CHAPTER - 2
PROFILE OF FMCG SECTOR IN INDIA

Introduction

The FMCG sector is a key component of India's GDP and is a significant direct and indirect employer. As per an estimate by the Confederation of Indian Industries (CII), FMCG industry is the fourth largest sector in the economy and is responsible for five per cent of total factory employment in the country. The sector creates employment for over three million people in downstream activities, much of which is disbursed in small towns and rural areas. The FMCG sector has several other contributions to the economy. The industry has strong links with agriculture and nearly three-quarters of the industry's sales come from agro-based products. Even in the language of the capital market, it is a significant value creator with a market capitalization second only to the IT sector. Hence, an unyielding recovery of the industry would be welcome to more, than a few counterparts.

In this chapter an attempt has been made to analyze the FMCG sector's strengths and weaknesses, key players, product classification, contribution to the employment and GDP etc. This analysis acts as a precursor for the need of outsourcing.

Attributes of the FMCG Industry

The Fast Moving Consumer Goods (FMCG) sector is one among the largest sectors in the Indian economy also as Consumer Non Durable (CND) industry. It is perhaps the most identifiable sector by the end users as the products cater to the
everyday needs of the population. Contrary to popular perception that the FMCG sector is a manufacturer of luxury items aimed at attracting the elite class; in reality the sector meets the day-to-day needs of the middle and lower middle class. Many of the low-priced products produced by this industry contribute to the majority of the sales volume generated by the whole sector. For instance, lower income and lower middle-income group of the country account for over 60% of FMCG sector's total revenue. Rural markets account for 56% of total domestic FMCG demand. Further, this sector strongly influences the agriculture sector with 71% of sales coming from agro-based products. The fact that FMCG outlets are available at the most remote places of the country that are deprived of a public utility service is a feather in the cap.

Unlike the US market for FMCG products, which is dominated by a handful of global players, India's FMCG market remains highly fragmented. Roughly half of the Indian FMCG sector is accounted by unbranded and unpacked homemade products which in turn give tremendous opportunity for producers of branded products. At the same time, successful launch of and growing market share of FMCG firms is not without challenges.

As evidenced from the name of the industry, FMCG industry is all about tangible goods that are consumed on regular basis at a relatively faster pace. Products belonging to the FMCG segment generally have the following characteristics:

- They are used at least once a month by the consumer.
- They are used directly by the end customer.
- They are non-durable in nature.
- Often they are sold in packaged form.
- Branding assumes a critical factor in marketing.
• Consumers prefer maintaining limited inventory of these products.
• Many of the FMCG products are perishable in nature.
• Individual product sub-categories are of smaller value and do not account for a significant chunk of a consumer’s budget.
• Consumers spend little time on their purchase decisions.
• Product trials or brand switching are factors of heavy advertisement, recommendation of the retailer or neighbors/friends.
• Products cater to necessities, comforts as well as luxuries. Price and income elasticity of demand varies across products and consumers.

Segments of FMCG

Like any other industry, the FMCG industry has various sub-segments and its overall performance is driven by the internal competitiveness of the sub-segments. Main segments of the FMCG sector are:

**Personal Care:** Oral care; hair care; skin care; personal wash (soaps); cosmetics and toiletries; deodorants; perfumes; paper products (tissues, diapers, sanitary); shoe care.

Major companies active in this segment include Hindustan Unilever; Godrej Soaps, Colgate-Palmolive, Marico, Dabur and Procter & Gamble.

**Household Care:** fabric wash (laundry soaps and synthetic detergents); household cleaners (dish/utensil cleaners, floor cleaners, toilet cleaners, air fresheners, insecticides and mosquito repellants, metal polish and furniture polish).

Major companies active in this segment include Hindustan Lever, Nirma and Reckitt & Colman.
Branded and Packaged Food and Beverages: health beverages; soft drinks; staples/cereals; bakery products (biscuits, bread, cakes); snack food; chocolates; ice cream; tea; coffee; processed fruits, vegetables and meat; dairy products; bottled water; branded flour; branded rice; branded sugar; juices etc.

Major companies active in this segment include Hindustan Lever, Nestle, Cadbury and Dabur.

Spirits and Tobacco: Major companies active in this segment include ITC, Godfrey Philips, UB and Shaw Wallace.

