Chapter 3

FAST MOVING CONSUMER GOODS (FMCG)-CONCEPT
Chapter 3

FAST-MOVING CONSUMER GOODS (FMCG)-CONCEPT AND IMPORTANCE

3.1 CONCEPT AND DEFINITION
3.1.1 DEFINITION AND TYPES OF GOODS/PRODUCTS

In marketing, a product is anything that can be offered to a market that might satisfy a want or need. In retailing, products are called merchandise. In manufacturing, products are purchased as raw materials and sold as finished goods. Commodities are usually raw materials such as metals and agricultural products, but a commodity can also be anything widely available in the open market.

In general, the product is defined as a "thing produced by labor or effort" or the "result of an act or a process", and stems from the verb produce, from the Latin prōduō 're) '(to) lead or bring forth'. Since 1575, the word "product" has referred to anything produced. Since 1695, the word has referred to "thing or things produced". In economics and commerce, products belong to a broader category of goods. The economic meaning of product was first used by political economist Adam Smith.

Product classification

By properties

Products can be classified as tangible or intangible. A tangible product is a physical object that can be perceived by touch such as a house, automobile, computer, pencil. An intangible product is a product that can only be perceived indirectly such as an insurance policy.
Classifying Products

Products can be classified depending on who the final purchaser is. Components of the marketing mix will need to be changed depending on who the final purchaser is.

- Consumer products: destined for the final consumer for personal, family and household use.
- Business to business products: are to satisfy the goals of the organization.

The same product can be purchased by both, for example a computer, for the home or the office. Products are mainly divided into two types:

I. **Industrial Products.** Industrial products are products that are sold by one business to another. For example a factory may buy a manufacturing plant or some machinery or equipment from another supply. These products are usually low in volume but high in price.

II. **Consumer Products.** Consumer products are those products that are bought by the ultimate consumers who are also known as the end users. These are the buyers who actually end up using these products. Examples are food items, clothes, candies, toothpastes, soaps, home appliances like air conditioners, microwaves, telephone sets, televisions, carpets, furniture, paint etc. etc.

Type of Goods

**Public good** is a good that is non-rival and non-excludable. This means, respectively, that consumption of the good by one individual does not reduce the amount of the good available for consumption by others; and no one can be effectively excluded from using that good. For example, if one individual eats a cake, there is no cake left for anyone else, and it is possible to exclude others from consuming the cake; it is a rival and excludable **private good.** Conversely, breathing air neither significantly reduces the amount of air available to others, nor can people be effectively excluded from using the air. This does not make it a public good this is because air is a free good. These are highly theoretical definitions: in the real world, there may be no such thing as an absolutely non-rival or non-
excludable good; but economists think that some goods in the real world approximate closely enough for these concepts to be meaningful.

A **private good** is defined in *economics* as a **good** that exhibits these properties:

- **Excludable** - it is reasonably possible to prevent a class of **consumers** (e.g. those who have not paid for it) from consuming the good.
- **Rivalrous** - consumptions by one consumer prevents simultaneous consumption by other consumers. Private goods satisfy an individual want while public good satisfies a collective want of the society.

**Table 3.1**

**TABLE SHOWING THE TERMINOLOGY, AND TYPES OF PUBLIC GOODS**

<table>
<thead>
<tr>
<th>Rivalrous</th>
<th>Excludable</th>
<th>Non-excludable</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Private goods</strong></td>
<td>food, clothing, toys, furniture, cars</td>
<td><strong>Common goods / (Common-pool resources)</strong> water, fish, hunting game</td>
</tr>
<tr>
<td><strong>Club goods</strong></td>
<td>cable television</td>
<td><strong>Public goods</strong> national defense, free-to-air television, air</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Non-rivalrous</th>
<th>Excludable</th>
<th>Non-excludable</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Private goods</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Club goods</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Private and public goods

The opposite of a public good is a private good, which does not possess these properties. A loaf of bread, for example, is a private good: its owner can exclude others from using it, and once it has been consumed, it cannot be used again.

Capital goods are goods used in the production of (physical) capital. Capital goods refer to real products that are utilized in the production of other products but are not incorporated into other products themselves. They are often called fixed human-made means of production. Capital goods include factories, machinery, tools, and various buildings. They are different from raw materials which are used up in the production of goods. Many goods could be categorized as capital goods or as consumer goods according to usage; for example, cars and personal computers, these - and most capital goods - are also durable goods.

Collective goods (or social goods) are defined as public goods that could be delivered as private goods, but are usually delivered by the government for various reasons, including social policy, and finances from public funds like taxes.

Common goods are defined in economics as goods which are rivalrous and non-excludable. Thus, they constitute one of the four main types of the most common typology of goods based on the criteria:

- whether the consumption of a good by one person precludes its consumption by another person (rivalrousness)
- whether it is possible to exclude a person from consumption of the goods (excludability)

- A classic example of a common good are fish stocks in international waters; no one is excluded from fishing, but as people withdraw fish without limits being imposed the stocks for later fishermen are potentially depleted.
A **durable goods** or a **hard good** is a good which does not quickly wear out, or more specifically, it yields services or utility over time rather than being completely used up when used once. Most goods are therefore durable goods to a certain degree. Perfectly durable goods never wear out. As an example, a rubber band is not very durable.

**Nondurable goods** or **soft goods** are the opposite of durable goods. They may be defined either as goods that are used up when used once, or that have a lifespan of less than 3 years. Examples of nondurable goods include cosmetics, food, cleaning products, fuel, office supplies, packaging and containers, paper and paper products, personal products, rubber, plastics, textiles, clothing and footwear.

**Intermediate goods** or **producer goods** are goods used as inputs in the production of other goods, such as partly finished goods or raw materials. A firm may make then use intermediate goods, or make then sell, or buy then use them. In the production process, intermediate goods either become part of the final product, or are changed beyond recognition in the process.

**Final goods** are goods that are ultimately consumed rather than used in the production of another good. For example, a car sold to a consumer is a final good; the components such as tires sold to the car manufacturer are not; they are intermediate goods used to make the final good.

**Consumer goods** are final goods specifically intended for the mass market. For instance, consumer goods do not include investment assets, like precious antiques, even though these items are final goods.

**Manufactured goods** are goods that have been processed by way of machinery. As such, they are the opposite of raw materials, but include intermediate goods as well as final goods.
An **ordinary good** is a microeconomic concept used in consumer theory. It is defined as a good which creates increased demand when the price for the good drops or conversely decreased demand if the price for the good increases. It is the opposite of a Giffen good.

**Luxury good** is a good for which demand increases more than proportionally as income rises, contrast to a "necessity good" for which demand increases less than proportionally as income rises.

**Superior goods** make up a larger proportion of consumption as income rises, and as such are a type of normal goods in consumer theory. Such a good must possess two economic characteristics: it must be scarce, and, along with that, it must have a high price. Possession of such a good usually signifies "superiority" in resources, and usually is accompanied by prestige.

**Consumer goods** are tangible final goods, goods which can be finally consumed by the consumer, which are produced or manufactured for consumption by individuals in the mass market.

