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FAST MOVING CONSUMER GOODS (F.M.C.G.)

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CHAPTER – 2

FAST MOVING CONSUMER GOODS (F.M.C.G.)

2.1 - INDUSTRY PROFILE

INTRODUCTION:
Products which have a quick turnover, and relatively low cost are known as Fast Moving Consumer Goods (F.M.C.G.). F.M.C.G. products are those that get replaced within a year. Examples of F.M.C.G. generally include a wide range of frequently purchased consumer products such as toiletries, soap, cosmetics, tooth cleaning products, shaving products and detergents, as well as other non-durables such as glassware, bulbs, batteries, paper products, and plastic goods. F.M.C.G. may also include pharmaceuticals, consumer electronics, packaged food products, soft drinks, tissue paper, and chocolate bars. India’s F.M.C.G. sector is the fourth largest sector in the economy and creates employment for more than three million people in downstream activities. Its principal constituents are Household Care, Personal Care and Food & Beverages. The total F.M.C.G. market is in excess of Rs. 85,000 Crores. It is currently growing at double digit growth rate and is expected to maintain a high growth rate. F.M.C.G. Industry is characterized by a well established distribution network, low penetration levels, low operating cost, lower per capita consumption and intense competition between the organized and unorganized segments.

2.1.1 HISTORY OF F.M.C.G. IN INDIA:
In India, companies like ITC, H.U.L., Colgate, Cadbury and Nestle have been a dominant force in the F.M.C.G. sector well supported by relatively less competition and high entry barriers (import duty was high). These companies were, therefore, able to charge a premium for their products. In this context, the margins were also on the higher side. With the gradual opening up of the economy over the last decade, F.M.C.G. companies have been forced to fight for a market share. In the process, margins have been compromised.
2.1.2 SWOT ANALYSIS: INDIA RETAIL BUSINESS ENVIRONMENT:

The recent “India Retail Report” published by Business Monitor International Limited, covers the scenario of Indian retail sector. The SWOT analysis of India Retail Business Environment and India Economic as reported in the said report is reproduced as under:

STRENGTHS:

India attracted US$16.9bn in foreign direct investment (FDI) inflows in 2006, according to the UN Conference on Trade and Development – a 153% year-on year increase.

- A cheap, skilled, English-speaking workforce can do the jobs of Western workers for a fraction of the wages paid in North America or Europe.
- Average annual GDP growth of 7.0% is predicted by BMI through to 2017. With the population expected to increase from 1.28bn in 2012 to 1.34bn by 2017, GDP per capita is forecast to rise 84.4% by the end of the forecast period, reaching US$3,096.
- The value of the retail segment is expected to grow from an estimated INR24.11trn (US$573.95bn) in 2013 to INR36.15trn (US$939.06bn) by 2017, a rise of 50.0%.

WEAKNESSES:

- The competitiveness of local firms is undermined by official red tape, from foreign investment restrictions to inflexible labour laws.
- Intellectual property rights are poorly protected in India, one of 12 countries on the 2009 priority watch list compiled by the US Trade Representative.
- The rural population of India represents more than 70% of the total, while almost 37% is classified as not economically active by the UN. This is a major obstacle for retailers seeking to rapidly expand their customer base.

OPPORTUNITIES:

- India could enhance the competitiveness of the local industry through further liberalisation and deregulation.
Prime Minister Manmohan Singh is eager to reform the banking sector to increase the availability of long-term financing, particularly for large infrastructure projects.

The value of the OTC drug sector is forecast to grow by almost 92% by 2017, when it will be worth an estimated US$7.54bn.

THREATS:

- The arrival of Western players, including management consultancy Accenture and technology company IBM, is raising local wages in the outsourcing sector.
- International retailers are restricted by India's strict FDI regulations, although laws were relaxed in January 2012 to allow foreign investors to own up to 100% of single-brand retail trading companies in the country. However, they must source 30% of the goods they sell in India from small and medium enterprises (previously they could own no more than a 51% majority stake in a joint venture with a local partner). Multi-brand retailers must still operate through a franchise or cash-and-carry wholesale model.

2.1.3 SWOT ANALYSIS: INDIA ECONOMIC:

STRENGTHS:

- India has a very large domestic market, and rising domestic demand is a major driver of economic growth.
- A vast supply of inexpensive but skilled labour has turned India into the back office of the world. Around half of the population is younger than 25.