Industry Characteristics

The following are the broad characteristics of FMCG sector:

Branding

Nothing is more important in FMCG industry than a successful branding strategy. FMCG companies devote considerable resources in developing brands. Differentiation on the basis of functional attributes is difficult to achieve in this industry. Hence, branding emerges as a single most dominant factor in ensuring consumer loyalty and growth in sales.

Distribution network

Given the fragmented nature of the Indian retailing industry and the problems of infrastructure, FMCG companies are left with no choice but to invest in extensive distribution networks to achieve a desired level of penetration into their target geographical markets. Distribution networks are built over time and once completed can be a major source of competitive advantage over the competitors. India is home to
6 million retail outlets, including 2 million in 5,160 towns and 4 million in 6,27,000 villages. Non-existence of Super markets in India makes logistics particularly for new players extremely difficult. It also makes product launches difficult since retailers are reluctant to allocate resources and time to slow moving products.

High initial launch cost

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

Limited mass media options

TV reaches 65% of urban consumers and 35% of rural consumers. FMCG industry in India depends on alternatives to TV advertisements such as wall paintings, theatre ads, video releases, special consumer promotions etc., to reach the masses.

Contract manufacturing

As FMCG companies have to concentrate on brand building, product development and creating distribution networks, at the same time they are required to manufacture products at a higher margin/lower cost. More often, bigger companies outsource their production requirements to third party manufacturers. Several products of FMCG are manufactured at the small-scale sector enjoying tax incentives as per policies of the country which in turn make them competitive in pricing; the contract-manufacturing route has grown in importance and popularity of late.
Large unorganized sector

Bigger players in the industry face stiff challenges from the unorganized sector that have 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.

Logistics as an entry barrier

New entrants into India's FMCG face the initial hindrance of making their products available in the face of logistics bottleneck. Entry barriers for the new entrants are high due to difficulties associated with logistics and the limited mass media options available to build a brand. Further, the intensity of competition from branded and unbranded goods and the power of retailers make the FMCG a structurally unattractive industry to enter.

SWOT Analysis of FMCG Sector

An attempt has been made here to understand SWOT of Indian FMCG sector. This helps in understanding the need for outsourcing. This analysis has been done on the basis of work carried out by Confederation of Indian Industries (CII).

The strengths of this sector are:

- Distribution network has extended to rural areas.
- Presence of strong brands in the product line
- Availability of wider range of products in the basket
- Access to low-cost manufacturing
- Awareness levels are high on the availability of products
The weaknesses are:

- Relatively lower levels of export of goods
- Small scale sector has limited ability to invest in technology
- Economies of scale is available only to a handful of producers
- Several producers end up making available the "me-too" products

The opportunities are:

- Size of the domestic market is large
- Export potential remains untapped and is an opportunity
- Gradual increase in income levels of the masses
- Growth of retail industry throws up a new channel of distribution
- Imports from low cost producers such as China

However the threats are as follows:

- Tax and regulatory structure
- Slowdown in rural demand on the back of an agricultural slowdown

Industry Analysis

The Indian FMCG sector is the fourth largest in the economy and has a market size in excess of US$13.1 billion. This industry essentially comprises Consumer Non Durable (CND) products. At present, urban India accounts for 66% of total FMCG consumption, with rural India accounts for the remaining 34%. This sector is growing at a fast pace due to the easy availability of raw materials and cheap labour costs.

The industry is budding even in the rural areas, where the consumption of its products is increasing due to an increase in the production of sachets. The small packs
have attracted the rural folk to a great extent as they cost less compared to their large 
counter-packs across all FMCG categories. They offer consumers a chance to try out 
the products, before they graduate from traditional product to branded product. More 
investments in the rural sector and improvement in farm production are driving the 
per capita income, which has direct result on the lifestyle. Rural India accounts for 
more than 40% of the consumption in major FMCG categories such as personal care, 
fabric care and hot beverages. FMCG companies cannot overlook these households as 
they account for 12.2% of the world’s population. Around 70 % 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 m in 2001-02 to 153 m in 2009-10. This 
presents the largest potential market in the world.

