Chapter 5

FMCG SECTOR – AN OVERVIEW

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5.1 Introduction

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 FMCG sector has been making a significant contributions to the socio-economic growth of India since several years. The latest report of FICCI’s FMCG committee and Techno pack a research agency have made the following observations based on their research conducted during 2009.

- FMCG is the fourth largest sector in the Indian economy. The sector indicated a significant growth during the last 3-4 years, even during the last 12 months despite the economic slowdown. In terms of value the sector is estimated to be US$ 25 billion (Rs. 120,000 crores).
- India’s FMCG sector creates employment for more than three million people in downstream activities.
- Its principal constituents are Household Care, Personal Care and Food & Beverages.
- Based on the current trends the sector is expected to grow 10-12% for the next 10 years, making it to a size of US$ 43 billion (Rs. 206,000 crores) by 2013 and US$ 74 billion (Rs. 355000) by 2018. The latest FDI scenario in retail sector and the implementation of Goods and services Tax (GST) will further boost the growth of this sector.

5.2 The Future growth of FMCG Industry

Fast moving consumer goods will become a Rs 400,000-crore industry by 2020. A Booz & Company study finds out the trends that will shape its future.
(Abhishek Malhotra, 2010). The study further justifies the above statement. The anti-ageing skincare category grew five times between 2007 and 2008. Another case, who could have thought Indian consumers would take oral hygiene so seriously? Mouth-rinsing seems to be picking up as a habit and mouthwash penetration is growing at 35 per cent a year. More so, who could have thought rural consumers would fall for shampoos? Rural penetration of shampoos increased to 46 per cent last year, way up from 16 per cent in 2001. Consumption patterns have evolved rapidly in the last five to ten years. The consumer is trading up to experience the new or what he hasn’t. He’s looking for products with better functionality, quality, value, and so on. What he ‘needs’ is fast getting replaced with what he ‘wants’. A new report by Booz & Company for the Confederation of Indian Industry (CII), called FMCG Roadmap to 2020: The Game Changers, spells out the key growth drivers for the Indian fast moving consumer goods (FMCG) industry in the past ten years and identifies the big trends and factors that will impact its future.

The report estimates the FMCG sector witnessed robust year-on-year growth of approximately 11 per cent in the last decade, almost tripling in size from Rs 47,000 crore in 2000-01 to Rs 130,000 crore now (it accounts for 2.2 per cent of the country's GDP). Growth was even faster in the past five years — almost 17 per cent annually since 2005. It identifies robust GDP growth, opening up of rural markets, increased income in rural areas, growing urbanization along with evolving consumer lifestyles and buying behaviors as the key drivers of this growth.

The report further estimates that the FMCG industry will grow at least 12 per cent annually to become Rs 400,000 crore in size by 2020. Additionally, if some of the factors play out favorably, say, GDP grows a little faster, the government removes bottlenecks such as the goods and services tax (GST), infrastructure investments pick up, there is more efficient spending on government subsidy and so on, growth can be significantly higher. It could be as high as 17 per cent, leading to an overall industry size of Rs 620,000 crore by 2020.
According to Booz & Company Partner Abhishek Malhotra: “The Indian GDP per capita is low but many Indian consumer segments which constitute rather large absolute numbers are either close to or have already reached the tipping point of rapid growth. The sector is poised for rapid growth over the next 10 years, and by 2020, the industry is expected to be larger, more responsible and more tuned to its customers.”

Based on research on industry evolutions in other markets and discussions with industry experts and practitioners, Booz & Company has identified some important trends that will change the face of the industry over the next ten years. Some key ones related to evolution of consumer segments are as follows:

5.3 Accelerating Premiumisation

The rising income of Indian consumers has accelerated the trend towards ‘premiumisation’ or up-trading. The trend can be observed prominently in the top two income groups — the rich with annual income exceeding Rs 10 lakh, and the upper middle class with annual income ranging between Rs 5 lakh and Rs 10 lakh. The reports says, the rich are willing to spend on premium products for their ‘emotional value’ and ‘exclusive feel’, and their behavior is close to consumers in developed economies. They are well-informed about various product options, and want to buy products which suit their style. The upper middle class wants to emulate the rich and up-trade towards higher-priced products which offer greater functional benefits and experience compared to products for mass consumption.

While these two income groups account for only 3 per cent of the population, the report estimates that by 2020 their numbers will double to 7 per cent of the total population. The rich will grow to approximately 30 million in 2020, which is more than the total population of Sweden, Norway and Finland put together. Similarly, the upper middle segment will be a population of about 70 million in 2020, which is more than the population of the UK.

