CHAPTER III

SCENARIO OF FMCG SECTOR IN INDIA vis-a-vis THAILAND: AN OVERVIEW

This chapter covers the current scenario of FMCG sector in India vis-a-vis Thailand. In order to analyse the sector in details, tools such as SWOT analysis and PEST analysis are used. Moreover the future outlook and potential of the FMCG sector in both countries are highlighted in this chapter.

3.1 Indian FMCG Sector

3.1.1 Indian FMCG Sector- An introduction

The Indian FMCG sector is the fourth largest sector in the economy with a total market size in excess of US$ 13.1 billion. It 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 labour costs and presence across the entire value chain gives India a competitive advantage. The FMCG market is set to treble from US$ 11.6 billion in 2003 to US$ 33.4 billion in 2015. 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, India needs around US$ 28 billion of investment in the food-processing industry.

India FMCG sectors’ significant characteristics can be listed as strong MNC presence, well established distribution network, intense competition between the organised and unorganised players and low operational cost. Easy availability of important raw materials, cheaper labor costs and presence across the entire value chain gives India a competitive advantage. Products which have a swift turnover and relatively low cost are known as Fast Moving Consumer Goods (FMCG). FMCG items are those which generally get replaced within a year. Examples of FMCG commonly include a wide range of repeatedly purchased consumer products such as toiletries, soap, cosmetics, oral care products, shaving products and detergents, as well as other non-durables such as glassware, bulbs, batteries, paper products, and plastic goods. FMCG may also include pharmaceuticals, consumer electronics, packaged food products etc. Penetration level and per capita consumption in many product categories is very low compared to 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. Growth is also likely to come from consumer 'upgrading' in the matured product categories like processed and packaged food, mouth wash etc. A distinct feature of the FMCG industry is the presence of international players through their subsidiaries (HLL, P&G, Nestle), which ensures innovative product launches in the market from their parent's portfolio. Our country has a varied agro-climatic condition which enables to offer extended raw material base suitable for many FMCG sub sections like food processing industries etc. India is the one of the major producer of livestock, milk, sugarcane, coconut, spices and cashew and is the second largest producer of rice, wheat and fruits & vegetables. Similarly, India has an abundant supply of caustic soda and soda ash, the chief raw materials required in the production of soaps and detergents, which enables the household section of the industry to excel and grow. The accessibility of these raw materials gives India the locational advantage.

Labor cost in India is amongst the lowest in emerging Asian countries. Easy raw material availability and low labor 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. A distinct feature of the FMCG industry is the presence of most global players through their subsidiaries (HLL, P&G, Nestle), which ensures new product launches in the Indian market from the parent's portfolio.

Some of the critical operating rules in Indian FMCG sector includes 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 unorganised sector and providing good price points is the key to success

3.1.2 Major segments of the FMCG industry

**Household Care**

The detergents segment is growing at an annual growth rate of 10 to 11 per cent during the past five years. The local and unorganized players account for a major share of the total volume of the detergent market. The preference is given to detergents in urban area compared to bars. Household care segment is featured by intense competition and high level of penetration. With rapid urbanization, emergence of small pack size and sachets, the demand for the household care products is booming. In washing powder segment, HUL is the leader with ~38 per cent of market share. Other major players are Nirma, Henkel and Proctor & Gamble.

**Personal Care**

Personal care segment includes personal wash products, hair care products, oral care products, cosmetics etc. The Indian skin care and cosmetics market is valued at $274 million and is dominated by HUL, Colgate Palmolive, Gillette India
and Godrej. The coconut oil market accounts for 72 per cent share in the hair oil market. The hair care market can be segmented into hair oils, shampoos, hair colorants & conditioners, and hair gels. In the branded coconut hair oil market, Marico (with Parachute) and Dabur are the leading players. Sachet makes up to 40 per cent of the total shampoo sale. Again the market is dominated by HUL with around ~47 per cent market share; P&G occupies second position with market share of around ~23 per cent. Personal wash can be further segregated into three segments namely Premium, Economy and Popular. Here also, HUL is the leader with market share of ~53 per cent; Godrej occupies second position with market share of ~10 per cent. Swelling disposable incomes of the Indian consumers, growth in rural demand and upgrading to the premium products are the key drivers for future demand growth in major FMCG categories.