---

*Types of Consumer Goods*

1. **Convenience Goods:**

Goods which are easily available to consumer, without any extra effort are convenience goods. Mostly, convenience goods come in the category of nondurable goods such as like fast foods, confectionaries, and cigarettes, with low value. The goods are mostly sold by
wholesalers to make them available to the consumers in good volume. Packaging is important to sell the product or Consumers will accept a substitute. Marketers focus on intense distribution (time utility). These are products that appeal to a very large market segment. They are generally consumed regularly and purchased frequently. Examples include most household items such as food, cleaning products, and personal care products. Because of the high purchase volume, pricing per item tends to be relatively low and consumers often see little value in shopping around since additional effort yields minimal savings. From the marketer’s perspective the low price of convenience products means that profit per unit sold is very low. In order to make high profits marketers must sell in large volume. Consequently, marketers attempt to distribute these products in mass through as many retail outlets as possible. Further, convenience goods can be sub-categorized into:

(i) **Staple Convenience Consumer Goods:**
Goods which come under the basic demands of human beings are called staple convenience goods. Examples: milk, bread, sugar etc.

(ii) **Impulse Convenience Consumer Goods:**
Goods which are brought without any prior planning or which are brought impulsively is called impulse convenience goods. Examples: potato wafers, candies, ice creams, cold drinks etc.

(iii) **Emergency Convenience Consumer Goods:**
A category of consumer goods consisting of items purchased quickly in necessity. Examples: Umbrellas during rainy season, sweaters during winter season.

2. **Shopping Goods**
These are products consumers purchase and consume on a less frequent schedule compared to convenience products. Consumers are willing to spend more time locating these products since they are relatively more expensive than convenience products and because these may possess additional psychological benefits for the purchaser, such as raising their perceived status level within their social group. Examples include many clothing products, personal services, electronic products, and household furnishings. Consumer’s purchases less frequently and are willing to shop to locate these products hence the target market is much smaller than that of convenience goods. Consequently, marketers often are more selective when choosing distribution outlets to sell their products. Consumers expend considerable effort planning and making purchase decisions examples: stereos, cameras. Consumers are not particularly brand loyal. There is more use of sales personnel, communication of competitive advantage, branding, advertising, customer service etc. Attribute based (Non Price Competition); product with the best set of attributes is bought. Shopping goods can be further divided:

(i) Homogeneous Shopping Goods:

Homogeneous shopping goods are those that are similar in quality but different enough in other attributes (such as price, brand image, or style) to justify a search process. This difference in characteristics is sufficient for the customer to justify a search for the item. After the consumer has decided on desired characteristics, he or she then looks for the most favorable price.

Examples: Televisions of Sony and Konka brands, their quality is same, both are delivering well picture but their price, brand image and style are different.

(ii) Heterogeneous Goods:

Heterogeneous shopping goods have product features that are often more important to consumers than price; examples include clothing, high-tech equipment, and furniture.
The item purchased must meet certain consumer-set criteria, such as size, color, or specific functions performed. Examples: computer hardware for computer engineers.

3. **Specialty Consumer Goods:**

Goods which are very unique, unusual, and luxurious in nature are called specialty goods. Specialty goods are mostly purchased by upper-class of society as they are expensive in nature. The goods don't come under the category of necessity rather they are purchased on the basis personal preference or desire. Brand name and unique and special features of an item are major attributes which attract customer attraction in buying them. Specialty items have characteristics that impel consumers to make special efforts to find them. Consumers often do not consider price at all when shopping for specialty products, which can include any kind of shopping product: Particular types of food, expensive imported cars, or items from a well-known fashion designer or manufacturer can all be considered specialty goods. These are products that tend to carry a high price tag relative to convenience and shopping products. Consumption may occur at about the same rate as shopping products but consumers are much more selective. In fact, in many cases consumers know in advance which product they prefer and will not shop to compare products. But they may shop at retailers that provide the best value. Examples include high-end luxury automobiles, expensive champagne, and celebrity hair care experts. The target markets are generally very small and outlets selling the products are very limited to the point of being exclusive. They do not compare alternatives. They will pay a premium if necessary and need reminder advertising.

**Characteristics:**

1. Specialty goods do not involve making comparisons.

2. Buyers invest time only to reach dealers carrying the wanted products.

3. Dealers do not need convenient locations; however they must let prospective buyers know-their location.
**Unsought Consumer Goods:**

These are products whose purchase is unplanned by the consumer but occur as a result of marketer’s actions. Such purchase decisions are made when the customer is exposed to promotional activity, such as a salesperson’s persuasion or purchase incentives like special discounts offered to certain online shoppers. These promotional activities often lead customers to engage in Impulse Purchasing. Unsought goods are products that consumers do not want, use, or even think about purchasing. An unsought shopping good could be a product that a consumer may not even know about—or knows about but has never considered purchasing. Unsought goods are requiring advertising and personnel-selling support. Unsought shopping goods are frequently brought to customers' attention through advertising, promotions, or chance. Sometimes they are something new on the market, such as digital telephones. The classic examples of known but unsought goods are life insurance, plots, gravestones, and encyclopedia.

**Durable Consumer Goods:**

Durable goods are those goods which can be used or consumed for a long time. This means they are manufactured in a way to have a long working life span. Consumer durables are goods having low volume but per unit value is high. Consumer durables are further divided into:

1. White goods (e.g. fridge-freezers; dishwashers; cookers microwaves).
2. Brown goods (e.g. games consoles; DVD players, personal computers)

3. Soft goods are somewhat similar to consumer durables, but that they wear out more quickly. They have a shorter replacement cycle. Examples: clothes, shoes etc.

Semi-Durable Consumer Goods:

Goods which have limited life span or usage period are called semi-durable goods. **Examples: Clothes, Foot Wears, Artificial Jewellery, Home Furnishing** etc.

Non Durable Consumer Goods:

Non **durable goods** are those goods which do not have long life span or which cannot be use for a long period (perishable in nature). Products including food and clothing come under this category. **Example: Milk, bread.**

3.1.2 COMPONENTS OF A PRODUCT
On the surface it seems a product is simply a marketing offering, whether tangible or intangible, that someone wants to purchase and consume. The total product offering and the decisions facing the marketer can be broken down into three key parts:

1. Core Benefits
2. Actual Product
3. Augmented Product

**Product Components: Core Benefits**

People make buying decisions that satisfy their needs. While many needs are addressed by the consumption of a product or service, some needs are not. For instance, customers may need to be perceived highly by other members of their group or need a product that is easy to use or need a risk-free purchase. In each of these cases, and many more, the core product itself is the benefit the customer receives from using the product.

Consequently, at the very heart of all product decisions is determining the key or core benefits a product will provide. From this decision, the rest of the product offering can be developed.

**Product Components: Actual Product**
The core benefits are offered through the components that make up the actual product the customer purchases. For instance, when a consumer returns home from shopping at the grocery store and takes a purchased item out of her shopping bag, the actual product is the item she holds in her hand.

Within the actual product is the consumable product, which can be viewed as the main good, service or idea the customer is buying. For example, while toothpaste may come in a package that makes dispensing it easy, the **Consumable Product** is the paste that is placed on a toothbrush.

