Chapter- 2

An Overview of Fast Moving Consumer Goods (FMCG) Sector of India
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2.1. Concept of FMCG:

The term FMCG- Fast moving consumer goods refer to consumer non-durable goods required for daily or frequent use and directly used by the customers. These products cater to necessities, comforts as well as luxuries. They meet the demands of the entire cross sections of population. Price and income elasticity of demand varies across products and consumers.

As per ICRA the term FMCG has been defined to include products that are consumed at least once a month, sold under the national brands in consumer packages, sold through a wide spared distribution network and consumed directly by the consumers.¹

2.2. Product Characteristics:

Products belonging to the FMCG segment generally have the following characteristics:
They are used at least once a month

They are used directly by the end-consumer

They are non-durable

They are sold in packaged form

They are branded

This study focuses on products like Soaps, Detergent, Antiseptic Cooking Medium and Tooth-Powder, Salt and Biscuits. All these are used on a frequent basis. Typically a consumer buys these goods at regular intervals. These are bought for personal consumption and family care.

Consumers keep a little stock of these products and make frequent purchases for these. These individual items are of relatively small value, but all FMCG products put together account for a significant part of the consumers’ budget.

These characteristics of FMCGs have vast implications for marketers of these goods. The consumer holds a very different mindset for making these purchases. She spends little time on the purchase decision. Rarely does she look for technical specifications (in contrast to industrial goods). Brand value or recommendation of a reliable person
(retailer/dealer/friend) drives purchase decisions. Trial of a new product i.e. brand switching is often induced by heavy advertisement.

2.3. Characteristics of the FMCG Business:

FMCG companies sell their products directly to consumers. Major features that distinguish this sector from the others are as follows:

2.3.1. Low Capital Intensity:

Most product categories in FMCG require relatively minor investment in plant and machinery and other fixed assets. Therefore shortage of product for want of capacity would be a rare phenomenon. The turnover is typically five to eight times the investment made in a greenfield plant at full capacity. This is also due to the fact that the business being marketing driven, players do not integrate backward. Also, the business has low working capital intensity as bulk of sales from manufacturers takes place on a cash basis.

2.3.2. High Initial Launch Cost:

Nonetheless2, there is a large front-ended investment made in new products including cost of product development, market research, test marketing and most importantly its launch. To create awareness and develop franchise for a new brand enormous initial expenditure is
required on launch advertisements, free samples and product promotions. Launch costs are as high as 50-100% of revenue in the first year and these costs progressively reduce as the brand matures, gains consumer acceptance and turnover rises.

For established brands, advertisement expenditure varies from 5 - 12% depending on the categories. It is common to give occasional push by re-launches, which involves repositioning of brands with sizable marketing support.

2.3.3. Technology:

Basic technology for manufacturing is easily available. Also, technology for most products has been fairly stable. Modification/ improvement rarely changes the basic process. Nonetheless, major global players spend enormous sums on R&D due to their ability to spread cost over the wider base of their global operations. Their R&D efforts are towards cost effective manufacturing process without compromising on quality and functional performance.

2.3.4. Marketing Drive:

In relative terms, marketing function has greater importance in FMCG companies. The players have to reach out to mass population and compete with several other brands, which essentially offer similar
products. The perceived differences are greater than the real differences in the product.

2.3.5. Market Research:

Consumers' purchase decisions are based on perceptions about brands. They also keep on changing with fashion, income and changes in lifestyle. Unlike industrial products, it is difficult to differentiate products on technical or functional grounds. With increasing competition, companies spend enormous sums on product launches.

2.3.6. Balance Sheets Are Misleading:

The most critical asset for FMCG companies is represented by its brands and distribution network. Brands are bought and sold like any other assets. Typically, when an FMCG business is sold, the value of the brand is several times that of tangible assets. However as per the current accounting practices in most countries, investment made in building of brands are written off as revenue expenditure. This is due to high risk involved with a new brand, subjectivity involved in its valuation, lack of consistency and difficulty in separating a brand’s value from that of tangible assets employed in the business. While a successful brand will pay back the investment several times, in case of brand failure, entire investment has to be written off. High return on net
worth of most established companies is also misleading due to the fact that the assets sans brands are considerably understated in the balance sheet.