FMCG in India has a strong and competitive MNC presence across the entire 
value chain. It has been predicted that the FMCG market will reach to US$ 33.4 

The middle class and the rural segments of the Indian population are the most 
promising market for FMCG, and give brand makers the opportunity to convert them 
to branded products. Most of the product categories like jams, toothpaste, skin care 
and shampoos, in India, have low per capita consumption as well as low penetration 
level, but the potential for growth is huge. Lower and middle-income groups account 
for over 60% of the total FMCG sales. Rural markets account for 56% of the total 
domestic FMCG demand. Low-priced products are driving the sales volume in 
FMCG. Unlike the perception that the FMCG sector is a producer of luxury items 
targeted at the elite, in reality, the sector meets the everyday needs of the masses.
According to Cygnus estimates, the FMCG sector was expected to post strong revenue growth of 15.40% in AMJ08 as compared to AMJ07 (April-March-June, 2007). The estimated aggregate net sales for the FMCG sector comprising of top players in the sector was around Rs134.26 billion in AMJ08 (April-March-June, 2008).

Segmental Performance

Personal Care Segment

Hair Care

Hair oil and its use are deep-rooted into the Indian psyche. The hair care market in India is estimated at around Rs38 billion. The hair care market can be segmented into hair oils, shampoos, gels, colorants and conditioners. Hair oil market size is estimated to be more than Rs.22.6 billion in the hair care segment. Marico is the leader in this segment with market share of around 33%; Dabur occupies second position at 17%. Oil usage is declining in the urban market, especially amongst the younger generation, because of a declining usage frequency and a shift to value added hair oils, a category estimated to be growing at 20 per cent per annum. Thus, companies have started catering to the shifting urban preferences by offering products in the value-added hair oils segment. Parachute is the market leader in the branded hair oil market. The Indian shampoo market is estimated to be around US$542m in India. It has the penetration level of only 13% in India. This market is dominated by HUL with around 47.8% market share; P&G occupies second position with market share of around 23.7%. Anti-dandruff segment constitutes around 15% of the total shampoo market. Clinic All Clear and Head & Shoulders is a major player in the anti-dandruff niche. The penetration level of shampoo is estimated to be around 38%. The market is expected to increase due to increased marketing by players, lower duties,
and availability of shampoos in affordable sachets. Sachet makes up to 40% of the total shampoo sale. This is primarily a middle class product because more than 50% of the population uses toilet soaps to wash hair. The penetration level is only 30% in metros. For the year 2007, it was estimated that this segment would grow more than 13%. A huge opportunity in this segment can be attributed to its large untapped market and unmet consumer needs.

**Personal wash**

The market size of soap is estimated to be around US$1658m. This segment can be segregated into three sections: Premium (Lux, Dove), Economy (Nirma Bath, Lifebuoy), and Popular (Nirma, Cinthol). The price of the premium segment products is twice that of economy segment products. The economy and popular segments are 4/5ths of the entire soaps market. The penetration level of toilet soaps is around 91.5% and the per capita consumption of soap in India is around US$0.6. In India, soaps are available in 5m retail stores, out of which, 3.75m retail stores are in the rural areas. Therefore, availability of these products is not an issue. 70% of India’s population resides in the rural areas; hence around 50% of the soaps are sold in the rural markets. The major players in personal wash market are HUL, Godrej, Nirma and P&G. In this segment, HUL is the leader with market share of around 54.3%; Godrej occupies second position with market share of around 10.2%. With increase in disposable incomes, growth in rural demand is expected to increase because consumers are moving up towards premium products. However, in the recent past there has not been much change in the volume of premium soaps in proportion to economy soaps, because increase in prices has led some consumers to look for cheaper substitutes.
Skin care

The total skin care market is estimated to be around US$698m in India. The skin care market is at a primary stage in India. The penetration level for both the urban and rural market is low. Many people still prefer to use homemade and traditional products to cure the skin problems. The penetration level of this segment in India is around 22%. Urban penetration is around 31.5% and rural penetration is around 17.8%. Per capita consumption is around US$0.3 per annum in India. The penetration level in India for both the urban and rural markets is low. With changing life styles, increase in disposable incomes, greater product choice and availability, and influence of satellite television, more people are taking interest in personal grooming. The facial skin care market is booming. Products are competing with one another to take shelf space in the retail stores. Some of the major players in this segment are Hindustan Lever (Fair & Lovely, Lakme, Ponds) with a market share of 54.5%, followed by CavinKare- Fairever with a market share of over 12% and Godrej-Fair Glow with a market share of over 3.4%. The other players that have a presence in the market are Emami (Gold Turmeric and Naturally Fair), Revlon (Fair & Glow). HUL is the market leader in skin care products in the Industry.