The skin care market is at a primary stage in India. With the change in life styles, increase in disposable incomes, greater product choice and availability, people are becoming more alert about personal grooming. The major players in this segment are Hindustan Unilever with a market share of ~54 per cent, followed by CavinKare with a market share of ~12 per cent and Godrej with a market share of ~3 per cent. The oral care market can be segmented into toothpaste - 60 per cent; toothpowder - 23 per cent; toothbrushes - 17 per cent. This segment is dominated by Colgate-Palmolive with market share of ~49 per cent, while HUL occupies second position with market share of ~30 per cent. In toothpowders market, Colgate and Dabur are the major players.
Food and Beverages

This segment comprises of the food processing industry, health beverage industry, bread and biscuits, chocolates & confectionery, Mineral Water and ice creams. The three largest consumed categories of packaged foods are packed tea, biscuits and soft drinks. Indian hot beverage market is a tea dominant market. The major share of tea market is dominated by unorganized players. Leading branded tea players are HUL and Tata Tea. Major players in food segment are HUL, ITC, Godrej, Nestle and Amul.

3.1.3 Policies related to FMCG industry.

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

FDI Policy

Automatic investment approval (including foreign technology agreements within specified norms), up to 100 per cent foreign equity or 100 per cent for NRI and Overseas Corporate Bodies (OCBs) investment, is allowed for most of the food processing sector except malted food, alcoholic beverages and those reserved for small scale industries (SSI). 24 per cent foreign equity is permitted in the small-scale sector. Temporary approvals for imports for test marketing can also be obtained from
the Director General of Foreign Trade. The evolution of a more liberal FDI policy environment in India is clearly supported by the successful operation of some of the global majors like PepsiCo in India.

**Removal of Quantitative Restrictions and Reservation Policy**

The Indian government has abolished licensing for almost all food and agro-processing industries except for some items like alcohol, cane sugar, hydrogenated animal fats and oils etc., and items reserved for the exclusive manufacture in the small scale industry (SSI) sector. Quantitative restrictions were removed in 2001 and Union Budget 2004-05 further identified 85 items that would be taken out of the reserved list. This has resulted in a boom in the FMCG market through market expansion and greater product opportunities.

**3.1.4 Key growth drivers to the Industry are as follows:**

Over the years, demand for consumer durables has increased with rising income levels, double-income families, changing lifestyles, availability of credit, increasing consumer awareness and introduction of new models. Products like air conditioners are no longer perceived as luxury products. The biggest attraction for MNCs is the growing Indian middle class. This market is characterised with low penetration levels. MNCs hold an edge over their Indian counterparts in terms of superior technology combined with a steady flow of capital, while domestic companies compete on the basis of their well-acknowledged brands, an extensive distribution network and an insight in local market conditions. With companies
opting for information technology a reduction in inventory levels and an 
improvement in the working capital cycle is likely. This will benefit companies by 
controlling costs and improving margins. In the context of the positives and the 
negatives, investing in FMCG stocks is a tricky prospect. Given this, one has to be 
active with FMCG stocks and should book profits as soon as the targeted returns are 
reached. Unlike earlier times, nowadays, one cannot afford to buy an FMCG stock 
and forget about it for a long time. It is unlikely that the government's initiatives will 
boost the sector overnight. The ongoing price wars mean that company earnings will 
continue to be volatile. Hence, in the short term, one should look at individual 
companies' prospects rather than the overall sector's prospects. This means that it is 
better to leave mutual funds that concentrate on FMCG companies and instead buy 
shares depending upon the company. It is not necessary that an MNC will be better 
than an Indian company. One should look at a company's profile and analyse its 
prospects before investing in its shares. It is not that you will lose out by buying 
FMCG stocks. But, in buying an FMCG stock, it will be ideal to cash in during short 
bursts of activity. Some of the key FMCG industry growth drivers are:

- Robust growth in India’s GDP
- Growing urbanization
- Evolving consumer life style
- Increased income in rural areas
- Spending Pattern
• Changing Profile and Mind Set of Consumer
• Growth of modern retail
• Shift from unorganized to organized
• Rise in per capita category consumption
• Increase in penetration
• Increased in rural consumption

The FMCG sector has a great opportunity for growth in the country, with the growing population, the rising disposable incomes, education, urbanization, the advent of modern retail, and a consumption-driven society. There is a potential for all the FMCG companies as the per capita consumption of almost all products in the country is very low compared to world standards, there exists there huge untapped opportunities.

