Chapter-1

INTRODUCTION
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FMCG Industry

1.1 FMCG Industry Introduction:

Products which have a fast turnover and relatively low-cost are known as Fast Moving Consumer Goods (FMCG). FMCG products are those which get replaced within a year. Examples of FMCG generally include a large range of frequently purchased consumer products such as shaving products, toiletries, soap, tooth cleaning products, cosmetics and detergents, as well as other non-durables such as bulbs, glassware, batteries, paper products and plastic goods. FMCG may also include consumer electronics, packaged food products, soft drinks, tissue paper, and chocolate bars.

FMCG industry, alternatively called as Consumer packaged goods, industry primarily deals with the production, distribution and marketing of consumer goods. The Fast Moving Consumer Goods (FMCG) is those consumables which are normally consumed by the consumers at a regular interval. Some of the prime activities of FMCG industry are selling, marketing, financing, purchasing, etc. The industry also engaged in operations, supply chain, production and general management.
1.2 FMCG Industry and Indian Economy:

FMCG industry provides a wide range of consumables and accordingly the amount of money circulated against FMCG products is also very high. The competition among FMCG manufacturers is also growing and as a result of this, investment in FMCG industry is also increasing, specifically in India. Overall market size of FMCG in India is expected to grow from US$ 30 billion in 2011 to US$ 74 billion in 2018.

A food product is the leading segment, accounting for 43 per cent of the overall market. Personal care (22 per cent) and fabric care (12 per cent) come next in terms of market share.

Indian FMCG sector is the 4th largest sector in the economy characterized by strong MNC presence, well established marketing network, intense competition between the organised and unorganised players and low operational cost. Easy availability of important raw materials, cheap labour costs and presence across the entire value chain gives India a competitive advantage. Penetration level and per capita consumption in many product categories is lowest compared to the world average standards representing the unexploited market potential. Mushrooming Indian population, particularly the middle class and the rural segments, presents the huge untapped opportunity to FMCG players.

FMCG brands would need to focus on Research and Development and innovation as a means of growth. Companies that continue to work well would be the ones that have a culture that promotes using customer insights to create either the next generation of products or in some cases, new product categories.

One area that we see global and local FMCG brands investing more in is healthcare and wellness. Healthcare and wellness is a mega trend shaping consumer preferences and shopping habits and FMCG brands are listening. Leading global and Indian food and beverage brands have embraced this trend and are focused on creating new emerging brands in health and wellness.

According to the PwC-FICCI report Winds of change, 2013: the wellness consumer, nutrition foods, beverages and supplements comprise an INR 145 billion to 150 billion market in India, is growing at a CAGR of 10 to 12%.
1.3 Trends in FMCG Revenues over the Years in India

The FMCG industry in India generated revenues worth US$ 36.8 billion in 2012, a 5.7 per cent rise compared to the previous year.

(Source: AC Nielsen, TechSci Research, Note: F – Forecast)
1.4 Government Initiatives towards FMCG Industry

The Government of India has allowed 100 per cent FDI in the electronics hardware-manufacturing sector through the automatic route. It has also enabled 51 per cent FDI in multi-brand retail and 100 per cent in single-brand retail to attract more foreign investment into the country.

Hyderabad will soon have a INR 100 crores (US$ 16.12 million) National Institute for Footwear Design and Development. The Government of Andhra Pradesh has set aside the required land at Gachibowli in Cyberabad. Funds for the centre have been sanctioned by the Ministry of Commerce, India.

With the demand for skilled labour growing among Indian industries, the government plans to train 500 million people by 2022, and is encouraging private players and entrepreneurs to invest in the venture. Many government, corporate, and educational organizations are putting in the effort to train, educate and produce skilled workers.
1.5 Top Companies in FMCG Industry

According to the study conducted by AC Nielsen, 62 of the top 100 brands are owned by MNCs, and the balance by Indian companies. Fifteen companies own these 62 brands, and 27 of these are owned by Hindustan UniLever.