2.3.7. Third-party Manufacturing:

Manufacturing of products by third party vendors is quite common. Third party manufacturing used to give fiscal advantages particularly of excise duties. These have been considerably diluted in the past 7 years of reforms. In the 1997-98 budget the government proposed to change the basis of excise levy to MRP basis. A total of 43 product categories have been brought under the MRP net in the subsequent budgets. Besides excise benefits, third party manufacturing also provides other benefits viz. flexibility in production and inventory planning as the marketing company's decision-making is liberated to a large extent from taking manufacturing overheads into account flexibility in controlling labor costs. Most small-scale third-party manufacturers have benefits of direct control of the owner and greater ability to manage local environment. The large organization also runs the risk of unionization. It is beneficial (in terms of logistics) and sometimes essential to get certain products manufactured near the
A company can tie up with several 3P manufacturers in separate locations, rather than set up own manufacturing facilities.

The marketing company gives technology, lays down quality standards and typically exercises supervision on manufacturing, cost and quality standards. The marketing company may also co-ordinate raw material procurement to optimize on bulk discounts. While in most cases, manufacturing process is fairly simple, certain products require supply of some critical ingredients by the marketing company. It is common to find support in working capital finance also.

2.3.8. Significant Presence of Unorganized Sector:

There is a significant presence of unorganized sector in India. In the past, several factors led to mushrooming of small unorganized players with local presence viz. basic technology for most products is fairly simple and easily available.

Fiscal advantages: In India, small-scale sector enjoys (the concessions however have been diluted considerably in the past few years) exemption/ lower rates of excise duty, sales tax etc. This makes them more price competitive vis-a-vis the organized sector.

Remote rural markets: Due to highly scattered market and poor transport infrastructure, very few MNC companies/ organized players
have been able to reach out to remote rural areas and even small towns. Low brand awareness enables local players to market their spurious look-alike brands.

Cost advantage: Lower overheads are due to limited geography, family management, focused product lines and minimal expenditure on marketing.

2.4. Global Scenario:

Major global consumer product companies (such as Unilever, Procter & Gamble, Colgate, Nestle, Hinze etc) have a lion’s share of the global market. These companies have been established for a very long time and possess a clutch of strong brands with proprietary technology. Most of these companies are cash rich and well managed. Their brands generate strong cash flow and allow them to reinvest in strengthening their brand equity further, with the continued promotions and advertising. They also have the financial clout to acquire small, local brands to strengthen their position in the category. These companies also make their considerable investment in R&D to sharpen and maintain their edge in the business.

Most of these global players have their origin in Europe or USA. They find their home markets saturated and are banking on the third
world for further growth. These companies are establishing their base in these countries and constantly consolidating their position by either fine-tuning their strategies to the local conditions or by formulating all the more a new approach to penetrate these markets.

During last few years, particularly after reduced consumer spending during the global recession (1991-94), the new buzzword is “value for money.” FMCG companies globally have embarked upon major restructuring/cost-cutting exercise as the business has become fiercely competitive. Technology, besides other factor has played a major role in checking profit-margin abrasion.

2.5. FMCGs- How it Developed in India & Present Players:

It was Dabur, which kick started in India what is today known as fast moving consumer good (FMCG) industry. It was some 115 years ago, much before Hindustan Lever Limited (HLL) materialized on the scene. Although Dabur could achieve neither the reach nor the product depth of HLL. It was through these companies that FMCG industry has metamorphised in India.

2.5.1. The Fifties and Beyond:

Though multinational companies (MNCs) were allowed to operate in India, only HLL had a manufacturing base at the time of
India’s independence. For other global MNCs, the Indian market was too small to bother about. Colgate and Nestle were there, but they were mainly into trading. Though the sixties saw many MNCs setting up their manufacturing base in the country, it was not a clear go for FMCG majors, for the government policy modeled as it was on a socialistic pattern with strong emphasis on self-efficiency, remained protectionist to the core.

It was in 1978, that the new government earmarked several product categories for the small-scale sector. The MNCs then were asked to choose between slashing their equity stake to 40 percent or leave India. IBM and Coca-Cola opted for the latter and quit India. Only Unilever stayed put with HLL. Unilever managed to retain a 51 percent foreign stake by complying with the government conditions of minimum 10 percent export and 60 percent turnover from priority sectors. It got into the business of fertilizer and chemicals to meet the conditions for staying on in India.