Oral care

The oral care market can be segmented into Toothpaste - 60%; Toothpowder - 23%; Toothbrushes - 17%. The total toothpaste market is estimated to be around US$691m. The penetration level of toothpowder/toothpaste in urban areas is three times that of rural areas. Neem tree, salt, ash, and tobacco are some traditional materials that are still popular for cleaning teeth in rural areas. According to a survey, only 15% of toothpaste users brush their teeth twice a day in India. The per-capita
consumption is very low in India. It is estimated that this segment will grow at 12%.
The major players in this segment are Colgate-Palmolive, HUL and Smith Kline. This
segment is dominated by Colgate-Palmolive with market share of around 48.8%,
while HUL occupies second position with market share of around 29.5%. Colgate and
HUL together account for 85% of organized toothpaste market. In toothpowders
market, Colgate and Dabur are the major players. Some of the small Indian companies
in this segment are Anchor, Babool and others.

**Household Care Segment**

**Detergents**

The size of the detergent market is estimated to be US$2247m. Household
care segment is characterized by high degree of competition and high level of
penetration. With rapid urbanization, emergence of small pack size and sachets, the
demand for the household care products is flourishing. The demand for detergents has
been growing but the regional and small unorganized players account for a major
share of the total volume of the detergent market. Washing powder and detergents are
preferred in urban market, and in rural areas, bars are preferred. In laundry segment
HUL is the leader, with 37.5% of market share. The major players and their products
in the fabric wash market are HLL (Surf), Nirma (Nirma Super, Nirma), Henkel
(Henko) and Proctor & Gamble (Ariel, Gain, and Tide).

**Food and Beverages**

**Food Segment**

The Indian food industry, according to the Confederation of Indian Industry
(CII), was around Rs8,890 billion in 2006 and is expected to grow to Rs13,780 billion
by 2015. Food forms the largest component of the total consumption expenditure in
India accounting for as much as 51%. The food category in FMCG is gaining
popularity with a swing of launches by HLL, ITC, Godrej, and others. This category has 18 major brands, aggregating Rs4,637 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.

Processed Food

The food processing industry in India is estimated at Rs4,600bn, with a mere 5% held by the organised sector. This segment is expected to touch Rs13,500bn by 2015. Companies like Nestle and Dabur have identified this sector as their growth drivers in the 21st century. The sector is witnessing large-scale ad spends and focus on improving the distribution muscle to woo the Indian palette. India is seeing new/existing entrants like Heinz, Mars, Marico, Conagra, Pepsi, ITC, Dabur, Britannia and Amul looking to expand their product folio. Regional players like MTR are also making their presence felt.

Snacks

Branded snack food market is estimated to be around Rs13 billion. Frozen vegetarian snack food market size is estimated at Rs2-2.5 billion, frozen non vegetarian snack food market size at around Rs1.5 billion, chocolate bar at Rs3.5 billion, and milk food market at Rs10 billion. Potato chips hold the major market share of around 85%. The companies are widening their health food portfolio to target the rich, health conscious urban's. Many companies like Dabur, HUL and ITC have made investments in this segment.
Beverages Segment

Non Alcoholic Beverages

Indian hot beverage market is dominated by tea and coffee. Consumers with different tastes in different parts of the country prefer different kinds of tea. Dust tea is popular in southern India, while loose tea is preferred in western India. Coffee is consumed largely in the southern states. The total soft drink market is estimated at Rs89 billion and juice market is estimated to be at Rs12 billion. India produces only 4% of world coffee output, but exports more than 75% of its production of beans. This segment is being dominated by urban market. This market is highly seasonal in nature with consumption varying according to seasons.

Tea

The major share of tea market is dominated by unorganized players. There are about 1000 of tea brands in India, of which 90% of the brands are represented by regional players. Leading branded tea players like HUL, Tata Tea and others have increased their prices. They are facing high pressure on their margin due to increase in the price of procurement of raw materials and Inflation surging up higher. The tea industry is planning to expand its market share abroad with specific focus on Egypt, Pakistan and Iran. Tea shipments fell in all the traditional markets even as no new major foothold was gained in any market in calendar 2007, an analysis of the latest information available with the Tea Board shows.