**Product Components: Augmented Product**

Marketers often surround their actual products with goods and services that provide additional value to the customer’s purchase. While these factors may not be key reasons leading customers to purchase (i.e., not core benefits), for some the inclusion of these items strengthens the purchase decision while for others failure to include these may cause the customer not to buy. Items considered part of the augmented product include:

- **Guarantee** – This provides a level of assurance that the product will perform up to expectations and if not the company marketing the product will support the customer’s decision to replace, have it repaired or return for a refund.
- **Warranty** – This offers customers a level of protection that often extends past the guarantee period to cover repair or replacement of certain product components.
- **Customer Service** – This consists of additional services that support the customer’s needs including offering training and assistance via telephone or online.
- **Complementary Products** – The value of some product purchases can be enhanced with add-on products, such as items that make the main product easier to use (e.g., laptop carry bag), enhance styling (e.g., cell phone face plates) or extend functionality (e.g., portable keyboard for PDAs).
3.1.3 BENEFITS OF A PRODUCT

In most cases, the most important features are those associated with the consumable product since they are the main reason a customer makes a purchase. The benefits of consumable product features are:

- Functional Benefits
- Psychological Benefits

Product Features and Functional Benefits

Customers derive functional benefits from features that are part the consumable product. For instance, a plasma television includes such features and benefits as:

Table 3.2 TABLE SHOWING THE FEATURES OF FUNCTIONAL BENEFIT

<table>
<thead>
<tr>
<th>Feature</th>
<th>Functional Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Screen size</td>
<td>offers greater detail and allows for more distant viewing</td>
</tr>
<tr>
<td>screen resolution</td>
<td>viewing provides clear, more realistic picture</td>
</tr>
<tr>
<td>surround sound</td>
<td>immerses all senses in the viewing experience</td>
</tr>
<tr>
<td>remote control</td>
<td>allows for greater comfort while viewing</td>
</tr>
</tbody>
</table>

These features are called functional because they result in a benefit the user directly associates with the consumable product.

Product Features and Psychological Benefits
For customers psychological benefits represent certain benefits they perceive to receive when using the product though these may be difficult to measure and may vary by customer. These benefits address needs such as status within a group, risk reduction, sense of independence, and happiness.

3.1.4 CONSUMER - DEFINITION AND TYPES

The "consumer" is the one who consumes the goods and services produced. As such, consumers play a vital role in the economic system of a nation because in the absence of the effective demand that emanates from them, the economy virtually collapses. Mahatma Gandhi said a customer is the most important visitor in our premises. He is not dependent on us, we are on him. He is not an interruption to our work; he is the purpose of it. Consumers are individuals or households that "consume" goods and services generated within the economy. Typically when business people and economists talk of "consumers" they are talking about person-as-consumer, an aggregated commodity item with little individuality other than that expressed in the buy/not buy decision. However there is a trend in marketing to individualize the concept. Instead of generating broad demographic and psychographic profiles of market segments, marketers are engaging in personalized marketing, permission marketing, and mass customization.\[1\]

In standard microeconomic theory, a consumer is assumed to have a budget which can be spent on a range of goods and services available on the market. Under the assumption of rationality, the budget allocation is chosen according to the preference of the consumer, i.e. to maximize his or her utility function. Within many selling companies "consumer" has come to be a derogatory term
which means a "purchaser of products who is not very intelligent." This is in contrast to the meaning of customer, which is defined as "an intelligent purchaser who has power in the purchasing relationship between buyer and seller."


**Types of consumer:**

The consumer can be further divided into two classes.

1. **Personal Consumer:**

   Personal consumer is that consumer who purchases goods and services for his own personal consumption or uses. We can say that consumer is also called to be the ultimate or final person because when the marketer produces the goods then he hand over the goods to personal consumer for final consumption.

   For example:

   Mr. X buys chocolates for his personal use so he is said to be personal consumer.

2. **Organizational Consumer:**
Organizational consumer consists of the government agencies, business organization, nongovernmental organization (NGO), firms and different types of manufacturing companies who purchases the goods and services in order to run the business of the firm or business concern or business organization.

For example:
A manufacturing organization let suppose ABC woolen mills purchases raw materials in order to produce woolen cloths in winter season. The main purpose of the purchase and selling of ABC woolen mills just to operate the mill or business of the concern is getting profit or not.

**Different types of Consumer Advertising**

The Different types of Consumer Advertising are all defined based on what is being promoted. Consumer advertising can promote a specific product, a brand, or an entire corporation. It is also possible for this kind of advertising to promote retail businesses, services, and cooperative efforts between two different products or brands. The common factor of all these types of advertising are that they are aimed at consumers. One type of Consumer advertising that is typically monitored by regulatory agencies is pharmaceutical marketing, since some drug companies choose to market directly to consumers instead of to doctors and other medical professionals.

Consumer advertising is a variety of marketing strategies that address the end users of various products and services. It is possible for a consumer to be either an individual person or a company; so many types of advertising can fit this description. All kinds of advertising media can used for these types of marketing, including broadcast, print, outdoor, and direct mail. The one common factor is the target of the advertising.

“Consumer movement created awareness in people about advertising. The analysis of advertising in its relation to consumer movement is confined to:
1. Consumer’s attitudes towards advertising;
2. Important advertising problems arising from the consumer movement;
3. The possible effect of the consumer movement on advertising”[2].

The most common type of Consumer advertising exists to promote specific products. When an ad for a product runs on a television or in a newspaper, it represents this kind of advertising. Another related form is referred to as range advertising. These ads are typically for a group of related products, such as a line of cosmetics, instead of one particular item. Brand advertising is another similar concept.

Retail advertising is a type of business or corporate promotion that seeks to draw consumers to stores. This type of Consumer advertising often promotes individual products as well, but the main point is to generate business for a particular retail establishment. Attractive prices for specific items are often used as a selling point to draw in customers, though many other techniques can be used as well.

3.1.5 FMCG -CONCEPT AND DEFINITION

The term FMCG (fast moving consumer goods), although popular and frequently used does not have a standard definition and is generally used in India to refer to products of everyday use. Conceptually, however, the term refers to relatively fast moving items that are used directly by the consumer. Thus, a significant gap exists between the general use and the conceptual meaning of the term FMCG.

One of the factors on which the turnaround depends is the purchase cycle. However, the purchase cycle for the same product tends to vary across population segments. Many low-income households are forced to buy certain products more frequently because of lack of liquidity and storage space while relatively high-income households buy the same products more infrequently. Similarly, the purchase cycle also tends to vary because of cultural factors. Most Indians, typically, prefer fresh food articles and therefore to buy relatively small quantities more frequently. This is in sharp contrast with what happens in most western countries, where the practice of buying and stocking foods for relatively longer period is more prevalent.