2.5.2. Lopsided Growth:

HLL stayed on, but the FMCG sector in India had a slow and lopsided growth. After so many years, quite a few product segments in the industry still remain unrepresented, and most segments under-
represented. Barring personal care and hygiene, no other product segment has had an explosion of players. In food products, for instance, there are only three major players- Pillsbury, AnnaPurna and Captain Cook. Same is the case for vegetable oils, where again there are very few players.

It is because the FMCG sector never got the centrality it deserved. The FMCG sector has been a victim of definitional dilemma in India. This sector has been looked upon as an MNC dominated and high price sector which sold only luxury goods to the rich. Even the government shared this view, as its regulations reflected.

As a result, most MNCs shied away from India. MNCs found that doing business in India was difficult as compared to the world outside. It did not make sense for them to make huge investments in India. There were other reasons as well, which made India an "extra tough" market in the eyes of the MNCs. The need for localization was much there. The market was not open enough to allow free entry and exit.

2.5.3. The Dramatic Nineties:

The situation changed8 with the 'liberalization' of Indian economy (1991). The liberalization has brought with it a sudden economic growth that has resulted in a spurt in real disposable incomes.
It has changed the scenario from an inward looking society to a rapid global integration. The Indian consumer is put into a time squeeze, zapping India into a present, in line with the West.

The floodgates were opened and MNCs with saturated home-markets who were looking for nascent markets rushed in. Categories within categories were created in products such as hair-oil and skin-care and many new product categories were also created. Untouched facts of Indian consumers were explored. The FMCG companies had in front of them not only a vast untapped market but also a market that was fast growing. Income levels were rising. A new class of upwardly mobile was emerging. Television and satellite and cable television were helping the market to grow further in rural areas by changing aspirations and lifestyles. The canvas widened for the FMCG players, but so did the challenges. Rules of the game changed. Strategies, in their true sense came to the fore quite unlike in the past; companies began looking for ways to expand their product portfolios and distribution reach. Acquisition of brands became the order of the day as it gave the players easy options of attaining growth in the FMCG sector.

HLL, for instance unleashed brands in a way it had never done before. Just in a span of four years (1992-1996), it acquired Tomco,
Kwality and Kissan. Lakme was bought off lock, stock and barrel in 1995, to leverage Lakme's distribution channel.

The Indian arm of Colgate-Palmolive bought off the entire oral hygiene business of Hindustan Ciba Greigy for Rs 1.31 billion taking over Cibaca Top and Cibaca Fluoride toothpaste brands and Supreme, Standard Angular and Deluxe Transparent toothbrush brands. It helped companies to increase their market share as well as distribution network.

There is strong MNC presence in the Indian FMCG market and out of the top 10 FMCG companies four are multinationals while two others have significant MNC shareholdings. Unlike several other sectors where multinationals have entered after 1991, MNCs have been active in India for a long time. The table 2.1 shows top ten FMCG companies in India.

The companies mentioned in table 2.1, are the leaders in their respective sectors. The personal care category has the largest number of brands, i.e., 21, inclusive of Lux, Lifebuoy, Fair and Lovely, Vicks, and Ponds. There are 11 HLL brands in the 21, aggregating Rs. 3,799 crore or 54% of the personal care category. Cigarettes account for 17% of the top 100 FMCG sales, and just below the personal care category.
Table 2.1
The Top 10 Companies in FMCG Sector

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Hindustan Unilever Ltd.</td>
</tr>
<tr>
<td>2</td>
<td>ITC (Indian Tobacco Company)</td>
</tr>
<tr>
<td>3</td>
<td>Nestlé India</td>
</tr>
<tr>
<td>4</td>
<td>GCMMF (AMUL)</td>
</tr>
<tr>
<td>5</td>
<td>Dabur India</td>
</tr>
<tr>
<td>6</td>
<td>Asian Paints (India)</td>
</tr>
<tr>
<td>7</td>
<td>Cadbury India</td>
</tr>
<tr>
<td>8</td>
<td>Britannia Industries</td>
</tr>
<tr>
<td>9</td>
<td>Procter &amp; Gamble Hygiene and Health Care</td>
</tr>
<tr>
<td>10</td>
<td>Marico Industries</td>
</tr>
</tbody>
</table>

Source: Naukrihub.com

ITC alone accounts for 60% volume market share and 70% by value of all filter cigarettes in India.