WEAKNESSES:

- Despite rapid economic growth, India remains a very poor country. According to BMI estimates, India's GDP per capita was roughly US$1,500 in 2011, a third that of China's.
- Agriculture remains inefficient, and poor monsoon rains can slash rural incomes and consumption. Two-thirds of the population depend on farming for their livelihood.
- India runs chronic trade and fiscal deficits, both of which are near historic highs.
The government spends a significant part of its revenue on interest payments, subsidies, salaries and pensions. This limits the amount of money available for infrastructural improvements.

**OPPORTUNITIES:**

- India's emerging middle class will continue to drive demand for new goods and services. A wealthier society, combined with tax reforms, would serve to boost revenue receipts, relieving fiscal pressure.
- The government has implemented some tax reforms. A uniform goods and services tax to be implemented in the near future should help boost compliance, thereby raising government revenue.
- With Chinese labour costs rising aggressively, India may well enjoy a manufacturing boom in the coming years as multinationals look to take advantage of a young, competitive workforce and major transport network improvements.

**THREATS:**

- India's dependency on oil imports is problematic. This undermines the trade balance and makes India vulnerable to energy price-driven inflation.
- India is at risk of severe environmental problems. Many of its cities' air and rivers are heavily polluted, raising questions about the sustainability of the economy's rapid growth.

**2.1.4 RETAIL MARKET OVERVIEW[^7]:**

Retail is the second-largest employment sector in India, after agriculture, and employs 44mn people. The industry is dominated by an estimated 15mn independent retailers, consisting of the local kirana shops, owner-manned general stores, chemists, footwear shops, apparel shops, paan and beedi (small corner shops) and handcart and pavement vendors, which together make up the 'unorganised' market. BMI estimates that this fragmented offering still accounts for about 95% of the country's grocery retail sales. However, this is changing fast, as multinationals begin to seek opportunities to enter India and as local organised players accelerate their own expansion and business-activity efforts in preparation for greater competition. The emergence of organised retail formats is transforming the face of retailing in India, as domestic and foreign players challenge
the dominance of the country's traditional 'mom and pop' stores by opening chain and speciality stores across the country to satisfy increasing consumer demand. The country enjoyed the second highest growth in foreign direct investment (FDI) inflows in the world during 2011. According to Ernst & Young's 2012 India Attractiveness Survey, investors view India as an attractive investment destination. India stands as the fourth most attractive destination for FDI in the survey's global ranking. Domestic market's high potential driven by an emerging middle class, cost Competitiveness and access to a highly qualified workforce are the major factors that have been the magnet force to attract global investors.

FDI inflow rose by 55% to US$28.4bn during April-February 2011/12, while the cumulative amount of FDI equity inflows from April 2000 to February 2012 stood at US$246.6bn, according to the latest data released by the Department of Industrial Policy and Promotion.

The sector that attracted the most FDI inflow during the 11-month period in 2011/12 was services, with US$5.05bn of FDI. India received FDI worth US$2.21bn in February 2012, representing year-on-year growth of 74%. Cumulative inflows for April-February 2011/12 stood at US$28.40bn.

A.T. Kearney, in its 2011 Global Retail Development Index (GRDI), stated that 'the time to enter [India] is now'. India's strong growth fundamentals – 9% real GDP growth in 2010; forecasted yearly growth of 8.7% through 2016; high saving and investment rates; fast labour force growth; and increased consumer spending – make for a very favourable retail environment and the fourth spot in the GRDI. 'As has been the case for several years, Indian consumers continue to urbanize, have more money to spend on non-food purchases, and have more exposure to brands. The result is a powerful, more discerning consumer class. India's population of nearly 1.2bn – forecast eventually to overtake China's – also is an attractive target.' In the 2012 GRDI, India slipped one place to fifth, but Kearney stated that the country 'remains a high potential market with accelerated retail growth of 15 to 20 percent expected over the next five years'. With organised retail penetration remaining low, at an estimated 5-6%, the report pointed out that there was room for growth. It also commented on the ongoing FDI regulations 'story', stating that the changing FDI climate was leading to several international retailers 'stepping up
inquiries' to enter the market, while others seek local partners. Following New Delhi’s moves in September 2012 to open retail businesses to foreign ownership, IKEA has applied to the Indian government to set up its stores in the country, the Financial Times has reported. 'We know that many people are eagerly waiting for the first IKEA store to open in India,' said Mikael Ohlsson, president and chief executive. 'Once our application is approved, we will develop a solid plan for the establishment of IKEA stores for many years to come.' IKEA announced in September 2012 that it plans to double the pace of its store openings globally to 20-25 stores a year, focusing on emerging markets such as China and India. The company indicated earlier in 2012 that it could invest up to US$757mn in the first stage of its plan in India, and that its total investment in India over the next decade or two could eventually reach US$1.9bn. Other vibrant sectors of the retail market include internet shopping, with online retail market likely to be worth around INR70bn (US$1.57bn) by 2016, up from around INR20bn (US$0.4bn) at present, helped by increased internet access and the entry of more 'e-tailers', NamNews has reported. According to industry body Assocham, the market is growing at a rate of 35% annually, and India will have the third largest number of internet users in the world by 2013. Assocham also carried out a survey of around 5,000 shoppers in the country's major metros, and found that 40% prefer to shop online because of convenience and the ease of being able to compare prices. Consumers in Mumbai were most active in online shopping, followed by those in Ahmadabad and Delhi.