Coffee

Coffee exports were 35,877 tonnes during January-February 2008, up from 34,037 tonnes a year ago. Robust exports during the period registered a drop of 2.5%
from a year ago. Arabica exports were up around 20.7% as compared with the same period a year ago, while instant coffee exports were up by 3.7% as compared with the same period a year ago. Coffee imports during the period rose to 5,731 tonnes from 3,660 tonnes a year ago. India's 2007 coffee exports totaled 223,565 tonnes, down by 11% YoY (year on year). Coffee exports (permit issued) in 2007-08 dropped 12.09% to 224,966 tonnes compared with 255,908 tonnes previous year, according to the Coffee Board.

Alcoholic Beverages

Alcoholic beverages industry is highly regulated with restriction in movement between states. The driving factors include rapid induction of new consumers, increasing urbanization, affordability, availability and better regulatory policies. According to Mckinsey's report, the total beverage consumption will grow at 9% over the next 20 years. Of which, alcoholic beverage and non-alcoholic beverage will see a spurt of 9.6%.

Beer

The per capita consumption of beer in India is least among the growing economies. It is at 0.7 litres in India, 23 litres in China, 83 litres in US and per capita consumption of world is around 24 litres. However, India's beer consumption extended robust growth for the third year in a row with 14.5 per cent volume jump in FY08. According to industry estimates, beer shipments touched 158 mio cases (of 7.8 litre each) in 2007-08, up from 137 mio in the previous year. In tune with its plan to increase its capacity to 20 mio cases per annum by 2012, UK-based Cobra Beer is looking for acquiring three more breweries in the current year. The company has earmarked around 100 mio dollars for its expansion plans in India. With continued
growth in disposable income, Indian beer industry is expecting the per capital consumption to rise gradually.

**Wine**

The wine industry in India has been growing at an impressive 30% over the last three years, driven by a growing middle-class with higher disposable incomes & changing lifestyle habits. Gradual liberalization of the wine trade by various State Governments has also helped the growth of the industry. The wine industry in the country has predicted that total wine (including domestic and imported) sales country-wide would exceed Rs14 billion by March 2008. The latest emerging trends suggest that youth in recent times has taken to larger wine consumption. The ASSOCHAM observed that wine popularity in India is growing as the cost for opening and setting up of wine plants with capacity of around 0.1m litre comes only to somewhere between Rs10m to Rs15m mark. As India is becoming a favorite destination for investments, it will improve the distribution network, the tax rate will decrease and the retail structure will improve with supermarkets and hypermarkets and various Malls. Hence it is expected that the food and beverages consumption in India will pick up faster.

**Cigarette and Tobacco**

**Cigarettes**

India is the third largest producer and eighth largest exporter of tobacco and tobacco product in the world. While India's share in the world's area under tobacco crop has risen from 9% to 11% in the last 3 decades, its share in production has inched up from 8% to 9% in tobacco industry. Asia and America, together account for 75% of world's production of tobacco. China, USA and India are the three leading
tobacco-producing nations in the world. Andhra Pradesh, Gujarat and Karnataka account for the major portion (80%) of raw tobacco production in India. Other states which manufacture tobacco are Maharashtra, Orissa, Tamil Nadu, West Bengal, UP and Bihar. Tobacco is consumed in two ways, either by smoking or chewing. While smoking the following tobacco products are consumed: Cigarette, Cigar, and Bidi (Hand rolled, leaf wrapped country cigarettes) and to chew the products are: Raw tobacco, Supari (Areca nut), Gutkha and Pan Parag. The major players in India are Indian Tobacco Company and Godfrey Phillips Ltd. These companies are facing competition from the unorganized bidi manufacturers. In 2006-07, around 857 billion units of cigarettes were produced in India.

Key Players

The key players of FMCG are categorized into domestic and foreign players

Domestic Players

Dabur India Ltd.

Dabur India Limited established in 1884, Dabur India Ltd is the largest Indian FMCG and Ayurvedic products company. The group comprises Dabur Foods, Dabur Nepal Pvt Ltd., Dabur Egypt Ltd., Dabur Oncology, Dabur Pharma, 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 rationalize 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.

Britannia India Ltd (BIL)

Britannia 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.