The nature of competition of the Fast Moving Consumer Goods (FMCG) market has already transferred to a completely new stage of development. Years ago manufacturing companies used to compete with each in their productive capacity and the characteristics of the produced goods. Basically, the corporation's productive activity was the main criteria of evaluation of its ability to compete for the access to market. Nowadays the situation has quite changed. The success of a modern corporation completely depends from the ability to establish connection of the corporation's dominating business–idea with the customer's values. The nature of competition requires the corporation's revision of the business logical patterns, reconsideration of the sales policy, distribution and marketing. The development of the sales–systems in the manufacturing or distributing companies of the FMCG market leads to the dynamic processes and perspectives for the companies. FMCG’s are extremely important for the market as they make the dominant part of the consumer's demand and therefore budget. This is relevant for each and every single country in the world. The target sector of the market for FMCG is the retail sector and also the wholesale sector. This is primarily due to the fact that FMCG are always essential products for the consumers. So the basic role of FMCG for the market is the constant need of the supply of FMCG. This is the reason one of the defining word combinations is «fast moving». These goods move fast throughout the market system and bring a good profit for the FMCG corporations.
The FMCG sector is a cornerstone of the Indian economy. This sector touches every aspect of human life. The term Fast Moving Consumer Goods is essential for the contemporarily market system. In order to understand the meaning of this type of goods it is necessary to define this term correctly. FMCG represent the essential goods which have an adequate cost within a given market and are sold fast. 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. These 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 nondurables 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 term Consumer Packaged Goods (CPG) is used interchangeably with Fast Moving Consumer Goods (FMCG).

A subset of FMCGs is Fast Moving Consumer Electronics which include innovative electronic products such as mobile phones, MP3 players, digital cameras, GPS Systems and Laptops. These are replaced more frequently than other electronic products. White goods in FMCG refer to household electronic items such as Refrigerators, TVs, Music Systems, etc.

Generally, fast moving consumer goods (FMCG) (also known as repeat-purchase packaged goods) refer to consumer non-durable goods required for daily or frequent use (Paul 2006). FMCG companies produce, distribute, and market goods that are usually low in price and consumed at a regular period. These companies engage in sales, marketing and advertising, finance, procurement, logistics, etc. of goods. FMCG companies also handle operations, supply chain, manufacture and general management of goods (Economy Watch 2009).
3.1.6 STRUCTURAL ANALYSIS OF FMCG INDUSTRY

Characteristics of FMCG

FMCG refers to consumer non-durable goods required for daily or frequent use. Typically, a consumer buys these goods at least once a month. Typical characteristics of FMCG products are:

- **Individual items are of small value** although all FMCG products put together account for a significant part of the consumer's budget.
- **The consumer keeps limited inventory** of these products and prefers to purchase them frequently, as and when required. Many of these products are perishable.
- **The consumer spends little time on the purchase decision.** Rarely does he/she look for technical specifications (in contrast to industrial goods). Brand loyalties or recommendations of reliable retailer/dealer drive purchase decisions.
- **Trial of a new product** i.e. brand switching is often induced by heavy advertisement, recommendation of the retailer or neighbors/friends.
- **These products cater to necessities, comforts as well as luxuries.** They meet the demands of the entire cross section of population. Price and income elasticity of demand varies across products and consumers.

The following are the main characteristics of FMCGs: [3]

- From the **consumers' perspective:**
  - Frequent purchase
- Low involvement (little or no effort to choose the item -- products with strong brand loyalty are exceptions to this rule)
- Low price

- From the marketers' angle:
  - High volumes
  - Low contribution margins


Distinguishing Characteristics of India's FMCG Business

FMCG companies sell their products directly to consumers. Major features that distinguish this sector from the others include the following:

1. Design and Manufacturing

   - Low Capital Intensity - Most product categories in FMCG require relatively minor investment in plan and machinery and other fixed assets. Also, the business has low working capital intensity as bulk of sales from manufacturing take place on a cash basis.
   - Technology - Basic technology for manufacturing is easily available. Also, technology for most products has been fairly stable. Modifications and improvements rarely change the basic process.
   - Third-party Manufacturing - Manufacturing of products by third party vendors is quite common. Benefits associated with third party manufacturing include (1) flexibility in production and inventory planning; (2) flexibility in controlling labor costs; and (3) logistics - sometimes it’s essential to get certain products manufactured near the market.
2. Marketing and Distribution

- High Initial Launch Cost - New products require a large front-ended investment in product development, market research, test marketing and launch. Creating awareness and develop franchise for a new brand requires enormous initial expenditure on launch advertisements, free samples and product promotions. Launch costs are as high as 50-100% of revenue in the first year. For established brands, advertisement expenditure varies from 5 - 12% depending on the categories.

- Limited Mass Media Options - The challenge associated with the launch and/or brand-building initiatives is that few no mass media options. TV reaches 67% of urban consumers and 35% of rural consumers. Alternatives like wall paintings, theatres, video vehicles, special packaging and consumer promotions become an expensive but required activity associated with a successful FMCG. “Several factors influence consumer’s choice towards the products launched by corporate and among them, creating awareness in the target market is the most important. Product awareness is created through various sources and the success largely depends on the effective use of advertising media. Marketers would be looking for valuable information regarding the type of media that is more efficient and brings the expected results.”[4]

- Huge Distribution Network - India is home to six million retail outlets, including 2 million in 5,160 towns and four million in 627,000 villages.

3. Competitiveness

- Basic technology for most products is fairly simple and easily available.
- The small-scale sector in India enjoys exemption/ lower rates of excise duty, sales tax etc. This makes them more prices competitive vis-a-vis the organized sector.
- A highly scattered market and poor transport infrastructure limits the ability of MNCs and national players to reach out to remote rural areas and small towns.
- Low brand awareness enables local players to market their spurious look-alike brands.
- Lower overheads due to limited geography, family management, focused product lines and minimal expenditure on marketing.


Table 3.3 SUMMARY OF CHARACTERISTICS OF FMCG IN INDIA

- **Branding:** Creating strong brands is important for FMCG companies and they devote considerable money and effort in developing bands. With differentiation on functional attributes being difficult to achieve in this competitive market, branding results in consumer loyalty and sales growth.

- **Distribution Network:** Given the fragmented nature of the Indian retailing industry and the problems of infrastructure, FMCG companies need to develop extensive distribution networks to achieve a high level of penetration in both the urban and rural markets. Once they are able to create a strong distribution network, it gives them significant advantages over their competitors.

- **Contract Manufacturing:** As FMCG companies concentrate on brand building, product development and creating distribution networks, they are at the same time outsourcing their production requirements to third party manufacturers.
Moreover, with several items reserved for the small scale industry and with these SSI units enjoying tax incentives, the contract manufacturing route has grown in importance and popularity.

- **Large Unorganized Sector:** The unorganized sector has a presence in most product categories of the FMCG sector. Small companies from this sector have used their location advantages and regional presence to reach out to remote areas where large consumer products have only limited presence. Their low cost structure also gives them an advantage.

### 3.2 THE EVOLUTION OF INDIAN FMCG MARKET

- India has always been a country with a big chunk of world population, be it the 1950’s or the twenty first century. In that sense, the FMCG market potential has always been very big. However, from the 1950’s to the 80’s investments in the FMCG industry was very limited due to low purchasing power and the government’s favouring of the small-scale sector. Hindustan Lever Limited (HLL) was probably the only MNC Company that stuck around and had its manufacturing base in India. However, Nirma’s entry changed the whole Indian FMCG scene. The company focused on the ‘value for money’ plank and made FMCG products like detergents very affordable even to the lower strata of the society. Nirma became a great success story and laid the roadmap for others to follow. The government’s relaxation of norms also encouraged these companies to go out for economies of scale in order to make FMCG products more affordable.