Over the next ten years, these groups will constitute large enough numbers to merit a dedicated strategy by FMCG companies. “We have seen companies
focused on selling primarily to the mid segments. Often, there is no clear segmentation being offered. Players will do well to clearly separate their offerings for the upper and mid segments,” says Malhotra and adds that the two should be treated as separate businesses with a dedicated team and strategy for each.

5.4 Evolving Categories

Categories are evolving at a brisk pace in the market for the middle and lower-income segments. With their rising economic status, these consumers are shifting from need- to want-based products. For instance, consumers have moved from toothpowders to toothpastes and are now also demanding mouthwash within the same category.

Also, the report notes, consumers have started demanding customized products, specifically tailored to their individual tastes and needs. “The complexities within the categories are increasing significantly. Earlier a shampoo used to have two variants - normal and anti-dandruff. Now, you have anti-dandruff shampoos for short hair, oily hair, curly hair, and so on. Everything is getting customized,” says Malhotra.

The trend towards mass-customization of products will intensify with FMCG players profiling the buyer by age, region, personal attributes, ethnic background and professional choices. Micro-segmentation will amplify the need for highly customized market research so as to capture the specific needs of the consumer segment targeted, before the actual product design phase gets underway.

The beauty products market will grow by 20 per cent per annum as result of the changing socio-economic status of consumers, especially women. Middle-class women are now more conscious of their appearance and are willing to spend more on enhancing it. Products such as colour cosmetics (growing by 46 per cent) and sun care products (growing at 13 per cent) have latched on to this trend rapidly.
5.5 Growth Drivers: FMCG Sector

There are many factors that drives the growth of FMCG sector in India. The higher disposable income of rural consumers, the emergence of organized retail sector, improving infrastructure leading to better distribution efficiency etc are some of it. (Mahesh Babaria & Mittal Dharod, 2009).

5.5.1 Disposable Income

There is increase in disposable income, observed in both rural and urban consumers, which is giving opportunity to many rural consumers to shift from traditional unorganized unbranded products to branded FMCG products and urban fraternity to splurge on value added and lifestyle products. The increasing salaries, along with rising trend of perks in the corporate sector at regular intervals, have increased people’s spending power. (Mahesh Babaria & Mittal Dharod, 2009).

5.5.2 Organized Retail

The emergence of organized retail have lead to more variety with ease in browsing opportunity to compare with different products in a category, one stop destination (entertainment, food and shopping) etc, which is playing an important role in bringing boom in the Indian FMCG market. Currently the modern trade is capturing 5% of the total retail space, which will increase to 10% and 25% in 2010 and 2025 respectively. Also, as the credit card and organized retail trend picks up, people won’t think much while buying. (Mahesh Babaria & Mittal Dharod, 2009).

5.5.3 Distribution Depth

Rural Penetration: There are 5500 towns and 6.38 Lacs villages with 2.5Mln and 5Mln outlets respectively. Due to saturation and cut throat competition in urban India, many FMCG companies are devising strategies for targeting rural consumers in a big way. Many FMCG companies are focusing on increasing their distribution network to penetrate with a step by step plan. (Mahesh Babaria & Mittal Dharod, 2009).
5.6 SWOT Analysis of FMCG Sector

Strengths

- Low operational costs
- Presence of established distribution networks in both urban and rural areas
- Presence of well-known brands in FMCG sector

Weaknesses

- Lower scope of investing in technology and achieving economies of scale, especially in small sectors
- Low exports levels
- "Me-too products, which illegally mimic the labels of the established brands. These products narrow the scope of FMCG products in rural and semi-urban market.

Opportunities

- Untapped rural market
- Rising income levels, i.e. increase in purchasing power of consumers
- Large domestic market- a population of over one billion.
- Export potential
- High consumer goods spending

Threats

- Removal of import restrictions resulting in replacing of domestic brands
- Slowdown in rural demand
- Tax and regulatory structure

5.7 Industry Category and Products

Household Care

5.7.1 Personal Wash

The market size of personal wash is estimated to be around Rs. 8,300 Cr. The personal wash can be segregated into three segments: Premium, Popular and
Economy. The penetration level of soaps is 92 per cent. It is available in 5 million retail stores, out of which, 75 per cent are in the rural areas. With increase in disposable incomes, growth in rural demand is expected to increase because consumers are moving up towards premium products. However, in the recent past there has not been much change in the volume of premium soaps in proportion to economy soaps, because increase in prices has led some consumers to look for cheaper substitutes. (Indian Market Demographics Report, NCAER, 2002)

5.7.2 Detergents

The size of the detergent market is estimated to be Rs. 12,000 Cr. Household care segment is characterized by high degree of competition and high level of penetration. With rapid urbanization, emergence of small pack size and sachets, the demand for the household care products is flourishing. The demand for detergents has been growing but the regional and small unorganized players account for a major share of the total volume of the detergent market. In washing powder HUL is the leader with 38 per cent of market share. Other major players are Nirma, Henkel and Proctor & Gamble. (Indian Market Demographics Report, NCAER, 2002)