**Top 10 Companies Are:**

1. Hindustan Unilever Ltd.
2. ITC Ltd.
3. Nestle India Ltd.
4. Dabur India Ltd.
5. Asian Paints Ltd.
6. Britannia Industries Ltd.
7. Procter and Gamble Hygiene and Health Care Ltd.
8. Marico Ltd.
9. GlaxoSmithKline Consumer Healthcare Ltd.
10. Godrej Consumer Products Ltd.

**Hindustan Unilever Ltd.**

HUL is owned by Anglo Dutch Company and Unilever which has 52% control share in HUL happens to be a mammoth player in the FMCG domain. It is an Indian company based in Mumbai, Maharashtra. The product segments that it spans include foods, beverages, cleaning agents, and personal care products. HUL is a house of brands. It has marked in several countries and has been growing its presence in India as well. HUL happens to have a huge distribution network covering over 2 million retail outlets across India directly and its products are available in over 6.4 million outlets in the country. The major success point for the company was the support of Shakti Amma.

**ITC Ltd.**

ITC is a company of Indian origin that started its business with sales of cigarettes. Slowly the company has started expanding its portfolio and thereby including Sunfeast range of processed foods, Fiama di wills personal care products. However
49% of revenue still comes from sale of tobacco products. The company not only has a strong market capitalization but also is capturing the market share. ITC divested its oil business to Indian subsidiary of Con Agra Foods.

**Nestle India**

Nestle is in the food processing sector and its products range from the most consumed Maggi to recently in the field Ice tea. Nestle has embarked its presence countrywide. It is the world's leading Nutrition, Health and Wellness Company. Their mission is of "Good Food, Good Life". Some of the market innovation that they brought in was wet and dry sampling of Maggi noodles. The company now wants to give health and taste to its consumers. This happens to be the company mission. Carrying forward its mission they come up with innovative strategies to launch and establish its products.

**Dabur India Ltd**

Dabur India Ltd is one of India’s leading FMCG Companies with Revenues of over Rs 7,806.4Croe and Market Capitalization of US $5 Billion. Dabur is today India’s most trusted name and the world’s largest Ayurvedic and Natural Health Care Company. It is also a world leader in Ayurveda with a portfolio of over 250 Herbal/Ayurvedic products. Dabur today operates in key consumer products categories like Hair Care, Oral Care, Health Care, Skin Care, Home Care and Foods. Dabur's products also have a huge presence in the overseas markets and are today available in over 60 countries across the globe. Its brands are highly popular in the Middle East, SAARC countries, Africa, US, Europe and Russia. Dabur's overseas revenue today accounts for over 30% of the total turnover.

**Asian Paints Ltd**

Asian Paints is India's largest paint company and Asia's third largest paint company, with a turnover of Rs 141.83 billion. Asian Paints operates in 19 countries and has 26 paint manufacturing facilities in the world servicing consumers in over 65 countries. Asian Paints was included in Forbes Asia's 'Fab 50' list of Companies in Asia Pacific in 2011, 2012, 2013 and 2014. Forbes Global magazine USA ranked Asian Paints among the '200 Best Small Companies in the World' for 2002 and 2003 and presented the 'Best under a Billion' award, to the company. Asian Paints has always been ahead when it comes to providing consumer experience. It has set up a Signature Store in...
Mumbai, Delhi and Kolkata in India. Asian Paints with its intent to enter the Home Improvement and Décor space in India had acquired 51% stake in Sleek group, a kitchen solutions provider in August 2013. Sleek is a major player in the organized modern kitchen space and is engaged in the business of manufacturing, selling and distribution of modular kitchens as well as kitchen components including wire baskets, cabinets, appliances, accessories etc.