- Consequently, today soaps and detergents have 90% penetration in India. Post liberalization not only saw higher number of domestic choices, but also imported products. The lowering of the trade barriers encouraged MNC’s to come and invest in India to cater to 1bn Indians’ needs. Secondly, upgrade existing consumers to value added premium products and increase usage of existing product ranges. All companies be it HLL, Godrej Consumer, Marico, Henkel, Reckitt Benckiser and Colgate, trying to outdo each other in getting to the rural consumer first. Each of them has seen a significant expansion in the retail reach in mid-sized towns and villages.
However, in the last couple of years, even these companies have looked to reach consumers at the slightly lower end. One of the biggest changes to hit the FMCG industry was the ‘sachet’ bug. In the last 3 years, detergent companies, shampoo companies, hair oil companies, biscuit companies, chocolate companies and a host of others, have introduced products in smaller package sizes, at lower price points.

Another interesting phenomenon to have hit the FMCG industry is the mushrooming of regional companies, which are posing a threat to bigger FMCG companies like HLL. For example, the rise of Jyothi Laboratories, which has given sleepless nights to Reckitt Benckiser, the ‘Ghari’ detergent, that has slowly but surely built itself to take on Nirma and HLL in detergents, and finally, the rise of ‘Anchor’ in oral care, which has become synonymous with ‘cat’, which walks away with spoils when two monkeys fight (HLL and Colgate). **In this environment, only the innovators will survive.** Focus will be the key to profitability (HLL). From an investor’s point of view, Indian FMCG companies do offer long-term growth opportunities given the low penetration and usage in most product categories. To choose the best investment opportunities look at the shapers (i.e. innovators) that have been constantly proactive to market needs and have built strong, efficient and intelligent distribution channels.

### 3.3 APPROACHES TO STORE CLASSIFICATION

#### Institutional Approach to Store Classification

- **Convenience Store**
- **Shopping Store**
- **Specialty Store**

Under the institutional approach to store classification a store is classified based on depth and width of merchandise offering.
- **Width**: number of different product lines offered (narrow --> wide)
- **Depth**: variety within a given product line (shallow --> deep)

Figure 3.1 FLOW CHART SHOWING THE INSTITUTIONAL APPROACH

**Convenience Store:**

**Narrow and shallow** - carries few product lines and offers very little variety within product lines examples - cigarettes, soft drinks, and chips (snacks) tend to have greatest depth; most of other product lines offered are vary narrow (1 or 2 brands/types)

**Shopping Store:**
Deep and wide - carries many different product lines and has a great deal of variety within different product lines examples - men's wear, women's wear, children's wear, house wares, appliances, electronics, cosmetics, furniture, lighting, toys, hardware, sporting goods, candy, carpeting, etc.

**Specialty Store:**

Narrow and deep - Focuses on one or a select number of products lines but offers a great deal of variety within the product lines carried examples: jeweler store, men's wear store, women's wear store, computer store, supermarket.

Types of Specialty Stores:

- **Single-line specialty store supermarket** - carries mainly food, fashion store
- **Limited-line specialty store [butcher]**, bakery, green grocer fruit & vegetable, men's wear.
- **Super specialty store [donut]** shop, ice cream store Baskin Robbins, Dairy Queen, computer software, movie rental.

A single-line specialty store focuses primarily on one line of merchandise (e.g., food - supermarket). A limited-line specialty store sells only a part of a single line (e.g., bakery). A super-specialty store sells only part of the limited-line offering (donuts). The merchandise line moving from a single-line to a limited-line to a super-specialty store becomes progressively narrower and deeper. Baskin Robbins sells more different flavours of ice cream than would be found in less specialized dairy stores. “We all know that India has been a nation of dukandars (shopkeepers), having approximately 12 million retailers. The retailing is in our blood, either as shopkeepers or as a shopper. The Indian retail market is estimated to grow from the current US $ 427 billion by 2010 and US $ 637 by 2015. Retail contributes to 10% of our GDP and is the largest source of employment after agriculture.”[^5]

Behavioural Approach to Product/Store Classification

The behavioural approach to consumer goods and store classification classifies these entities based on the behavioural intent of the consumer, not the nature of the goods and stores. The resulting analysis leads to the Product-Patronage Matrix (Bucklin, 1964).

Table 3.4 TABLE SHOWING THE PRODUCT-PATRONAGE MATRIX

<table>
<thead>
<tr>
<th>Product/Store</th>
<th>Convenience Store</th>
<th>Shopping Store</th>
<th>Specialty Store</th>
</tr>
</thead>
<tbody>
<tr>
<td>Convenience Good</td>
<td>MRAB/ MRAS (9)</td>
<td>MRAB/ COMPARE STORES (3)</td>
<td>MRAB/ MPS (6)</td>
</tr>
<tr>
<td>Shopping Good</td>
<td>COMPARE BRANDS/ MRAS (7)</td>
<td>COMPARE BRANDS/ COMPARE STORES (1)</td>
<td>COMPARE BRANDS/ MPS (4)</td>
</tr>
<tr>
<td>Specialty Good</td>
<td>MPB/ MRAS (8)</td>
<td>MPB/ COMPARE STORES (2)</td>
<td>MPB/ MPS (5)</td>
</tr>
</tbody>
</table>

MRAB = Most Readily Accessible Brand
MRAS = Most Readily Accessible Store
MPB = Most Preferred Brand
MPS = Most Preferred Store
If a consumer indicates that when he/she shops for a particular product category (e.g., toothpaste), he/she select the Most Readily Accessible Brand (MRAB), then, for that consumer, the product category is a Convenience Good. If a consumer indicates that he/she compares different brands, then, for that consumer, the product category is a Shopping Good. If a consumer indicates that he/she seeks out a preferred brand (MPB), then, for that consumer, the product category is a Specialty Good.

If a consumer indicates that when he/she shops for a particular product category (e.g., toothpaste), he/she go to the Most Readily Accessible Store (MRAS), then, for that consumer, the store selected is a Convenience Store. If a consumer indicates that he/she compares the merchandise offering (e.g., brands of toothpaste) of different stores, then, for that consumer, the store selected is a Shopping Store. If a consumer indicates that he/she seeks out the most preferred store (MPS), then, for that consumer, the store selected is a Specialty Store.

By analyzing the different cells of the Product-Patronage Matrix, it is also possible to determine the level of shopping effort expended by the consumer. Cell number (1), Shopping Good/Shopping Store, reflects the market segment with the greatest amount of shopping effort on the part of the consumer. Cell number (9), Convenience Good/Convenience Store, reflects the cell with the least amount of shopping effort. The remaining cell numbers reflect the sequential level of shopping effort. It is assumed that shopping stores (i.e., inter-store comparisons) requires more effort than shopping brands (i.e., inter-brand comparisons).

3.4 INTERNATIONAL STANDARD INDUSTRIAL CLASSIFICATION [ISIC]

As the list of the FMCG is sufficiently large there is a special classification for them within the retail market. It is called the International Standard Industrial Classification (ISIC) and it introduces SEVEN MAIN categories of FMCGs. They are:

— ISIC 5211 retail sales in non–specialized stores.
— ISIC 5219 other retail sale in non–specialized stores.
— ISIC 5220 retail sale of food, beverages and tobacco in specialized stores.