3.1.5. PEST Analysis of Indian FMCG Industry

Pest analysis of FMCG sector in India is carried out on political, economical, social and technological aspects. It is explained below:

(i) Political:

• Tax exemption in sales and excise duty for small scale industries.
• Transportation and infrastructure development in rural areas helps in distribution network.
• Restrictions in import policies.
• Help for agricultural sector.

(ii) Economical:

• The GDP rate of Indian economy is comparatively better. It is expected in future it would be better only in comparison with other countries.

• Inflation rate is increasing across the world and India is also no exception. The government and Reserve Bank of India both are trying to control the inflation rate with the help of different measures.

• Increase in disposable income has taken place due to higher GDP rate. The per capita income is increasing so the customers are having more income to spend for various reasons.

• Indian FMCG sector recorded 16% sales growth in last fiscal year and it is expected it would further improve in the forthcoming years.

• The FMCG sector is a 4th largest sector of Indian economy with market size of more than 60,000 crores.

• The Indian Territory is very large and number of customers is also very high.

(iii) Social:

The Indian culture, social & life styles are changing drastically. The total population is nearly 115 crores and population includes rich, poor, middle class, male, female, located in rural, urban and sub urban areas, different level of education etc.
(iv) Technology:

- Technology has been simplified and available in the industry. Where technology is not available then it is brought from foreign countries to meet FMCG sector requirements.
- Foreign players help in high technological development. With research and development facilities the new technologies are developed alone or with the help of foreign players.

3.1.6 SWOT Analysis of Indian FMCG Industry

SWOT analysis of this sector is carried as follows:

(i) Strengths:

- Well-established distribution network extending to rural areas.
- Strong brands in the FMCG sector.
- Low cost operations
- Favourable Government policies

(ii) Weaknesses:

- Low export levels.
- Small scale sector reservations limit ability to invest in technology and achieve economies of scale.
- Several "me-too” products.

(iii) Opportunities:

- Large domestic market.
• Export potential
• Increasing income levels will result in faster revenue growth.
• Untapped rural market
• High Consumer spending

(iv) Threats:
• Removal of import restrictions resulting in replacement of domestic brands.
• Tax and regulatory structure
• Slowdown in rural demand

3.1.7 Future trends and Outlook

India has 17% of the world's population and that half of these people are below the age of 25. With a median age of 25 years, increasing numbers are joining the Indian workforce. India's share in world consumer spending is set to enlarge from 1.9% in 2005 to 3.1% in 2020. (Source: Technopak)

Income in the hands of younger consumers with a higher propensity to spend, is providing optimism to the economy while opening up new categories in the FMCG space. India is under changing phase as more women are joining India's workforce, FMCG players are finding opportunities to introduce products in the convenience and health foods segments. While spending on women's personal care products is also becoming far more acceptable. Distribution of smaller pack sizes, innovations like single use sachets to reach out to the rural and lower section of the
economy is gaining demand. Innovative products to cater to regional or local tastes and the needs of niche consumers is also benefiting in growth of the industry.

Huge investments in promoting brands, setting up distribution networks and intense competition are what FMCG companies face. Creating strong brands is important for FMCG companies and they will have to devote considerable money and effort in developing brands. Given the fragmented nature of the Indian retailing industry and the problems of infrastructure, FMCG companies also need to develop extensive distribution networks to achieve a high level of penetration in both the urban and rural markets. This will require a lot of resources. The unorganised sector has a presence in most product categories of the FMCG sector. Small companies from this sector have used their locational 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. And this will only lead to price wars, which, though good for consumers, will affect the bottom lines of companies.