**Britannia Industries Ltd**

Britannia Industries Limited (A WADIA Enterprise) is an Indian food-products corporation based in Kolkata, India. It sells its Britannia and Tiger brands of biscuit throughout India. Britannia has an estimated market share of 38%. The company manufactures and sells bakery and dairy products primarily in India. It offers bakery products, such as biscuit, bread, cake, and rusk, as well as dairy products, including milk, butter, cheese, ghee, dahi, milk-based ready to drink beverages, and dairy whiteners. The company also manufactures and sells gourmet bakery products comprising specialty breads, cakes, pastries, and cookies. Britannia Industries Limited primarily offers its products under the brand names of Good Day, NutriChoice, MarieGold, 50-50, and Milk Bikis.

Britannia is a leading food company in India with over Rs. 6000 Crores in revenues, delivering products in over 5 categories through 3.5 million retail outlets to more than half the Indian population. The company distributes its products in 75 countries, with Middle Eastern countries accounting for a majority of its international business.

**Procter and Gamble Hygiene and Health Care Ltd**

PandG is one of the largest and amongst the fastest growing consumer goods companies in India. Established in 1964, PandG India now serves over 650 million consumers across India. Its presence pans across the Beauty and Grooming segment, the Household Care segment as well as the Health and Well Being segment, with trusted brands that are household names across India. These include Vicks, Ariel, Tide, Whisper, Olay, Gillette, Ambipur, Pampers, Pantene, Oral-B, Head and Shoulders, Wella and Duracell. Superior product propositions and technological innovations have enabled PandG to achieve market leadership in a majority of categories it is present in. PandG India is committed to sustainable growth in India,
and is currently invested in the country via its five plants and over nine contract manufacturing sites, as well as through the 26,000 jobs it creates directly and indirectly.

**Marico Ltd**

Marico Limited is one of India's leading consumer products companies operating in the beauty and wellness space. Empowered with freedom and opportunity, we work to make a difference to the lives of all our stakeholders - members, associates, consumers, investors and the society at large. Currently present in 25 countries across emerging markets of Asia and Africa, Marico has nurtured multiple brands in the categories of hair care, skin care, health foods, male grooming, and fabric care. Marico's India business markets household brands such as Parachute Advansed, Saffola, Hair and Care, Nihar, Mediker, Revive, Manjal, Setwet, Zatak and Livon among others that add value to the life of 1 in every 3 Indians. The International business offers unique brands such as Parachute, Hair Code, Fiancée, Caivil, Hercules, BlackChic, Code 10, Ingwe, X-Men, L'Ovite and Thuan Phat that are localized to fulfil the lifestyle needs of our international consumers. Charting an annual turnover of Rs. 47 billion (Financial Year 2013 - 2014) across our portfolio. Marico's sustainable growth story rests on an empowering work culture that encourages our members to take complete ownership and make a difference to the entire business ecosystem.

**GlaxoSmithKline Consumer Healthcare Ltd.**

GlaxoSmithKline Consumer Healthcare Limited is engaged in nutritional business in India. Its consumer products include nutritional products and Over the Counter (OTC) products. Its nutritional products include Horlicks Ninja, Junior Horlicks, Mother’s Horlicks, Horlicks Lite, Horlicks Biscuits, Boost, Maltova and Viva. The Company’s Over The Counter (OTC) products include Crocin, a household medicine for relieving pain and body ache; Eno, an antacid for instant relief from acidity, gastric discomfort and heart burn, and Iodex, a pain reliever. The Company has own manufacturing facilities at Nabha, Punjab; Rajahmundry, Andhra Pradesh and Sonepat, Haryana.
Godrej Consumer Products Ltd

Godrej Consumer Products Limited is the largest home-grown home and personal care company in India. We are constantly innovating to delight our consumers with more exciting, superior quality products at affordable prices. The company has bold ambitions and is becoming more agile and future ready. It rank number 1 in hair colour, household insecticides and liquid detergents and number 2 in soaps. In India, you grow up with our brands - Good knight, Cinthol, Godrej Expert, Godrej No. 1 - and now on company’s way to becoming an emerging markets FMCG leader. The company acquired the Indonesia based Megasari group, a leader in household insecticides, air fresheners and baby care. With the acquisition of Rapidol, Kinky and Frika in South Africa, and the Darling Group, a leading pan-Africa hair care company. The company also has a business in the Middle East and a strong presence across SAARC countries.