— ISIC 5231 retail sale of pharmaceutical and medical goods, cosmetic and toilet articles

— ISIC 5251 retail sale via mail order houses

— ISIC 5252 retail sale via stalls and markets

— ISIC 5259 other non–store retail sale (Coulthart, 2006).

This classification shows the variety of FMCG which make a vital part of every individual's life as may be analyzed as goods of the first priority. Supplier industries for FMCGs include 1511 meat and meat products, 1512 fish and fish products, 1513 fruit and vegetables, 1514 vegetable and animal oils and fats, 1520 dairy products, 1531 grain mill products, 1532 starches and starch products, 1533 animal feeds, 1541 bakery products, 1542 sugar, 1543 cocoa, chocolate and sugar confectionery, 1544 macaroni, noodles, couscous, 1549 other food products, 1551 spirits; ethyl alcohol, 1552 wines, 1553 malt liquors and malt, 1554 soft drinks, mineral waters, 1600 tobacco products, 2101 pulp, paper and paperboard, 2102 corrugated paper, containers, 2109 other articles of paper and paperboard, 2424 soap and detergents, cleaning preparations, perfumes.

FMCG is highly segmented with sub-segments such as oral care, soaps and detergents, health and hygiene products, cosmetics, hair care products, food and dairy-based products, cigarettes, and tea and beverages. Poultry, cheese, cigarettes, alcoholic beverages, butter, milk for babies, and coconut oil, along with other packaged goods can be included in the FMCG sector (Paul 2008).

*Household Care*
Household care products consist of laundry soaps, synthetic detergents, dish washing liquid/gel, floor cleaners, toilet cleaners, air fresheners, insecticides and mosquito repellents, metal polish, furniture polish and so on.

**Personal Wash:**
The personal wash can be segregated into three segments: Premium, Economy and Popular. 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.

**Detergents:**
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.

**Personal Care**
Such products include sanitary napkins, tissues, razors, shaving creams, shave-gel, anti-ageing products, shampoos, conditioners, lotions, cosmetics, deodorants, perfumes, hair oil, tooth-paste, tooth-brush, moisturizers, and cleansers, bathing soaps, body-wash and other toiletries.

**Skin Care:**
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.
Hair Care:-
The hair care market can be segmented into hair oils, shampoos, hair colorants & conditioners, and hair gels.

Shampoos:-
Sachet makes up to 40 per cent of the total shampoo sale. It has low penetration level even in metros. The market is further expected to increase due to increased marketing by players and availability of shampoos in affordable sachets.

Oral Care:-
The penetration level of toothpowder/toothpaste in urban areas is three times that of rural areas. The oral care market, especially toothpastes, remains under penetrated in India with penetration level 50 per cent. “In India, the awareness level of oral care products is less; only toothpastes, tooth powders and toothbrushes are dominating the market.”

“In oral care, tooth powders, toothpastes and toothbrushes are dominating the Indian market, but in other countries, mouth sprays, mouth wash products also dominate the market. Still, in India, people residing in rural areas are using neem and tobacco for brushing their teeth. So the marketing companies and government both are responsible for creating awareness through advertising campaigns.”[6]

Food & Beverages
India is the largest milk producer in the world, yet only around 15 per cent of the milk is processed. The organized liquid milk business is in its infancy and also has large long-term growth potential. While beverages include tea, coffee, soft drinks, packaged juices, energy drinks, packaged drinking water etc.

**Food Segment:-**
The foods category in FMCG is gaining popularity with a swing of launches by HUL, ITC, Godrej, and others.

**Tea:-**
The major share of tea market is dominated by unorganized players. More than 50 per cent of the market share is capture by unorganized players.

**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.

**Electronic goods:**
Cell phones, laptops, computers, digital cameras, refrigerators, washing machines and other electronic gadgets are classified as Fast Moving Consumer Electronics or FMCEs.
We may also categorize FMCG products as follows:

1. Personal Care
   I) Oral Care (Toothbrush, Paste etc)
   II) Hair Care (Shampoo, Hair oil etc)
   III) Skin Care (Suns cream, body lotion etc)
   IV) Personal Wash (soaps etc)

2. Cosmetics and toiletries (perfumes, feminine hygiene, paper products etc).

3. Household care (Household care fabric wash including laundry soaps and synthetic detergents Cleaning, Washing Up, dish/utensil cleaners, floor cleaners, toilet cleaners, air fresheners, metal polish and furniture polish, insecticides and mosquito repellents, Bags & Foils etc).

4. Besides, dairy products, baked goods, meat, fruits and vegetables are included in this genre.
5. Alcohol, toiletries, pre-packaged foods, soft drinks and cleaning products are also among this categories have high turnover rates.

### 3.5 INDIA’S COMPETITIVENESS AND COMPARISON WITH THE WORLD MARKETS

**Market potentiality of FMCG industry:** Some of the merits of FMCG industry, which made this industry as a potential one, are low operational cost, strong distribution networks, presence of renowned FMCG companies. Population growth is another factor which is responsible behind the success of this industry. “With globalization there have been numerous changes in the production and marketing of products and services. Companies based in industrialized countries have moved and are moving the production of their goods to foreign locations specially in developing economies. The main reason for this decision could be lower costs of labor, the reduction of transportation and communication costs and achievement of global presence of the company.”[7]

**A. Materials availability**

India has a diverse agro-climatic condition due to which there exists a wide-ranging and large raw material base suitable for food processing industries. India is the largest producer of livestock, milk, sugarcane, coconut, spices and cashew and is the second largest producer of rice, wheat and fruits & vegetables.

**B. Cost competitiveness**

Apart from the advantage in terms of ample raw material availability, existence of low-cost labour force also works in favour of India. Labour cost in India is amongst the lowest in Asian countries. Easy raw material availability and low labour costs have resulted in a lower cost of production. Many multi-nationals have set up large low cost production bases in India to outsource for domestic as well as export markets.

**C. Leveraging the cost advantage**
Cheap labor and quality product & services have helped India to represent as a cost advantage over other Countries. Even the Government has offered zero import duty on capital goods and raw material for 100% export oriented units.

D. Presence across value chain
Indian firms also have a presence across the entire value chain of the FMCG industry from supply of raw material to final processed and packaged goods, both in the personal care products and in the food processing sector.


E. 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.

F. Changing Profile and Mind Set of Consumer
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”. “Modern organized retail has forayed in KOLKATA, as is evident in supermarkets and multi-storeyed malls that offer shopping, entertainment and provision for eating under one roof. Retailers and mall
managers should be aware of the benefits perceived by consumers at malls, whether consumers are shifting their preference from traditional zone based buying to shopping in malls and the factors responsible for such change in order to optimally possession themselves. 

G. 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.


Figure 3.2 GRAPH SHOWING THE COMPARISON BETWEEN INDIA AND CHINA
H. Governmental Policy

Indian Government has enacted policies aimed at attaining international competitiveness through lifting of the quantitative restrictions, reducing excise duties, and automatic foreign investment and food laws resulting in an environment that fosters growth.