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. 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.
Cargill Inc

Cargill Inc is one of the world's leading agri-business companies with strong presence in processing and merchandising, industrial production and financial services. Its products and geographic diversity (over 40 product lines with a direct presence in over 65 countries and business activities in about 130 countries) as well as its vast communication and transportation network help optimize commodity movements and provide competitive advantage. Cargill India was incorporated in April 1996 as a 100 per cent subsidiary of Cargill Inc of the US. It is engaged in trading in soyabean meals, wheat, edible oils, fertilizers and other agricultural commodities besides marketing branded packaged foods. It has also set up its own anchorage facilities at Rosy near Jamnagar in Gujarat for efficient handling of its import and export consignments.

Coca Cola

Coca-Cola started its operations in India in 1993. The Coca-Cola system in India comprises 27 wholly company-owned bottling operations and another 17 franchisee-owned bottling operations. A network of 29 contract-packers also manufactures a range of products for the company. Leading Indian brands Thumps 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. (HUL)

Hindustan Unilever Ltd is a 51 percent owned subsidiary of the Anglo-Dutch giant Unilever, which has been expanding the scope of its operations in India since 1888. It is the country's biggest consumer goods company with net sales of US$ 2.4 billion in 2003. HLL is amongst the top five exporters of the country and also the biggest exporter of tea and castor oil. The product portfolio of the company includes household and personal care products like soaps, detergents, shampoos, skin care products, color 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 enjoys a formidable distribution network covering over 3,400
distributors and 16 million outlets. In the future, the company plans to concentrate on its herbal health care portfolio (Ayush) and confectionary business (Max). Its strategy to grow includes focusing on the power brands’ growth through consumer relevant information, cross category extensions, leveraging channel opportunities and increased focus on rural growth.

**Nestle India Ltd (NIL)**

Nestle India Ltd a 59.8 per cent subsidiary of Nestle SA, Switzerland, is a leading manufacturer of food products in India. Its products include soluble coffee, coffee blends and teas, condensed milk, noodles (81 per cent market share), infant milk powders (75 per cent market share) and cereals (80 per cent market share). Nestle has also established its presence in chocolates, confectioneries and other processed foods. 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 its presence felt 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.

**H J Heinz Co**

H J Heinz Co a US$ 8.4 billion American foods major, H J Heinz Co comprises 4,000 strong brands buffet in infant food, sauces and condiments. The company was the first to commence manufacturing and bottling of tomato ketchup in 1876. In India, Heinz has a presence through its 100 per cent subsidiary Heinz India Pvt. Ltd. Heinz acquired the consumer products division of pharmaceutical major
Glaxo in 1994. Heinz's product range in India consists of Complan milk beverage, health drink Glucon-D, infant food Farex and Nycil prickly heat powder, besides the Heinz ketchup range.

**PepsiCo**

PepsiCo is a world leader in convenient foods and beverages, with revenues of about US$ 27 billion. PepsiCo brands are available in nearly 200 markets across the world. The company has an extremely positive outlook for India. "Outside North America two of our largest and fastest growing businesses are in India and China, which include more than a third of the world's population" (PepsiCo’s annual report). PepsiCo entered India in 1989 and is concentrating on three focus areas - soft drink concentrate, snack foods and vegetable and food processing. PepsiCo’s success is the result of superior products, high standards of performance and distinctive competitive strategies.

**Procter & Gamble (P&G)**

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. PGHH 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.

**Potential of the sector**

The sector is poised to grow further. The following points elaborate the potentials of the sector:

**Large domestic market**

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.

**Rural and urban potential**

Table 2.1 shows the Rural and Urban profile of the Indian population

<table>
<thead>
<tr>
<th>Table 2.1</th>
<th>Rural-urban profile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>Urban</td>
</tr>
<tr>
<td>Population 2001-02 (mn household)</td>
<td>53</td>
</tr>
<tr>
<td>Population 2009-10 (mn household)</td>
<td>69</td>
</tr>
<tr>
<td>% Distribution (2001-02)</td>
<td>28</td>
</tr>
<tr>
<td>Market (Towns/Villages) 3,768 627,000</td>
<td>3,768</td>
</tr>
<tr>
<td>Universe of Outlets (mn)</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: Statistical Outline of India (2001-02), NCAER
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$ 10.5 billion in 2001-02. With growing incomes at both the rural and the urban level, the market potential is expected to expand further.

India - a large consumer goods spender

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. Even on an international scale, total consumer expenditure on food in India at US$ 120 billion is amongst the largest in the emerging markets, next only to China.