3.2 Thailand FMCG Sector

3.2.1. Thailand FMCG Sector- An introduction

Asia Pacific has been the scene of rapid growth in the fast moving consumer goods (FMCG) sector over the past few years, with double-digit growth occurring in many countries including China, India and Vietnam. Thailand has also experienced solid growth – up 6.4 percent in 2010 compared to 2009 – but much of that growth came from increased volume, not value, thereby resulting in pinched margins for
FMCG manufacturers. Nielsen recently examined this trend in, and how manufacturers might be able to counter it, at a recent seminar in Bangkok attended by about 200 senior level executives. Since the end of 2009, margins have been increasingly squeezed due to a number of factors. First, the hypermarkets have been waging price wars to win shoppers, and three of the top six reasons for shoppers choosing hypermarkets and supermarkets are related to value and promotions. Second, a focus on value among Thai consumers has become a higher priority than before. Nielsen’s most recent Global Consumer Confidence Index found that almost half (47%) of Thai consumers said that they were concerned about their personal finances. More than one-third (37%) said that they were planning on switching to lower price grocery brands, and 87 percent said they react to promotion. Despite this, just 14 percent of Thais spend on promotion compared to the global average of 20 percent – interestingly upper and middle income families spend a higher proportion of their shopping budgets on promotions.

While margin tightening is affecting the overall FMCG sector, not all departments have been seen the same impact. Food, for example, has shown reasonable value growth over the past three quarters, and in Q1, was up 2.8 percent. Beverages have posted some of the highest overall growth over the past year, but in recent quarters, that growth has slowed, although slower volume growth has been accompanied with a value increase of 1.1 percent in Q1. Impulse goods recorded nominal growth of 17 percent in Q1, but value growth accounted for just 0.1 percent
of that figure. Household goods showed no value growth at the start of the year and personal care recorded negative growth of 0.5 percent.

So how can FMCG companies counter these trends? There are number of ways above and below the line. In terms of advertising, recent Nielsen research has found that online advertising yields the highest return on investment. TV – while still important – is increasingly expensive and produces diminishing returns at some point. Below the line, tactics such as aisle end-cap displays can boost sales by 27 percent. They key for an FMCG marketer is to know the real financial impact of their promotional spending. “The FMCG market in Thailand is undergoing a change. After several years of strong value and volume growth, the dynamics have shifted to a situation where volume growth continues to be solid in most categories, but corresponding growth in value is not as easy to find,” said Aaron Cross, Managing Director, Nielsen Thailand.

“Shoppers are the clear winners in the battle for customers, but for manufacturers and suppliers, this situation is not sustainable in the long-term. Suppliers are concerned about pressures on trading terms as well as increasing costs of raw materials and advertising. What’s more, private label goods have a tremendous opportunity to increase share, further complicating the matter for brand manufacturers.”

“It is critical that FMCG companies have an in-depth understanding of how their consumers respond to pricing strategies and as well as the impact promotional
spending has. Further, new product launches can play a key role in boosting value and fighting margin erosion - provided they are done right,” said Cross.

3.2.2 Major Segments of Thailand FMCG industry

Total FMCG sales continued to grow faster at 8.2%, which was largely driven by personal care and household products. As a result, the Thai FMCG market began seeing a higher spend per shopping occasion driving growth among all categories—more core consumption. After the slowdown during the floods, the personal care sector led the market in growth, with consumers purchasing facial cleansers, body lotions, make up, and baby diapers at the same number of trips, but spending more on each occasion. Despite higher prices from inflation, more premium products within the household care category were key in pushing the total market growth, with more buyers bringing liquid detergent and fabric softeners into their households.

Packaged groceries’ peak growth last quarter from stocking up began to slow down this quarter. Cooking oil saw a 5 THB increase against last year, though shoppers continued to purchase it, while the pet food market expanded its buyer base.

3.2.3 Policies related to Thailand FMCG industry

FDI policies
The country’s well-defined investment policies focus on liberalization and encourage free trade. Foreign investments, especially those that contribute to the development of skills, technology and innovation are actively promoted by the government. Thailand consistently ranks among the most attractive investment locations in international surveys, and a 2006 World Bank report indicated that Thailand was the 4th easiest country in Asia in which to do business, and the 20th easiest in the world.