3.6 THE IMPORTANCE OF FMCG MARKET

Fast Moving Customer Goods play an essential role in the economy of every country. The basic characteristic of the companies operating in the sphere of FMCG is a significant goods turnover, a large number of assortment and a medium cost of goods sold percentage. One of these characteristics is the intensive struggle for a market share among the FMCG manufacturers. This is the reason the rate of introduction of innovation is growing but at the same time the “life-cycle” of the products becomes shorter. In order to understand the process of FMCG implementation it is necessary to analyze the leading FMCG giants. Unilever is considered to be one of the leaders of FMCG. This corporation includes more than 400 brand names which are known to every single consumer:
Lipton, Timotei, Sunsilk, Brooke Bond, Dove and others. The main strategy of this corporation is the synchronous introduction of several brands. This gives the possibility to “embrace” a big share of the market territory and also it eliminates the risks that have companies with only one product.

3.7 SWOT ANALYSIS OF FMCG SECTOR

Strengths:
- **Low operational costs** - Low cost of production owing to labour-intensive techniques of production.
- **Presence of established distribution networks** - Intense network of distribution in extending to rural areas.
- **Presence of well-known and strong brands in FMCG sector** - Innovative brand promotion strategies that help to create a larger market share.

Weaknesses:
- **FMCG companies do not invest much in technology** - Small-scale sector reservations limit ability to invest in technology and hence fail to enjoy lower costs in long-run or economies of scale.
- **Low exports levels** - Inflationary pressures hit the production costs.
- **Several "me-too" products** - "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 (Imitated products in market hurt the brands).

Opportunities:
- **Rural market** - Untapped or Unexplored rural market
• **Rising income levels**- increase in purchasing power or disposable income of consumers which will result in faster revenue growth.
• **Large and expending domestic market**- a population of over one billion.
• **High consumer goods spending**- Changing tastes and preferences of consumers- preference to packaged goods.

**Threats:**
• **Imports restrictions**- Removal of import restrictions resulting in replacing of domestic Brands.
• **Rural demand**- Slowdown in rural demand
• **Tax Structure**- Tax and regulatory structure

### 3.8 EXAMPLES OF FMCG COMPANIES

- **HINDUSTAN UNILEVER LIMITED**

The Global arm of Hindustan Levers Limited is Unilever's and its mission is to add Vitality to life. Their products meet everyday needs for nutrition, hygiene, and personal care with brands that help people feel good, look good and get more out of life. HLL has deep roots in local cultures and markets around the world which gives them a strong relationship with their consumers, which are the foundation for their future growth. They benefit from their wealth of knowledge and international expertise to the service the local consumers - a truly multi-local multinational. In the summer of 1888, visitors to the KOLKATA harbour noticed crates full of...
Sunlight soap bars, embossed with the words "Made in England by Lever Brothers". With it began an era of marketing branded Fast Moving Consumer Goods (FMCG).

- **GODREJ CONSUMER PRODUCTS LIMITED (GODREJ)**

  The Board of Directors of Godrej Consumer Products Limited (GCPL) has approved the acquisition of 50 per cent stake of its joint venture partner SCA Hygiene Products’ stake in Godrej SCA Hygiene Limited. After the transaction, the Joint Venture which owns the ‘Snuggy’ brand of baby diapers will become a 100 per cent subsidiary of GCPL. Godrej Consumer Products Limited has acquired 100 per cent stake in the Kinky Group Limited, South Africa. Kinky is among one of the largest brand into hair segment with product portfolio.

- **DABUR INDIA LTD**
Established in 1884, Dabur India Ltd is the largest Indian FMCG and ayurvedic products company. The group comprises Dabur Finance, Dabur Nepal Pvt Ltd, Dabur Egypt Ltd, Dabur Overseas Ltd and Dabur International Ltd. The product portfolio of the company includes health care, food products, natural gums & allied chemicals, pharma, and veterinary products. Some of its leading brands are Dabur Amla, Dabur Chyawanprash, Vatika, Hajmola, Lal Dant Manjan, Pudin Hara and the Real range of fruit juices. Dabur has firmed up plans to restructure its sales and distribution structure and focus on its core businesses of fast-moving consumer good products and over-the-counter drugs.

- **PROCTER & GAMBLE HYGIENE AND HEALTH CARE LIMITED**

Richardson Hindustan Limited (RHL), manufacturer of the Vicks range of products, was rechristened 'Procter & Gamble India' in October 1985, following its affiliation to the 'Procter & Gamble Company', USA. Procter & Gamble Hygiene and Health Care Limited (PGHHCL) acquired its current name in 1998, reflecting the two key segments of its business. The Company has 21 product categories out of which only 8 product have presence in India. The company is planning to launch the rest 13 product in India. PGHH operates in just two business segments – Vicks range of cough & cold remedies and Whisper range of feminine hygiene.

- **COLGATE-PALMOLIVE INDIA**
Colgate Palmolive India is a 51 per cent subsidiary of Colgate Palmolive Company, USA. It is the market leader in the Indian oral care market, with a 51 per cent market share in the toothpaste segment, 48 per cent market share in the toothpowder market and a 30 per cent share in the toothbrush market. The company's strategy is to focus on growing volumes by improving penetration through aggressive campaigning and consumer promotions. The company plans to launch new products in oral and personal care segments and is prepared to continue spending on advertising and marketing to gain market share. Margin gains are being targeted through efficient supply chain management and bringing down cost of operations.

- **NESTLE INDIA LTD (NIL)**

Nestle India Ltd a 59.8 per cent subsidiary of Nestle SA, Switzerland, is a leading manufacturer of food products in India. Its products include soluble coffee, coffee blends and teas, condensed milk, noodles (81 per cent market share), infant milk powders (75 per cent market share) and cereals (80 per cent market share). Nestle has also established its presence in chocolates, confectioneries and other processed foods. Some of Nestle's popular brands are Nescafe, Milkmaid, Maggi and Cerelac. The Company has entered the chilled dairy segment with the launch of Nestle Dahi and Nestle Butter. Nestlé has been a partner in India's growth for over nine decades now and has built a very special relationship of trust and commitment with the people of India. The Company's activities in India have
facilitated direct and indirect employment and provides livelihood to about one million people including farmers, suppliers of packaging materials, services and other goods.

- **INDIAN TOBACCO CORPORATION LTD (ITCL)**

  Indian Tobacco Corporation Ltd is an associate of British American Tobacco with a 37 per cent stake. In 1910 the company's operations were restricted to trading in imported cigarettes. The company changed its name to ITC Limited in the mid seventies when it diversified into other businesses. While ITC is an outstanding market leader in its traditional businesses of cigarettes, hotels, paperboards, packaging and agriexports, it is rapidly gaining market share even in its nascent businesses of branded apparel, greeting cards and packaged foods and confectionary.

- **MARICO**

  Marico is a leading Indian Group incorporated in 1990 and operating in consumer products, aesthetics services and global ayurvedic businesses. The company also markets food products and distributes third party products. Marico owns well-known brands such as Parachute, Saffola, Sweekar, Shanti Amla, Hair & Care, Revive, Mediker, Oil of Malabar and the Sil range of processed foods. It has six factories, and sub-contract facilities for production.
**NIRMA LIMITED**

Nirma Ltd, promoted by Karsanbhai Patel, is a homegrown FMCG major with a presence in the detergent and soap markets. It was incorporated in 1980 as a private company and was listed in fiscal 1994. Associate companies' Nirma Detergents, Shiva Soaps and Detergents, Nirma Soaps and Detergents and Nilnita Chemicals were merged with Nirma in 1996-1997. Nirma is one of the most successful brands in the rural markets with extremely low priced offerings. Nirma has plants located in Gujarat, Madhya Pradesh and Uttar Pradesh. Its new LAB plant is located in Baroda and the soda ash complex is located in Gujarat. Nirma has strong distributor strength of 400 and a retail reach of over 1 million outlets.