Personal Care

5.7.3 Skin Care

The total skin care market is estimated to be around Rs. 3,400 Cr. The skin care market is at a primary stage in India. The penetration level of this segment in India is around 20 per cent. With changing life styles, increase in disposable incomes, greater product choice and availability, people are becoming aware about personal grooming. The major players in this segment are Hindustan Unilever with a market share of 54 per cent, followed by Cavin Kare with a market share of 12 per cent and Godrej with a market share of 3 per cent. (Indian Market Demographics Report, NCAER, 2002)

5.7.4 Hair Care

The hair care market in India is estimated at around Rs. 3,800 Cr. The hair care market can be segmented into hair oils, shampoos, hair colorants &
conditioners, and hair gels. Marico is the leader in Hair Oil segment with market share of 33 per cent; Dabur occupies second position at 17 per cent. (Indian Market Demographics Report, NCAER, 2002)

5.7.5 Shampoos

The Indian shampoo market is estimated to be around Rs. 2,700 Cr. It has the penetration level of only 13 per cent in India. Sachet makes up to 40 per cent of the total shampoo sale. It has low penetration level even in metros. Again the market is dominated by HUL with around 47 per cent market share; P&G occupies second position with market share of around 23 per cent. Antidandruff segment constitutes around 15 per cent of the total shampoo market. The market is further expected to increase due to increased marketing by players and availability of shampoos in affordable sachets. (Indian Market Demographics Report, NCAER, 2002)

5.7.6 Oral Care

The oral care market can be segmented into toothpaste - 60 per cent; toothpowder - 23 per cent; toothbrushes - 17 per cent. The total toothpaste market is estimated to be around Rs. 3,500 Cr. The penetration level of toothpowder/toothpaste in urban areas is three times that of rural areas. This segment is dominated by Colgate-Palmolive with market share of 49 per cent, while HUL occupies second position with market share of 30 per cent. In toothpowders market, Colgate and Dabur are the major players. The oral care market, especially toothpastes, remains under penetrated in India with penetration level 50 per cent. (Indian Market Demographics Report, NCAER, 2002)

Food & Beverages

5.7.7 Food Segment

The foods category in FMCG is gaining popularity with a swing of launches by HUL, ITC, Godrej, and others. This category has 18 major brands aggregating Rs. 4,600 Cr. Nestle and Amul slug it out in the powders segment. The food category has also seen innovations like softies in ice creams, ready to

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eat rice by HUL and pizzas by both GCMMF and Godrej Pillsbury. (Indian Market Demographics Report, NCAER, 2002)

5.7.8 Tea

The major share of tea market is dominated by unorganized players. More than 50 per cent of the market share is captured by unorganized players. Leading branded tea players are HUL and Tata Tea.

5.7.9 Coffee

The Indian beverage industry faces over supply in segments like coffee and tea. However, more than 50 per cent of the market share is in unpacked or loose form. The major players in this segment are Nestlé, HUL and Tata Tea.

5.8 Growth Prospect

5.8.1 Large Market

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. (Mahesh Babaria & Mittal Dharod, 2009)

Another aspect that boost the growth of FMCG sector is the increase in spending pattern of Indian consumers. There is an upward trend in urban as well as rural market and also an increase in spending in organized retail sector. An increase in disposable income, of household mainly because of increase in nuclear family where both the husband and wife are earning, has leads to growth rate in FMCG goods.

5.8.2 Changing Profile and Mind Set of Consumer

Findings according to a recent survey by A. C. Nielsen shows about 71 per cent of Indian take notice of packaged goods – labels containing nutritional information compared to two years ago which was only 59 per cent. It shows
that people are becoming conscious about health and hygienic. There is a change in the mind set of the Consumer and now looking at “Money for Value” rather than “Value for Money”. Consumers are switching from economy to premium products. The sharp increase in the sales of packaged water and water purifier shows that consumers have tend to become more quality and health conscious.

5.8.3 Advantages to the Sector - Governmental Policy

Indian Government has enacted policies aimed at attaining international competitiveness through lifting of the quantitative restrictions, reducing excise duties, automatic foreign investment and food laws resulting in an environment that fosters growth. 100 per cent export oriented units can be set up by government approval and use of foreign brand names is now freely permitted.

