples, incentives, Web site, seminars, public relations are some of the promotional program to support the introduction and time it with production, inventory, shipments, and training. Without the right support materials the new product will simply sit in the warehouse. The probability of success can increase with research, timing, and planning.
2.5 FMCG industry to be Rs 4000-6000 Billion industry by 2020

The Indian FMCG industry touches the life of every Indian and therefore has perhaps the widest reach among all industries in India with over INR 1300 billion in size. By growing much faster in past decades the industry has tripled in size over the last 10 years. Given the low penetration of most categories and rising consumer incomes, the industry’s potential to grow further and faster is awesome.

The sector is more or less immune to recessionary pressures with the given the inherently essential nature of the products and the last decade has seen the sector growing by 11% annually.

Trends across consumers, markets, and environments which will shape the industry by 2020

Continuous Income growth
The continuous growth in income with willingness to spend will push the consumer for up-trading and they will demand for higher priced, better quality products.

Rapid Globalization
While many leading foreign multinational companies (MNCs) have operated in the country for years, the next decade will witness increased competition from Tier 2 and 3 global players, given liberal policies.

Evolving Categories
Many consumers will shift from basic ‘need’ to ‘want’ based products with rising economic status.

Enabling Policies
If executed, many government policies under consideration can help create a more suitable operating environment. This will help in boosting both demand and supply. Because of increase in income levels and spread of education demand will go up and by removal of process bottlenecks and boost in infrastructure investments supply will be augmented.
Growth across FMCG players

Within a highly developed and intensely competitive landscape of the Indian FMCG market three well-identified sets of players operate.

- Foreign players such as Unilever, P&G, Nestle and PepsiCo who are present through their subsidiaries.
- Strong Indian players such as Marico, Dabur and Godrej Consumer Products with established national presence.
- Regional or small domestic players, such as Ajanta, Anchor, CavinKare etc., who are present in a few regions of the country.

Apart from these, there are regional and small-scale FMCG players who mainly compete by offering low-priced products with similar looks or packaging compared to the bigger brands, to the ‘right consumers’ typically based in rural areas or in small towns, such as small tea producers and organic food producers,. These players have a competitive edge over larger FMCG players with lower corporate overheads and clear focus on specific consumer requirements.

New consumers

- Growing population
- Increase in penetration
- Increase in consumption
- Increase in consumption on every occasion
- GDP, increase in incomes and younger population, who drive the consumption
- Up-trading
- Use of premium and sophisticated products
- Increase in income, participation of women in workforce, changes in lifestyle powering above Young population (below age of 30 years) comprises 59% population currently.

2.6 NEW STRATEGIES: EXAMPLES

PEPSI: to attract consumers in the wake of cut-throat competition in the sector FMCG companies are using innovative marketing strategies. To lure passers-by into its newly-launched
brand Cafechino, Pepsi is using an aromatic point at the sales joint, emitting coffee aroma. The company also put up a preview of the product in the Pepsizone on the web. This enables the consumers to order the product online. “We have been getting an average of 200 orders an hour on the website, so the response has been great,” said Vipul Prakash, executive vice-president (marketing), Pepsi Foods.

**KELLOGS:** Kellogg’s ran an interactive commercial on television where consumers were asked to write how the ad should end. “The aim was to do something interactive to induce more consumers,” said Kalyan Bandyopadhyay, director (marketing), Kelloggs India. The options were provided on the packets. The consumers had to send responses on the way the commercial should end. According to Bandyopadhyay, the response within the first few weeks itself had been amazing.

**SAFFOLA:** Even for an otherwise mundane product such as cooking oil, it becomes important to break through the clutter. This is what Marico realized while introducing the Losorb variant of Saffola. The result was the first MMS ad campaign, which the company launched. “It becomes important to reinvent mediums when communicating with the customers today,” says R Chandraseker, category head, Marico India. **BINGO:** Bingo touched a chord with consumers through humour and irreverent advertising.