The foods category in FMCG is gaining popularity with a swing of launches by HLL, ITC, Godrej, and others. This category has 18 major brands, aggregating Rs. 4,637 crore. Nestle and Amul slug it out in the powders segment. The food category has also seen innovations like softies in ice creams, chapattis by HLL, ready to eat rice by HLL and pizzas by both GCMMF and Godrej Pillsbury. This category seems to have faster development than the stagnating personal care category. Amul, India's largest foods company, has a good presence in the food category with its ice-creams, curd, milk, butter, cheese, and so on.
Britannia also ranks in the top 100 FMCG brands, dominates the biscuits category and has launched a series of products at various prices.

In the household care category (like mosquito repellents), Godrej and Reckitt are two players. Goodknight from Godrej, is worth above Rs 217 crore, followed by Reckitt's Mortein at Rs 149 crore. In the shampoo category, HLL's Clinic and Sunsilk make it to the top 100, although P&G's Head and Shoulders and Pantene are also trying hard to be positioned on top. Clinic is nearly double the size of Sunsilk.

Dabur is among the top five FMCG companies in India and is a herbal specialist. With a turnover of Rs. 19 billion (approx. US$ 420 million) in 2005-2006, Dabur has brands like Dabur Amla, Dabur Chyawanprash, Vatika, Hajmola and Real. Asian Paints is enjoying a formidable presence in the Indian sub-continent, Southeast Asia, Far East, Middle East, South Pacific, Caribbean, Africa and Europe. Asian Paints is India's largest paint company, with a turnover of Rs.22.6 billion (around USD 513 million). Forbes Global magazine, USA, ranked Asian Paints among the 200 Best Small Companies in the World.

Cadbury India is the market leader in the chocolate confectionery market with a 70% market share and is ranked number two in the total food drinks market. Its popular brands include Cadbury's Dairy Milk, 5
Star, Eclairs, and Gems. The Rs.15.6 billion (USD 380 Million) Marico is a leading Indian group in consumer products and services in the Global Beauty and Wellness space. Among the major companies, Hindustan Lever has a strong presence in the food, personal care and household care (detergents) sectors; ITC is the market leader in cigarettes. Amul has a strong presence in the food market, Nestle and Britannia are active in the food sector and Colgate has a strong presence in the oral-care segment.

2.6. Regulatory perspective:

As most FMCG are the items are of daily need, a plethora of laws and regulation has historically governed the products and activities in the sector. The laws control almost every aspect of the sector, even though in different degree for different products. The regulatory coverage include eligibility for investment and ownership, mix and the choice of ingredients, plant location employment packaging and package size, transportation, storage and self life among various aspects. The taxation structure is also very complex. the FMCG are excised in accordance with the products and sizes of manufacturing unite. Then there a complex web of central sales tax and state sales tax laws.
This regulatory perspective is now changing; the government has introduced new policies for this sector. 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.

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 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.
Various states governments like Himachal Pradesh, Uttaranchal and Jammu & Kashmir have encouraged companies to set up manufacturing facilities in their regions through a package of fiscal incentives. Jammu and Kashmir offers incentives such as allotment of land at concessional rates, 100 per cent subsidy on project reports and 30 per cent capital investment subsidy on fixed capital investment upto $63,000. The Himachal Pradesh government offers sales tax and power concessions, capital subsidies and other incentives for setting up a plant in its tax free zones.

2.7. Segments of Indian FMCG sector

The main segments that make up the FMCG sector are:

- Food and beverages.
- Personal care and household care.
- Cigarettes.

2.7.1. Food and beverages:

This sector includes 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; juice etc.

The Indian food market is multifaceted. It is not only complex but the complexity also have several dimension. The dimension includes the multiplicity of cuisines, food habits, cooking styles, among others. The market is fundamentally difficult to address with a standardised products.

The food processing industry is one of the largest industries in India. It is ranked fifth in terms of production, consumption, export and expected growth. Food Processing Industry is widely recognized as a 'sunrise industry' in India having huge potential for uplifting agricultural economy, creation of large scale processed food manufacturing and food chain facilities, and the resultant generation of employment and export earnings. India has enormous growth potential from its current status of being the world's second largest food producer to be the world's number one producer.