5.8.4 Market Opportunities - Vast Rural Market

Rural India accounts for more than 700 Million consumers, or 70 per cent of the Indian population and accounts for 50 per cent of the total FMCG market. The working rural population is approximately 400 Millions. And an average citizen in rural India has less then half of the purchasing power as compare to his urban counterpart. Still there is an untapped market and most of the FMCG Companies are taking different steps to capture rural market share. The market for FMCG products in rural India is estimated 52 per cent and is projected to touch 60 per cent within a year. Hindustan Unilever Ltd is the largest player in the industry and has the widest market coverage. (Mahesh Babaria & Mittal Dharod (2009)

5.9 FMCG Defined

FMCG is the abbreviated form of Fast Moving Consumer Goods. In west, FMCG is also called consumer packaged goods. Any product that is used very frequently, sometimes daily and move relatively faster at the retailer end can be classified as FMCG. Examples are Soaps, Detergents, Toothpastes etc. Thus, FMCGs are essential, low price goods, which get repeat sales (Dogra Balram & Ghuman Karminder (2007)
FMCGs are also termed as non-durable goods, a tangible item that is quickly consumed, worn out or outdated and consumed in single use or few uses (Majumdar, 1998). Consumer products used for personal, family or household use are further classified as three types: convenience, shopping and specialty categories (Melvin T. Copeland, 1923). FMCGs are also called as “consumables” that are consumed by the consumer, typically sold in packaged form and generally branded.

5.10 Overview of the Soap Industry

The products under the research study being soaps & detergents, the researcher feels that it would be meaningful to mention certain aspects on these products.

Soap is a product that many people might take for granted or considered rather ordinary, but for some, lathering up can be treasured part of a morning or nightly routine.

Scented or unscented, in bars, gels, and liquids, soap is a part of our daily lives. In the United States, soaps is a $1.390 million (US $) industry with over 50 mass-market brands. But some markets the scale potential for soap is only beginning to be realized. At the end 2000, soap was a $1.032 million (Us $) business in India. (Source: http://www.oppapers.com/essays/Soap-Industry)

India is a vast country with a population of 1.030 million people. Household penetration of soap is 98%. (Francis Kanoi, 2002) People belonging to different income levels use different brands, which fall under different segments, but all income levels use soaps, making it the second largest category in India (detergents are number 1). Rural consumers in India constitute 70% of the population. The rural demand is growing with more and more soap brands being longed in the discount segments targeting the lower socio economic strata of consumers. (Francis Kanoi, 2002)
5.11 History of Soap in India.

During the British rule in India, Lever brothers England introduced modern soaps by importing and marketing them in India. However North West Soap Company created the first soap manufacturing plants in India, which was situated in the city of Meerut, Uttar Pradesh. Mr. Jamshedji Tata setup India’s first indigenous soap manufacturing unit by purchasing OK coconut oil mills at Cochin, Kerala around 1988. OK mills crushed and marketed coconut oil for cooking and manufactured crude cold process laundry soaps that were sold locally. It was renamed The Tata Oil Mills Company and its branded soaps appeared on the marketing in the early 1930s. (Source: http://www.oppapers.com/essays/Soap-Industry)

5.12 History of Detergents

When talking about the history of detergents, there is no specific date that can be designated to its origination, because the fact is that personal hygiene began with the beginning of human civilization. In fact, water is considered to be the oldest detergent ever used to clean off the mud accumulated on the human body and whatever little cloths they did wear.

However, as far as the first soap-type of object came into being somewhere around 2800 B.C. This soap-type of substance was found accumulated in the cylinders that belonged to ancient Babylon, as was found in the excavations of that region. Thus, historians generally attribute the beginning of detergents to be dated around in that era. According to the inscriptions on the cylinders this soap-type substance was made from a mixture of fats boiled with ash.

However, going down a little later in historical dates, an inscribed document belonging to the Egyptian civilization (1500 B.C.), defines a recipe for making a detergent like substance. According to this recipe vegetable and animal oils were blended together for washing, and also treating skin ailments.
However, the most contemporary date registered in the history of detergents is recorded as 1916, when Germany is regarded to have developed the first synthetic detergent as a requirement for the soap shortage that occurred during World War I. Thereafter, the production of household detergents is said to have commenced during the 1930s in USA.

Ever since, detergent producing companies around the world have constantly been researching and developing innovative detergent blends that aid in perfect cleansing, removing the most stubborn of dirt and grease particles that take the form of stains.

In ancient India too, people used soap preparations made from plant or animal fats. Modern technology has provided synthetic detergents that have slowly replaced soaps. The first detergents were used chiefly for hand dishwashing and fine fabric laundering. This was followed by the development of all-purpose laundry detergents introduced in the U.S. in 1946.

Today, India has a diverse range of detergents available off the shelf. The annual consumption of detergents in India ranges to hundreds of thousands of tones. The formal sector with its increasing ability to influence consumers via advertisements is expanding its market share aggressively. The detergent market has evolved into a highly competitive one where a myriad brands vie with each other to get the customers' attention.(http://nzic.org.nz/ChemProcesses/detergents/11A).

The next chapter deals with analysis of the data collected from the field.
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