2.1.5 RETAIL CURRENT TRENDS:

The recent retail trends as elaborated in “India Retail Report” published by Business Monitor International Limited, mentions that, As of July 2009, foreign direct investment (FDI) inflows to single-brand retail trading stood at approximately US$46.60mn, according to the Department of Industrial Policy and Promotion (DIPP). However, FDI inflows to the services sector dropped by 30% to US$2.16bn between April and October 2010, according to the Industry Ministry's latest data.

Industry observers attributed this to India's strict FDI regulations: until January 2012, foreign investors could own no more than a 51% majority stake in a joint venture with a local partner, but regulations have now been relaxed to allow foreign investors to own up to 100% of single-brand retail trading companies in India, as long as they source 30% of
the goods they sell in India from small and medium enterprises. UK-based footwear company Pavers, which sells premium leather footwear under the Pavers England brand, became the first foreign retailer to seek government approval to operate without a local partner after 100% foreign investment was allowed in single-brand retail. Pavers approached the Foreign Investment Promotion Board (FIPB) with a proposal to invest US$20mn through its joint venture with London-based Foresight Group, the Economic Times reported. Pavers formed a joint venture with the Foresight Group in 2008 to explore growth opportunities in India. The venture launched wholesale operations in the country and appointed Triton Retail as the master franchisee to sell its range of men's and women's shoes and accessories. In July 2011, the Committee of Secretaries (COS) recommended that multi-brand retailers should have the same rights as single-brand retailers (although they would have to dedicate at least 50% of their proposed investment to back-end supply chain infrastructure and commit a minimum FDI of US$100mn). However, both ruling Congress party allies and opposition parties, fearing job losses for millions of small shopkeepers, disrupted parliament for two weeks in protest at the proposed relaxation of the rules, stalling some key bills, such as increased food subsidies for the poor, leading the government to back down over the issue.

Liberalisation was eventually achieved in September 2012, opening up India's retail doors to retail giants such as Walmart and Carrefour. Walmart had previously said it was ready to open hundreds of retail outlets if rules were liberalised, with international players set to bring in their logistical capabilities and aid in a potential overhaul of the country's distribution infrastructure. Improvements in India's supply chain infrastructure will lift production efficiencies and lower the wastage of farm output, in turn increasing consumer goods supplies and easing supply-driven inflationary pressures in the country. In 1999 India had three shopping malls, collectively covering less than 1mn square feet (sq ft), or 92,903 square metres (m2). By the end of 2006 the country had 137 shopping malls, occupying 28mn sq ft (2.6mn m2). In December 2008 it is estimated that there were more than 450 malls in India, accounting for at least 120mn sq ft (11.1mn m2) of retail space. According to the Mall Realities India 2010 report by property consultants Jones Lang LaSalle Meghraj (JLLM) and Cushman & Wakefield India, in association with Shopping Centres Association of India (SCAI), more than 100 malls with 2.8mn m2 of shopping space were expected to open in India before the end of 2010. India and China top the list of the leading 20 destinations with the strongest retail real estate
momentum in a 2012 report from Jones Lang LaSalle. Shopping centre stocks in the two countries are projected to grow by around 15% per annum until 2020. However, India falls short of China due to weaker real estate Investment momentum and a smaller international retailer presence, says the report.