Investing In India

FMCG funds have been laggards in the last six months, with an average return of 5.32 per cent against 12.13 per cent offered by CNX Nifty, says Value Research, a mutual fund tracking entity. The experts continue to recommend investing in a broad-based consumption theme, which also includes FMCG. The strategy of sticking to a broad theme would help investors to tide over temporary blips, like the one witnessed in FMCG; that is likely to occur from time to time. As income rises, the extent of money individuals spend on discretionary items is much more than what he spends on FMCG. This makes it all the more important to invest in consumption ideas beyond FMCG.

For most investors, consumption theme is synonymous with FMCG stocks. But the broad-based consumption theme includes many other businesses. "Consumption theme takes into account all businesses that benefit from an individual's spending". Increased consumer spending has benefitted sectors such as consumer durables, automobiles, jewellery, travelling, entertainment, banks and non-banking finance companies (NBFCs), among others. Experts point out that preference for branded goods and irreversible consumption patterns should work in favour of companies in this space.
1.6 Impact of FMCG Industry in India

Employment

-Direct employment is estimated at approximately 6% of turnover, i.e. US$ 1.5 billion (Rs. 7,000 crores)

-Approximately 12-13 million retail stores in India, out of which 9 million are FMCG kirana stores. Thus the sector is responsible for the livelihood of almost 13 million people

Fiscal Contribution

-Cascading Multiple Taxes by the FMCG sector (Import duty, service tax, CST, income tax). 30% revenue of the sector goes into both direct and indirect taxes. Estimated size of $25 billion (Rs. 120,000 crores), that would constitute a contribution to the exchequer of approximately US$ 6.5 billion (Rs. 31,000 crores).

Social Contribution

-Create employment for people with lower educational qualifications. FMCG firms have also undertaken some specific projects to integrate with upcountry and rural areas for both inputs and for distribution as well as to fulfil CSR.

SOME EXAMPLES:

ITC Echoupal And Choupal Sagal: Sells both agricultural inputs and daily needs products. ITC’s rural e-network enables farmer connectivity and provides an easy way for farmers to get better profitability and control through access to timely information.

HUL’s Shakti Amma Network: HUL pioneered a rural entrepreneurship model amongst women who became HUL distributors.

Dabur India: regularly conducts rural and adult education programs and provides training in rural areas to facilitate employability.
Rural Marketing by FMCG Industry

With the urban market saturated, FMCG companies are now targeting the rural markets. In spite of the income imbalance between urban and rural India, rural holds great potential since 70% of India's population lives there. Due to the recent government measures like waiver of loans, national rural employment guarantee scheme and increasing minimum support price, disposable income in rural India has been rapidly increasing.

However, rural markets present their own sets of problems. These include poor infrastructure, dispersed settlements, lack of education and a virtually non-existent medium for communication. Furthermore, retailers cannot be present in all the centres as many of them are so small that it makes them economically unfeasible.

Hindustan Unilever Limited (HUL) - Shakti

Hindustan Unilever Limited (HUL) to tap this market conceived of Project Shakti. This project was started in 2001 with the aim of increasing the company's rural distribution reach as well as providing rural women with income-generating opportunities. This is a case where the social goals are helping achieve business goals.

The recruitment of a Shakti Entrepreneur or Shakti Amma (SA) begins with the executives of HUL identifying the uncovered village. The representative of the company meets the panchayat and the village head and identify the woman who they believe will be suitable as a SA. After training she is asked to put up Rs 20,000 as investment which is used to buy products for selling. The products are then sold door-to-door or through petty shops at home.

On an average a Shakti Amma makes a 10% margin on the products she sells.

An initiative which helps support Project Shakti is the Shakti Vani program. Under this program, trained communicators visit schools and village congregations to drive messages on sanitation, good hygiene practices and women empowerment. This serves as a rural communication vehicle and helps the SA in their sales.
The main advantage of the Shakti program for HUL is having more feet on the ground. Shakti Ammas are able to reach far flung areas, which were economically unviable for the company to tap on its own, besides being a brand ambassador for the company. Moreover, the company has ready consumers in the SAs who become users of the products besides selling them.