**Government Support and Incentives**

Numerous government agencies support investors. Through the Board of Investment, the government offers a range of tax incentives, supports services and import duty concessions available to an extensive list of business that are regarded as priority or promoted activities.

Through the Board of Investment, there are no foreign equity restrictions in the manufacturing sector, no local content requirement, and no export requirements as Thailand’s investment regime is in total compliance with WTO regulations.

The Board of Investment also coordinates the activity of the One-Stop Service Center for Visas and Work Permits, which enables foreign staff of BOI-promoted companies to obtain work permits and long-term visas within 3 hours or less. Other government organizations, like the Department of Export Promotion, and international chambers of commerce, provide invaluable support and a host of other important services.
3.2.4 Key growth drivers to Thailand FMCG industry

- Large market
- Increased per capita income
- Growing popularity of organized retail
- Rise of rural consumers

3.2.5 PEST Analysis

Pest analysis of FMCG sector in Thailand is carried out on political, economical, social and technological aspects. It is explained below:

(i) Political and legal:

- The country’s form of government – constitutional monarchy – allows democratic processes and reforms

(ii) Economical:

- The GDP of Thailand economy GDP of THB11.375 trillion (US$366 billion) and the Thai economy is growing by 6.5 percent which is one of the highest in South East Asian countries. It is expected in future it would be better only in comparison with other countries.
- Inflation rate is of 3.02 percent which is decreasing annually and has an account surplus of 0.7 percent of the country's GDP
• Growth in employment and wages supported consumption, as average wages rose by 11.8% and employment by 1.2%. The unemployment rate fell to 0.7 percent in the first quarter of 2013.

• Increase in disposable income has taken place due to higher GDP rate. The per capita income is increasing so the customers are having more income to spend for various reasons.

• Abundant natural resources and a skilled and cost-effective workforce helps attract foreign investment, enables them to prosper and help develop industry in Thailand.

(iii) Social:

• Private consumption increased by 6.6% to contribute about half of total GDP growth.

(iv) Technology:

• Thailand has good infrastructure for foreign investors.

• Technology has been simplified and available in the industry. Where technology is not available then it is brought from foreign countries to meet FMCG sector requirements.

• Improved and modernized transportation facilities, as well as upgraded communications and IT networks, ensure optimum business and living conditions.

• State-of-the-art industrial estates boast sophisticated facilities and superior services.
• Foreign players help in high technological development. With research and development facilities the new technologies are developed alone or with the help of foreign players.

3.2.6. SWOT Analysis

SWOT analysis of this sector is carried as follows:

(i) Strengths:

• Strong brands in the FMCG sector.
• Low cost operations
• Favourable Government policies

(ii) Weaknesses:

• Poor distribution network extending to rural areas.

(iii) Opportunities:

• High GDP growth rate
• Large domestic market.
• Export potential
• Increase in employment rate
• Increasing in income levels
• Main hub in the South East Asian region
• High Consumer spending

(iv) Threats:

• Imports
3.2.7 Future trends and outlook

Thailand, a newly industrialized economy, is regarded as one of the fastest growing economies in Asia. In 2010, it is the fastest growing economy in Southeast Asia with a GDP growth rate of 7.8 percent. With a GDP (PPP) of US$586.88 billion, Thailand comes after Indonesia as the second biggest economy in Southeast Asia.

Thailand has a well-diversified economy which is driven by its industry and services. The country also has rich deposits of natural resources such as gypsum, lead, natural gas, rubber, tin and tungsten. We may see even greater regionalisation of management of FMCG companies and Thailand stands to benefit from this as a base country because of the large domestic market combined with the presence of many of their important manufacturing facilities in this country.

"In particular, Thailand will likely serve as a source for management and marketing knowhow during the early stages of market development for countries like Myanmar, Cambodia and Laos," he said. FMCG companies will ultimately benefit from the "feel-good effect" generated by the impending ASEAN Economic Community (AEC) and the investment in basic industries from countries like Singapore, which will boost overall prosperity and consumer spending.
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