2.1.6 F.M.C.G. INDUSTRY ECONOMY:

F.M.C.G. industry provides a wide range of consumables and accordingly the amount of money circulated against F.M.C.G. products is also very high. The competition among F.M.C.G. manufacturers is also growing and as a result of this, investment in F.M.C.G. industry is also increasing, specifically in India, where F.M.C.G. industry is regarded as the fourth largest sector with total market size of US$20.1 billion. F.M.C.G. Sector in India is estimated to grow 60% by 2011. F.M.C.G. industry is regarded as the largest sector in New Zealand which accounts for 5% of Gross Domestic Product (GDP).

Common F.M.C.G. Products:

Some common F.M.C.G. product categories include food and dairy products, glassware, paper products, pharmaceuticals, consumer electronics, packaged food products, plastic goods, printing and stationery, household products, photography, drinks etc. and some of the examples of F.M.C.G. products are coffee, tea, dry cells, greeting cards, gifts, detergents, tobacco and cigarettes, watches, soaps etc.

2.1.7 MARKET POTENTIALITY OF F.M.C.G. INDUSTRY:

Some of the merits of F.M.C.G. industry, which made this industry as a potential one, are low operational cost, strong distribution networks, presence of renowned F.M.C.G. companies. Population growth is another factor which is responsible behind the success of this industry.

2.1.8 GROWTH PROSPECTS OF F.M.C.G. IN RURAL INDIA[8]:

With the presence of 12.2% of the world population in the villages of India, the Indian rural F.M.C.G. market is something no one can overlook. Increased focus on farm sector will boost rural incomes, hence providing better growth prospects to the F.M.C.G. companies. Better infrastructure facilities will improve their supply chain. F.M.C.G.
sector is also likely to benefit from growing demand in the market. Because of the low per capita consumption for almost all the products in the country, F.M.C.G. companies have immense possibilities for growth. And if the companies are able to change the mindset of the consumers, i.e. if they are able to take the consumers to branded products and offer new generation products, they would be able to generate higher growth in the near future.

It is expected that the rural income will rise in future, boosting purchasing power in the countryside. However, the demand in urban areas would be the key growth driver over the long term. Also, increase in the urban population, along with increase in income levels and the availability of new categories, would help the urban areas maintain their position in terms of consumption. At present, urban India accounts for 66% of total F.M.C.G. consumption, with rural India accounting for the remaining 34%. However, rural India accounts for more than 40% consumption in major F.M.C.G. categories such as personal care, fabric care, and hot beverages. In urban areas, home and personal care category, including skin care, household care and feminine hygiene, will keep growing at relatively attractive rates. Within the foods segment, it is estimated that processed foods, bakery, and dairy are long-term growth categories in both rural and urban areas.

F.M.C.G. RURAL DEMAND TO SHOW 50% GROWTH IN 2012 – ASSOCHAM:

In a Press Release on January 3rd 2010, The Associated Chambers of Commerce and Industry in India (ASSOCHAM) have forecasted an extremely robust growth in the F.M.C.G. sector. The Press Release is detailed below: Fast Moving Consumer Goods (F.M.C.G.) will be witnessing more than 50% of growth in its Rural and Semi-Urban Segments by 2012 which in totality is projected to grow at an CAGR of 10% to carry forward its market size to over Rs.1,06,300 crore from present level of Rs. 87,900 crore, according to an analysis carried out by the Associated Chambers of Commerce and Industryofindia.

The growing penchant and insatiable appetite of rural and semi-urban folks for F.M.C.G. products will mainly be responsible for this development as their manufacturers will have to deepen their concentration for higher sales volumes in such niche areas.

Also, the urban population will develop a larger craze for organic products in the F.M.C.G. sector from health point of view and as their will not be a large number of
products of organic nature in the F.M.C.G. sector, this industry will have to look for larger market size in the rural and semi-urban areas, says the Chamber’s analysis.

In the rural and semi-urban areas, F.M.C.G. market penetration is currently about 2% in general as against its total growth rate of about 8%. The Indian rural market with its vast size and demand base offered a huge opportunity that F.M.C.G. companies cannot afford to ignore. With 150 million households, the rural population is nearly three times the urban.

ASSOCHAM also analyzed that the F.M.C.G. products, which will attract the eyes of rural and semi-urban folks, will mainly comprise soaps, detergents, cold drinks, consumer durables, toothpastes, batteries, biscuits, namkeens, mosquito repellants, refined oil, and hair oil. In the semi-urban areas which will include townships of larger sizes, the Chamber estimates, a good number of malls will have been put up in the next 2-3 years which will sell large volumes of F.M.C.G. products and thereby increase their demand phenomenally.