The processed food industry ranks fifth in size in the country, representing 6.3 per cent of GDP. The industry size is estimated at US$ 70 billion, including US$ 22 billion of value added products. This sector has been attracting FDI across different categories.
The Indian food market is approximately Rs 1,50,000 crore ($69.4 billion), of which value-added food products comprise Rs 80,000 crore ($22.2 billion). Despite food production in the country is expected to double by the year 2020. With food production expected to double by 2020, large investments are already going into food and food processing technologies, skills and equipment.

The Confederation of Indian Industry (CII) has estimated that the food processing sector has the potential of attracting Rs 1,50,000 crore (US$ 33 billion) of investment in 10 years and generate employment of 9 million persons. The Government has formulated and implemented several Plans and Schemes to provide financial assistance for setting up and modernizing of food processing units, creation of infrastructure, support for research and development and human resource development in addition to other promotional measures to encourage the growth of the processed foods sector.

A Goldman Sachs report (‘Dreaming with BRICs: The Path to 2050’) states that among Brazil, Russia, India and China, India will grow the fastest over the next 30 to 50 years by leveraging its demographic advantages and through continued development. At its present rates of
growth, the burgeoning market in the country "would be adding nearly one France every 3.5 years and one Australia every year".

2.7.2. Personal care and house hold care:

The Indian personal care industry is estimated at Rs 170 billion. This sector can again be further subdivided oral care (toothpaste, toothpowder, toothbrush), hair care (hair oil, shampoo, hair colorants), skin care (cold cream, fairness cream), personal wash (soaps); cosmetic and toiletries; deodorants; perfumes, feminine hygiene; paper products.

**Personal wash**: toilet soap account for the largest single share about 128bn in the Rs 480bn FMCG market. The estimated size of Indian soap 45 billion. The market can be further subdivided in to the segments: premium soap, medium price soap, and low end soap. Soaps can also be categorized in men’s soaps, ladies soaps and common soaps.

The market is expected to grow at a rate ranging from under 4 to around 4.5% these are very modest rates. These are very modest rate considering that the life style of not urbanites are changing but over all well of rural flock is changing at a very high pace, Rs 130bn market today will be more than 160bn by 2009-10 by value.

Hill is the leader of market and enjoys the highest market share with (lux, lifebuoy, Breez, Rexona) other leading player in this market
are Godrej soaps (cinthol, FairGlow, Shikakai, Nikhar) and Reckitt&
colman (dettol). The rest of the market is highly fragmented with
companies having strong presence in selected segmentes or regional
presence only. Brand loyalty in very low, expected at premium end.
And the key factor to the distribution (in rural market) and advertising
(in urban market).

**Oral care:** The size of oral care market is valued at Rs16 bn. The
oral care market can be segregated into toothpaste (60%), toothpowder
(23%) and toothbrushes (17%). While 60% of toothpaste is sold on the
family platform, around 35% is sold on cosmetic propositions. On the
other hand, while toothpowder accounts for 52% of the market, red
toothpowder accounts for 40% and black toothpowder accounts 8%.
The penetration level of toothpast/powder in urban areas is 3X that in
the rural areas. Traditional materials such as neem and tobacco are
popular for cleaning in the rural areas,

Given the low per capita consumption and penetration rates,
toothpaste demand is mainly being driven by the overall market
growth of 8-10%. Toothpowder growth is also being driven by the rural
segment. Colgate- Palmolive is the leader in the tooth past market, with
HLL the main competitor
The house hold care covers the products like fabric wash (laundry soaps and synthetic detergents) house hold cleaners (dish /utensil cleaners, air fresheners, insecticides and mosquito repellents, metal polish and furniture polish).

2.7.3. Cigarette

Chewing tobacco has been a tradition in India for centuries. Of the total amount of tobacco produced in the country, around 48% is in the form of chewing tobacco, 38% as bidis, and only 14% as cigarettes. Thus, bidis, snuff and chewing tobacco (such as gutka, khaini and zarda) form the bulk (86%) of India's total tobacco production. In the rest of the world, production of cigarettes is 90% of total production of tobacco related products.

The per capita consumption of cigarettes in India is merely a tenth of the world average. This unique tobacco consumption pattern is a combination of tradition and more importantly the tax imposed on cigarettes over the last 2 decades. Cigarette smokers pay almost 85% of the total tax revenues generated from tobacco.