**CADBURY INDIA LTD (CIL)**

CIL was set up as a trading concern in 1947 and subsequently began its operations with the small scale processing of imported chocolates and food drinks. CIL is currently the largest player in the chocolate industry in India with a 70 per cent market share. The company is also a key player in the malted foods, cocoa powder, drinking chocolate, malt extract food and sugar confectionery segment.

**CARGILL**
Cargill Inc is one of the world's leading agri-business companies with a strong presence in processing and merchandising, industrial production and financial services. Its products and geographic diversity (over 40 product lines with a direct presence in over 65 countries and business activities in about 130 countries) as well as its vast communication and transportation network help optimize commodity movements and provide competitive advantage. It has also set up its own anchorage facilities at Rosy near Jamnagar in Gujarat for efficient handling of its import and export consignments.

- **Coca-Cola**

Coca-Cola started its India operations in 1993. The Coca-Cola system in India comprises 27 wholly company-owned bottling operations and another 17 franchisee-owned bottling operations. A network of 29 contract-packers also manufactures a range of products for the company. Leading Indian brands Thums Up, Limca, Maaza, Citra and Gold Spot exist in the Company's international family of brands along with Coca-Cola, Diet Coke, Kinley, Sprite and Fanta, plus the Schweppes product range.

- **Heinz Co**

US$ 8.4 billion American foods major, H J Heinz Co comprises 4,000 strong brand buffet in infant food, sauces and condiments. The company was the first to commence manufacturing and bottling of tomato ketchup in 1876. Heinz's product range in India consists of Complan milk beverage, health drink Glucon-D, infant food Farex and Nycil prickly heat powder, besides the Heinz ketchup range.

- **Britannia India Ltd (BIL)**
BIL is a dominant player in the Indian biscuit industry, with major brands such as Tiger glucose, Mariegold, Fifty-Fifty, Good Day, Pure Magic, Bourbon etc. The company holds a 40 per cent market share in the overall organized biscuit market and has a capacity of 300,000 tonne per annum. Currently, the bakery product business accounts for 99.1 per cent of BIL’s turnover.

- **PEPSICO**

PepsiCo is a world leader in convenient foods and beverages, with revenues of about US$ 27 billion. PepsiCo brands are available in nearly 200 markets across the world. “The major players in the soft drinks market in India are Coca-Cola and PepsiCo. India is one of the top five markets in the terms of growth of the soft drinks market. The per capita consumption of soft drinks in the country is very low as compared to the per capita consumption in U.S.A. But by being one of the fastest growing markets and by the total volumes, India is a promising market for soft drinks.”[9]


### 3.9 CRITICAL OPERATING RULES IN INDIAN FMCG SECTOR

- Heavy launch costs on new products on launch advertisements, free samples and product promotions.
- Majority of the product classes require very low investment in fixed assets
- Existence of contract manufacturing
• Marketing assumes a significant place in the brand building process
• Extensive distribution networks and logistics are key to achieving a high level of penetration in both the urban and rural markets
• Factors like low entry barriers in terms of low capital investment, fiscal incentives from government and low brand awareness in rural areas have led to the mushrooming of the unorganized sector
• Providing good price points is the key to success.

3.10 Current Scenario
The growth potential for FMCG companies looks promising over the long-term horizon, as the per-capita consumption of all products in the country is amongst the lowest in the world. As per the Consumer Survey by KSA-Technopak, of the total consumption expenditure, 40% and 8% was accounted for groceries and personal care products respectively. Rapid urbanization, increased literacy and rising per capita income are the key growth drivers for the sector. In this backdrop, industry estimates suggest that the industry could triple in value by 2015 (by some estimates, the industry could double in size by 2010). “However for India to achieve a similar level of penetration, it would have to overcome key road blocks like:

• Lack of FDI approval (approval only for single brand retailing)
• Lack of proper infrastructure”.[10]

The FMCG sector is over and driving rural penetration will be the key going forward. Due to infrastructure constraints (this influences the cost-effectiveness of the supply chain); companies were unable to grow faster.

“The Indian market is obsessed with international brands and especially, when it comes to the FMCG sector, India is quiet lucky that it has got all the major International/Global brands to its market. However, though India is lucky to have such brands, but the Indian consumer is very choosy in selecting the brands and especially in the consumable sector, where many brands are present, but their future is very uncertain. Indians have upgraded their standards in terms of adopting the global brands, but the consumer mostly evaluates the brands from the perspective of value-for-money criteria.”[11]

India has a strong MNC presence and is characterised by a well established distribution network, intense competition between the organised and unorganised segments and low operational cost. Availability of key raw materials, cheaper labor costs and presence across the entire value chain gives India a competitive advantage. Penetration level as well as per capita consumption in most product categories like jams, toothpaste, skin care, hair wash etc in India is low indicating the untapped market potential. Burgeoning Indian population, particularly the middle class and the rural segments, presents an opportunity to makers of branded products to convert consumers to branded products. Growth is also likely to come from consumer 'upgrading' in the matured product categories. With 200 million people expected to shift to processed and packaged food by 2010.

Currently, Indian FMCG sector is worth Rs. 1300 billion and expected to be around a whopping value of Rs. 4000 to Rs. 6000 billion by 2020. ITC, HUL, Nestle and Britannia are leading this year and believed to perform well in the fourth quarter of the year also. As a result, FMCG growth rate is registered above 15% for the present year. The per capita consumption in rural areas also doubled during 2000-02 Demand for FMCG products is set to boom by 60 per cent by 2007 and more than 100 per cent by 2015. This will be driven by the rise in share of middle class (defined as the climbers and consuming class) from 67 per cent in 2003 to 88 per cent in 2015.

“The effectiveness of rural marketing communications, to a large extent is influenced by the media habits of the rural consumers. Though all types of media is being used in rural areas, however, in view of low levels of literacy, audio-visual media, i.e. radio, television and films assume major importance. In general, media has a tremendous impact in sustaining on weakening the social fabric of life. The Advertisement, which brought with itself new dimensions, has led to changes in dress style, way of living and new consumption demands among the rural consumers.”[12]

The future of FMCG: Fast moving consumer goods will become Rs 400,000-crore industry by 2020. A Booz & Company study finds out the trends that will shape its future. Considering this, the anti-ageing skincare category grew five times between 2007 and 2008. It’s today the fastest-growing segment in the skincare market. Olay, Procter & Gamble’s premium anti-ageing skincare brand, captured 20 per cent of the market within a year of its launch in 2007 and today dominates it with 37 per cent share. Consumption patterns have evolved rapidly in the last five to ten years.

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. It has been estimated that FMCG sector witnessed robust year-on-year growth of approximately 11 per cent in the last decade, 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).