Change in the Indian consumer profile

Table 2.2 gives details of change in Indian consumer profile

<table>
<thead>
<tr>
<th>Populations</th>
<th>1999</th>
<th>2001</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (millions)</td>
<td>846</td>
<td>1,012</td>
<td>1,087</td>
</tr>
<tr>
<td>Population &lt; 25 years of age</td>
<td>480</td>
<td>546</td>
<td>565</td>
</tr>
<tr>
<td>Urbanization (%)</td>
<td>26</td>
<td>28</td>
<td>31</td>
</tr>
</tbody>
</table>

Source: Statistical Outline of India (2002-03).
Rapid urbanization, increased literacy and rising per capita income, have all caused rapid growth and change in demand patterns, leading to an explosion of new opportunities. Around 45 percent of the population in India is below 20 years of age and the young population is set to rise further. Aspiration levels in this age group have been fuelled by greater media exposure, unleashing a latent demand with more money and a new mindset.

**Demand-supply gap**

Presently, the conversion percentage of raw material into value added product is very meager compared to the demand in the market for processed and convenience food. This demand supply gap indicates an untapped opportunity in areas such as packaged form, convenience food and drinks, milk products etc.

**India Competitiveness and Comparison with the World Markets**

**Materials**

India has a diverse agro-climatic condition due to which there exists a wide-ranging and large raw material base suitable for food processing industries. India is the largest producer of livestock, milk, sugarcane, coconut, spices and cashew and is the second largest producer of rice, wheat and fruits & vegetables. India also has an ample supply of caustic soda and soda ash, the raw materials in the production of soaps and detergents – India produced 1.6 million tones of caustic soda in 2003-04. Tata Chemicals, one of the largest producers of synthetic soda ash in the world is located in India. The availability of these raw materials gives India the locational advantage.
Presence across value chain

Indian firms also have a presence across the entire value chain of the FMCG industry from supply of raw material to final processed and packaged goods, both in the personal care products and in the food processing sector. For instance, Indian firm Amul’s product portfolio includes supply of milk as well as the supply of processed dairy products like cheese and butter. This makes the firms located in India more cost competitive.

Cost competitiveness

Apart from the advantage in terms of ample raw material availability, existence of low-cost labor force also works in favor of India. Labor cost in India is amongst the lowest in 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.

Outlook for the Sector

The Indian FMCG industry has witnessed a strong growth in volume across various products like shampoo, biscuits and skin care during the end of 2006-07. The rising disposable income, which encouraged people to spend more on personal care products, is enhancing the growth of the industry.

The FMCG sector companies are growing fast due to the government spending for higher off take, and the companies’ expansion in new places with new products, and companies planning for home delivery of products. The sector can increase its growth by investing more on food items like packed food and ready-to-eat
food, as it is the trend catching up fast in the urban sectors of the society making people more dependent on ready made food items.

Local brands will continue to gain prominence; as the national players focus on consolidation, one could see a couple of these companies suddenly achieve national status through improved distribution tie-ups. The increase in the number of retail outlets has also led to an increase in partnerships between FMCG companies and the retailers ranging from marketing tie-ups to exclusive stocking agreements. This growth in organized retail is likely to spur the overall growth of the sector, more so with a large number of these outlets coming up in semi-urban areas.

Further, the FMCG companies like HLL, Godrej etc will continue to make the brand building impact, which will help them to enhance their sales and profits as well as boost the performance of the companies but the sector as a whole would also grow. The sector is estimated to become Rs1,063 billion by 2012. Rural and semi-urban markets will drive the fast moving consumer segments business in the country to a compounded annual growth of 50% for the next six years.

According to CII-AT Kearney report, the FMCG sector is expected to grow at a compounded annual growth rate of 9% to a size of Rs1,430 billion by 2010. The growth in the FMCG industry can come only from deeper penetration and higher consumption in rural areas. There is a huge growth potential for the FMCG industry, with the increase in rural income and development in distribution network. The penetration levels are set to increase. The consumption of FMCG products is set to rise as the per capita income of almost all the products in the country is amongst the lowest the world also the consumer base of the rural and the growing middle class open up great opportunities for FMCG companies. The major challenge for the
FMCG companies is to change the consumers' mindset and offer new generation products. Presently Indian consumers are experimenting with the available brands and are willing to pay more for quality products. It's the quality, promotion and innovation of the products that can drive the growth of the industry.
References


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6. Cygnus business consulting and research, Quarterly industry review QPAC (April-May-June, 2008), FMCG