India is the second largest producer of tobacco in the world after China. It produced 572 m kgs of tobacco in FY03. However, India holds
a meager 0.7% share of the US$ 30 bn global trade in tobacco, with cigarettes accounting for 85% of the country's total tobacco exports.

Despite being the second largest producer, India is only the ninth largest exporter of tobacco and tobacco products in the world. Out of the total tobacco produced in India, only one-third is flue-cured tobacco suitable for cigarette manufacturing. Most of the tobacco produce is suitable for the manufacture of chewing tobacco, bidis and other cheap tobacco products, which have no demand outside the country. In India, three major cigarette players dominate the market, primarily ITC with 72% market share, Godfrey Phillips with 12% and VST with 8% share of the market.

2.8. Growing FMCG market in India.

India is one of the largest emerging markets, with a population of over one billion. India is one of the largest economies in the world in terms of purchasing power and has a strong middle class base of 300 million.

Around 70 per cent of the total households in India (188 million) reside in the rural areas. The total numbers of rural households are expected to rise from 135 million in 2001-02 to 153 million in 2009-10. This presents the largest potential market in the world.
The annual size of the rural FMCG market was estimated at around US$ 30 bn in 2001-02. With growing incomes at both the rural and the urban level, the market potential is expected to expand further.

An average Indian spends around 40 per cent of his income on grocery and 8 per cent on personal care products. The large share of fast moving consumer goods (FMCG) in total individual spending along with the large population base is another factor that makes India one of the largest FMCG markets. The Indian FMCG sector is the fourth largest sector in the economy with a total market size in excess of US$ 13.1 billion. 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 unsaturated market which is untapped by the marketeers. 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.

Table 2.3
Penetration and Per Capita Consumption of FMCG

<table>
<thead>
<tr>
<th>Category</th>
<th>Market Size (US$ million)</th>
<th>Urban penetration (%)</th>
<th>Rural penetration (%)</th>
<th>Total Penetration (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Penetration categories: &gt;50%: Drive up gradation and consumption</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fabric wash</td>
<td>1210</td>
<td>89.6</td>
<td>82.9</td>
<td>84.9</td>
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<tr>
<td>Personal wash</td>
<td>938</td>
<td>97.9</td>
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<tr>
<td>Packed tea</td>
<td>635</td>
<td>91.2</td>
<td>82.2</td>
<td>84.9</td>
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<tr>
<td>Low penetration Categories: Derive penetration</td>
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<tr>
<td>Tooth paste</td>
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<td>32.3</td>
<td>43.5</td>
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<tr>
<td>Skin</td>
<td>312</td>
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<td>Hair wash</td>
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<td>Talcum powder</td>
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<td>66</td>
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<td>Branded Atta</td>
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<td>R&amp;G Coffee</td>
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<td>Ketchups</td>
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<td>Deoderents</td>
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<td>Jams</td>
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</table>

Source: HLL, Indian Readership Survey.

Most Indian FMCG companies focus on urban markets for value and rural markets for volumes. The total market has expanded from US$17.6 billion in 1992-93 to US$ 22 billion in 1998-99 at current prices.
Rural demand constituted around 52.5 per cent of the total demand in 1998-99. Hence, rural marketing has become a critical factor in boosting bottom lines. As a result, most companies have offered low price products in convenient packaging. These contribute the majority of the sales volume. In comparison, the urban elite consume a proportionately higher value of FMCGs, but not volume.

By the early nineties FMCG marketers had realized that Rural markets are vital for survival since the urban markets were getting saturated and Rural markets are extremely price-sensitive.

Thus, a number of companies followed the strategy of launching a wide range of package sizes and prices to suit the purchasing preferences of India's varied consumer segments. Hindustan Lever, a subsidiary of Unilever, coined the term nano-marketing in the early nineties, when it introduced its products in small sachets. Small sachets were introduced in almost all the FMCG segments from oil, shampoo, and detergents to beverages.

Cola major, Coke, brought down the average price of its products from around twenty cents to ten cents, thereby bridging the gap between soft drinks and other local options like tea, butter milk or lemon juice. It also doubled the number of outlets in rural areas from
80,000 during 2001 to 160,000 the next year, thereby almost doubling its market penetration from 13 per cent to 25 per cent. This along with greater marketing, led to the rural market accounting for 80 per cent of new Coke drinkers and 30 per cent of its total volumes. The rural market for colas grew at 37 per cent in 2002, against a 24 per cent growth in urban areas. The per capita consumption in rural areas also doubled during 2000-02.