**ITC E-Choupal:**

Launched in June 2000, 'e-Choupal', has already become the largest initiative among all Internet-based interventions in rural India. As India's 'kissan' Company, ITC has taken care to involve farmers in the designing and management of the entire 'e-Choupal' initiative. The active participation of farmers in this rural initiative has created a sense of ownership in the project among the farmers. They see the 'e-Choupal' as the new age cooperative for all practical purposes.

The e-Choupal model has been specifically designed to tackle the challenges posed by the unique features of Indian agriculture, characterized by fragmented farms, weak infrastructure and the involvement of numerous intermediaries, among others.

Appreciating the imperative of intermediaries in the Indian context, 'e-Choupal' leverages Information Technology to virtually cluster all the value chain participants, delivering the same benefits as vertical integration does in mature agricultural economies like the USA.

'E-Choupal' makes use of the physical transmission capabilities of current intermediaries - aggregation, logistics, counter-party risk and bridge financing, while dis-intermediating them from the chain of information flow and market signals.
### 1.7 FMCG Segment and Products:

<table>
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<tr>
<th>Segment</th>
<th>Products</th>
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<tbody>
<tr>
<td><strong>Household Care</strong></td>
<td>Fabric wash (laundry soaps and synthetic detergents); household cleaners, dish/utensil cleaners, floor cleaners, toilet cleaners, air fresheners, insecticides and mosquito repellents, metal polish and furniture polish.</td>
</tr>
<tr>
<td><strong>Food and Beverages</strong></td>
<td>Health beverages; soft drinks; staples/cereals; bakery products (biscuits, bread, cakes); snack food; chocolates; ice cream; tea; coffee; soft drinks; processed fruits, vegetables; dairy products; bottled water; branded flour; branded Rice; branded sugar; juices etc.</td>
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<tr>
<td><strong>Personal Care</strong></td>
<td>Oral care, hair care, skin care, personal wash (soaps); cosmetics and toiletries; deodorants; Perfumes; feminine hygiene; paper products.</td>
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(Source: AC Nielsen, TechSci Research, Note: Data as of FY-2013)
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FMCG Sector revenue 2013 - by Segment

(Source: AC Nielsen, TechSci Research, Note: Data as of FY-2013)
1.8 BCG Analysis for FMCG Companies:

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<tr>
<th>Status</th>
<th>Companies</th>
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<tr>
<td><strong>Cash-Cow</strong></td>
<td>AXE, Vaseline, Petroleum Jelly</td>
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<tr>
<td></td>
<td>Cigarettes</td>
</tr>
<tr>
<td></td>
<td>Chayawanprash, Vatika Amla, Hajmola</td>
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<tr>
<td></td>
<td>Ariel, Vicks, Tide</td>
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<tr>
<td><strong>Star</strong></td>
<td>Lux, Sun-Silk, Fairand Lovely, Ponds, Kissan Ketchup, Surf-Excel, Annapurna Atta</td>
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<td></td>
<td>Paperbroads/Packaging, Agri-Business</td>
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<tr>
<td></td>
<td>Nescafe, Maggii Noodles</td>
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<tr>
<td></td>
<td>Real Fruit Juice, Active Fruit Juice, Dabur Red Toothpaste</td>
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<td></td>
<td>Gillette, Pantene, Head and Shoulders, Pamper, Whisper</td>
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<tr>
<td><strong>Question</strong></td>
<td>Rin, Pepsodent, Domex</td>
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<tr>
<td></td>
<td>Automotive, Furniture, Financial, Tobacco, Food</td>
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<tr>
<td></td>
<td>Milo, Kitkat/Munch, Maggi Soup, Nestle Butter, Nesvita, Nestle Maggi</td>
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<td></td>
<td>Odomos, Sanifresh, Oxylife Facial</td>
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<td>Olay</td>
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<td><strong>Dog</strong></td>
<td>Wheel</td>
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<td></td>
<td>ITC Infotech</td>
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<td></td>
<td>Nestea, Milkybar</td>
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<td></td>
<td>Dabur Gulabari, Burst Fruit Juice</td>
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1.9 Challenges for FMCG Industry

With the growth drivers in place, there are many issues and challenges the sector grapples with.