2.9. FMCG Industries Initiatives in Rural Marketing:

The Indian rural market with its vast size and demand base offers a huge opportunity for marketers. Rural India has a large consuming class with 41 per cent of India's middle-class and 58 per cent of the total disposable income. With population in the rural areas set to rise to 153 million households by 2009-10 and with higher saturation in the urban markets, future growth in the FMCG sector will come from increased rural and small town penetration. Technological advances such as the internet and e-commerce will aid in better logistics and distribution in these areas. Already Indian corporates such as HLL and ITC have identified the opportunity and have initiated projects such as 'Project Shakti' and 'e-Choupal' to first, expand rural income, and then, to penetrate this market.
2.9.1. Project Shakti by HLL.

FMCG giant Hindustan Lever\(^\text{15}\) initiated 'Project Shakti' to spur growth and increase the penetration of its products in rural India while changing lives and boosting incomes. Through a combination of micro-credit and training in enterprise management, women from self-help groups turned direct-to-home distributors of a range of HLL products and helped the company test hitherto unexplored rural hinterlands. The project was piloted in Nalgonda district in Andhra Pradesh (AP) in 2001, it has since been scaled up and extended to over 5,000 villages in 52 districts in AP, Karnataka, Gujarat, Chattisgarh, Orissa and Madhya Pradesh with around 1,000 women entrepreneurs in its fold. The vision is to create about 11,000 Shakti entrepreneurs covering 100,000 villages and 100 million rural consumers by 2010.

For HLL, greater penetration in rural areas is also imperative since over 50 per cent of its incomes for several of its product categories like soaps and detergents come from rural India. The project has borne fruit for HLL. In Andhra Pradesh, so far, since the experiment began, HLL has seen 15 per cent incremental sales from rural Andhra, which contributes 50 per cent to overall sales from Andhra of HLL products.
2.9.2. e-Choupal by ITC.

An example of the successful application of IT is the e-Choupal experiment kicked off by diversified tobacco giant ITC. ITC has designed and set up internet kiosks called e-Choupals to support its agricultural product supply chain. The e-Choupals are totally owned and set up by ITC with the operators not having any investment or risk of their own. There are four kinds of e-Choupals tailored for shrimps, coffee, wheat and soyabeans. The focus is on creating internet access for global market information to guide production and supply decisions. It provides price information and thus, price certainty to the farmers. In addition, the farmers get access to operational information, developed by ITC experts, pertaining to cropping, seeds, fertilisers etc.

The initial benefits of the ITC effort include a substantial reduction in transaction costs, from 8 per cent to just 2 per cent. These gains are shared roughly equally between ITC and individual farmers. The longer-term goal is to use e-Choupals as sales points for soyabean oil and a range of other consumer goods. ITC has also set up its first rural mall near Bhopal, where it distributes products of other FMCG majors as well. Hence, incomes generated through e-choupals will be targeted by the FMCG major to drive their product sales.
2.10. FMCG Players in India

Indian FMCG market consist of domestic as well as foreign players

2.10.1 Domestic players

Britannia India Ltd (BIL)

Britannia\textsuperscript{17} India Ltd was incorporated in 1918 as Britannia Biscuit Co Ltd and currently the Groupe Danone (GD) of France (a global major in the food processing business) and the Nusli Wadia Group hold a 45.3 per cent equity stake in BIL through AIBH Ltd (a 50:50 joint venture). 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 organised 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. The company reported net sales of US$ 280 million in 2002-03. Britannia Industries Ltd (BIL) plans to increase its manufacturing capacity through outsourced contract manufacturing and a greenfield plant in Uttaranchal to expand its share in the domestic biscuit and confectionery market.
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. The company reported net sales of US$ 218 million in 2003-04. 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. Under the restructured set-up, the company plans to increase direct coverage to gap outlets and gap towns where Dabur is not present. A roadmap is also being prepared to rationalise the stockists' network in different regions between various products and divisions.

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. ITC is one of India's foremost private sector companies with a turnover of US$ 2.6 billion. While ITC is an outstanding market leader in its traditional businesses of cigarettes, hotels, paperboards, packaging and agri exports, it is rapidly gaining market share even in its nascent businesses of branded apparel, greeting cards and packaged foods and confectionary. After the merger of ITC Hotels with ITC Ltd, the company will ramp up its growth plans by strengthening its alliance with Sheraton and through focus on international projects in Dubai and the Far East. ITC's subsidiary, International Travel House (ITH) also aims to launch new products and services by way of boutiques that will provide complete travel services.

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. In 2003-04, the
company reported a turnover of US$ 200 million. The overseas sales franchise of Marico's branded FMCG products is one of the largest amongst Indian companies. It is also the largest Indian FMCG company in Bangladesh. The company plans to capture growth through constant realignment of portfolio along higher margin lines and focus on volume growth, consolidation of market shares, strengthening flagship brands and new product offerings (2-3 new product launches are expected in 2004-05). It also plans to expand its international business to Pakistan.

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. The company has also set up a wholly owned subsidiary Nirma Consumer Care Ltd, which is the sole marketing licensee of the Nirma brand in India. Nirma also makes alfa olefin, fatty acid and glycerine. 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. The company reported gross sales of US$ 561 million in 2003-04. It plans to continue to target the mid and mass segments for future growth.

Foreign players:

Cadbury India Ltd (CIL)

Cadbury Indian Ltd is a 93.5 per cent subsidiary of Cadbury Schweppes Plc, UK, a global major in the chocolate and sugar confectionery industry. 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. The company had also entered the soft drinks market with brands like 'Canada Dry' and 'Crush', which were subsequently sold to Coca Cola in 1999. Established brands include Dairy Milk, Perk, Crackle, 5 Star, Éclairs, Gems, Fructus, Bournvita etc. The company reported net sales
of US$ 160 million in 2003. The company plans to increase the number of retail outlets for future growth and market expansion.

**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 manufacture 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. During the past decade, the Coca-Cola system has invested more than US$ 1 billion in India. In 2003, Coca-Cola India pledged to invest a further US$ 100 million in its operations.

**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 also has a presence in the premium toilet soap segment and in shaving products, which are sold
under the Palmolive brand. Other well-known consumer brands include Charmis skin cream and Axion dish wash. The company reported sales of US$ 226 million in 2003-04. 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.

**Hindustan Unilever Ltd**

Hindustan Unilever Ltd\(^{19}\) also known as Hindustan Lever limited is one of the largest fast moving consumer goods company. HLL is a 51 per cent owned subsidiary of the Anglo-Dutch giant Unilever, which has been expanding the scope of its operations in India since 1888.

HLL is the largest marketer of household and personal care products like soaps, detergents, shampoos, skin care products, colour cosmetics, deodorants and fragrances. It is also the market leader in tea, processed coffee, branded wheat flour, tomato products, ice cream, jams and squashes.
HLL has recently launched a range of herbal health and personal care products (lever Ayush ayurvedic).

HLL had over 36,000 employees and provide an indirect employment to more then 2,00,0000 peoples. Its operation is spread over 70 locations in India. HLL has over 100 factories, many of which are located in rural areas.

HLL has a very strong distribution network covering over 3,400 distributors and about 7000 redistribution stockiest covering about one million retail outlets. The distribution networks cover the entire urban population.

Nestle India Ltd (NIL)

Nestle India\(^\text{20}\) 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. Soluble beverages and milk products are the major contributors to Nestle's total sales. 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. Nestle has also made a foray in non-carbonated cold beverages segment through placement of Nestea iced tea and Nescafe Frappe vending machines. Exports contribute to 23 per cent of its turnover and the company reported net sales of US$ 440 million in 2003.

**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. P&G, USA has a 65 per cent stake in PGHHCL. The parent also has a 100 per cent subsidiary, Procter & Gamble Home Products (PGHP). The overall portfolio of the company includes healthcare; feminine-care; hair care and fabric care businesses. PGHP operates in just two business segments - Vicks range of cough & cold remedies and Whisper range of feminine hygiene. The detergent and shampoo business has been relocated globally to Vietnam. The company imports and markets most of the products from South East Asian countries and China, while manufacturing, marketing and export
of Vicks and sanitary napkins has been retained in India. The company reported sales of US$ 91 million in 2002-03. The parent company has announced its plan to explore further external collaborations in India to meet its global innovation and knowledge needs.

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