Challenges faced by FMCG Industry players in India are as follows:

1. **Tax Structure** - Complicated tax structure, high indirect tax, lack of uniformity, high octroi and entry tax and changing tax policies.

2. **Infrastructural Bottlenecks** - Agriculture infrastructure, power cost,

3. **Transportation infrastructure and cost of infrastructure.**

4. **Counterfeits and Pass-offs**

5. **Emergence of Private Labels**

6. **Regulatory Constraints**

7. **Price of Inputs**
1. Tax Structure

i. Complicated Tax Structure - In India, problems are exacerbated by the complicated tax structure. There is a VAT which is to be levied at state level, there are other state taxes such as octroi and entry taxes and then centre levies excise duties and service tax. As a result, no product cost is exactly the same from one state to the next.

ii. High Indirect Tax - Indirect Tax levels are quite high, especially in light of the fact that the sector provides goods meant for daily consumption. China, for instance, levies a tax of 10\%\(^1\) on average, whereas in India, the average is around 30\%\(^1\).  

iii. Lack of uniformity - Despite VAT states do not implement rates and procedures uniformly. Each state still continues to approach taxation differently, and thus moving goods from one state to another is like moving them from one country into another. The taxation rate policies on many FMCG goods differ from state to state and centre to state. Centre has classified many FMCG products under Merit (VAT exempt) list, such as processed foods, tooth powder, sanitary napkins but states levy on the same products high rate of 12.5\%\(^2\).

iv. High Octroi and Entry Tax - There are Octroi and Entry Tax at city and state entry points in a few states, which lead to an increase in pricing and affords opportunities for arbitrage. For instance, Mumbai has octroi of 4-6\% on goods produced outside of Mumbai. Thus, a bottle of mineral water produced by Coke or Pepsi which have their plants in Thane, which is considered outside the city limits of Mumbai, have to pay this extra charge, while Parle, which has a bottling plant within the city limits does not. So Bisleri is sold in Mumbai for Rs. 12, while Kinley or Aquafina cost Rs. 13, just because of the factory location. This opens up possible arbitrage opportunities, apart from causing a genuine grievance to the consumer.

v. Changing Tax Policies - Tax policies keep changing which makes it difficult to plan for the long term. For instance, tax havens were created in JandK some years ago and many companies opened facilities there. However, recently part of the exemption was withdrawn by the government, thus leading to a sudden hike in costs.
2. Infrastructural Bottlenecks

i. **Agricultural Infrastructure** - Agriculture infrastructure in India is particularly weak. Firstly, irrigation and modern farming methods are not widespread and thus agriculture in India is at the mercy of nature. Thus, it makes for grossly varying amounts of harvest of critically needed inputs into FMCG manufacture, from one season to the next and one year to the next.

ii. **Power Costs** - Power costs in India are very high and they contribute substantially to cost of goods sold. They are 3-4 times the optimal costs.

iii. **Transportation Infrastructure** - To compound this problem is the poor transportation and roadways infrastructure – many of the villages are extremely poorly connected with means of transportation – either road, rail or sea – so the amount of time it takes for the harvest to be transported to the FMCG manufacturers is unpredictable, and results in substantial spoilage of the goods. For example, it costs nearly 12 days to transport goods from Baddi in Himachal Pradesh to South India, a distance of 3000 km. The lack of a cold chain adds to this problem, because it means a tremendous amount of farm output actually rots or gets spoiled in transit. Nearly 8% - 10% of dairy produce is lost to pilferage.

iv. **Cost of Infrastructure** - It takes almost Rs. 7-8 crores to lay 1km. of road. Along with this problems in land acquisition due to fragmented land holding further delay development of road and rail infrastructure increasing the cost associated
3. Counterfeit and Pass-offs

Counterfeit products are another issue for the FMCG sector. Taking advantage of the lack of literacy and consumer knowledge, several small manufacturers churn out spurious products which they label akin to the big brands, Lifeboy or Lax soap or Fivestare chocolate bars, Vicky balm, for instance. These spurious pass off products affect large, high quality brands which have actually invested money in research and development to create their products and build brand equity. These account for almost 10% - 15% of the total sector revenue and pose serious challenge to its growth and also impact government’s tax revenue significantly. But the only recourse available to FMCG manufacturers against counterfeit and pass off products is to file an FIR. There are no Bureau of Industrial Standards norms laid out for each product category which could help prevent the mushrooming of counterfeit products. And an FIR results only in local action, if at all, while the source of the counterfeit products continues to remain in existence.
4. Emergence of Private Labels

Apart from the pressure on margins, the biggest fear of FMCG players when facing MR is the introduction of private labels or own brands. The fear is justified because world over, private labels have served to lower the consumer’s price points, particularly at the mass level. Moreover, there are inevitable conflicts of interest when a retail chain has its own label whose packaging looks like category leaders’ and stocks brands of other manufacturers, in terms of display space, promotions etc.

A Technopak analysis undertaken across product categories revealed that private labels could constitute as much as one fourth of all sales in the FMCG category by 2011. While the exact year could shift marginally, there is no denying the fact that private label FMCG goods will be here and will constitute a formidable threat to add to the already fierce competition in the FMCG category. Brands which currently appeal to price conscious value shoppers will be facing the highest risk with advent of store brands.
5. Regulatory Constraints

i. State borders cause a lot of delays and it is common for 2-3 days of finished goods inventory out of 20-30 days’ total stuck on various state borders due to a requirement for multiplicity of permits and licenses.

ii. The Indian labour laws were drafted in the 1940s and take no note of modern manufacturing methods and strategies. They need to be changed on a more dynamic basis to reflect present realities.

iii. There is lack of uniformity in definitions, and these do not follow international norms either. Currently, drugs and cosmetics come under the same set of laws when in fact they need to be treated differently. Weights and Measures used under FDA do not conform to those under the Weights and Measures Act followed in India. Some products come under the OTC category internationally but come under Schedule H drugs in India, requiring doctor’s prescription and require to be distributed only in drug licensed stores.

iv. Acquiring manufacturing licenses is a long and painful process, beset with red tape and corruption. It takes 10-12 months to get multiple licenses and to set up a manufacturing unit.

v. Reservation of jobs for employees creates many problems. For instance, Himachal Pradesh has a reservation of 70% of jobs for people domiciled in Himachal Pradesh. Since they are few in number, attrition happens for as little as Rs. 50 pm, and it becomes a problem to maintain the requisite labour force.

vi. Export procedures are cumbersome and lengthy. There is no single-party interface so multiple departments and officers have to be followed up with to get the requisite licenses. A transport permit has to be sourced for each consignment rather than assigning a blanket permit for a period of time.

vii. Subsidies are announced by the government but to avail of them is both confusing and time consuming.
a. Firstly, the amount of subsidy is restricted to Rs. 50 lakhs, regardless of the total quantum investment required by a project. Thus, if large projects and small get the same incentives, large projects may not find takers.

b. Secondly, the release of the said monies is not time-bound and gets done in an ad-hoc basis.
6. Prices of Inputs

i. Commodity prices fluctuate, which make it difficult to finalize raw material prices, affecting the final price of the product. The petroleum price fluctuation also impacts the cost of supply of materials. As a result, the entire supply chain dynamics need to be constantly planned afresh with the changing prices.

ii. Indian consumers are more price-sensitive and value conscious, making it difficult for FMCG firms to pass on the increased costs, leading to depressed margins.
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- Company reports, Economic Times
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