Though the rural and semi-urban demand of F.M.C.G. products will grow larger and higher, it will put a severe pressure on the margins of manufacturers of F.M.C.G. products because of cut-throat competition, says the Chamber analysis. The branded companies in the F.M.C.G. sector that will make killings will include a known number like Nirma, HLL, Dabur, ITC, Godrej, Britannia, etc.

The rising rural and semi-urban income levels coupled with massive advertisement of F.M.C.G. products in the electronic media will spread so much of awakening in the rural and semi-urban folks towards fast moving consumer goods products so much that these will enlarge their affordability for them.

ASSOCHAM has therefore suggested that to tap the rural and semi-urban market, better infrastructure facilities like roads, better telecom connectivity to rural persons, proper sanitation and healthcare facilities should be created.
2.1.9 ADVANTAGES TO THE SECTOR\textsuperscript{[9]}:

- **Governmental Policy** :
  Indian Government has enacted policies aimed at attaining international competitiveness through lifting of the quantitative restrictions, reducing excise duties, automatic foreign investment and food laws resulting in an environment that fosters growth. 100% export oriented units can be set up by government approval and use of foreign brand names is now freely permitted.

- **Central & State Initiatives** :
  Recently Government has announced a cut of 4\% in excise duty to fight with the slowdown of the Economy. This announcement has a positive impact on the industry. But the benefit from the 4\% reduction in excise duty is not likely to be uniform across F.M.C.G. categories or players. The changes in excise duty do not impact cigarettes (ITC, Godfrey Phillips), biscuits (Britannia Industries, ITC) or ready-to-eat foods, as these products are either subject to specific duty or are exempt from excise. Even players with manufacturing facilities located mainly in tax-free zones will also not see material excise duty savings. Only large F.M.C.G.-makers may be the key ones to bet and gain on excise cut.

- **Foreign Direct Investment (FDI)** :
  Automatic investment approval (including foreign technology agreements within specified norms), up to 100\% foreign equity or 100\% 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). There is a continuous growth in net FDI Inflow. There is an increase of about 150\% in Net Inflow for Vegetable Oils & Vanaspati.

2.1.10 MARKET OPPORTUNITIES\textsuperscript{[9]}:

- **Vast Rural Market** :
  Rural India accounts for more than 700 Million consumers or 70\% of the Indian population and accounts for 50\% of the total F.M.C.G. market. The working rural population is approximately 400 Millions. And an average citizen in rural India has less than half of the purchasing power as compare to his urban counterpart. Still there is an
untapped market and most of the F.M.C.G. Companies are taking different steps to capture rural market share. The market for F.M.C.G. products in rural India is estimated about 52% and is projected to touch about 60% within a year. H.U.L. is the largest player in the industry and has the widest market coverage.

- **Export - “Leveraging the Cost Advantage”**
Cheap labor and quality product & services have helped India to represent as a cost advantage over other Countries. Even the Government has offered zero import duty on capital goods and raw material for 100% export oriented units. Multi National Companies outsource its product requirements from its Indian company to have a cost advantage. It adds a cost advantage as well as easily available raw materials.

- **Sectoral Opportunities**
Major Key Sectoral opportunities for Indian F.M.C.G. Sector are mentioned below:
  - Dairy Based Products India is the largest milk producer in the world, yet only around 15 per cent of the milk is processed. The organized liquid milk business is in its infancy and also has large long-term growth potential. Even investment opportunities exist in value-added products like desserts, puddings etc.
  - Packaged Food Only about 10-12 per cent of output is processed and consumed in packaged form, thus highlighting the huge potential for expansion of this industry.
  - Oral Care The oral care industry, especially toothpastes, remains under penetrated in India with penetration rates around 50%. With rise in per capita incomes and awareness of oral hygiene, the growth potential is huge. Lower price and smaller packs are also likely to drive potential up trading.
  - Beverages Indian tea market is dominated by unorganized players. More than 50% of the market share is capture by unorganized players highlighting high potential for organized players.

2.1.11 RURAL MARKETING BY F.M.C.G. SECTOR:
With the urban market saturated, F.M.C.G. companies are now targeting the rural markets. In spite of the income imbalance between urban and rural India, rural holds great potential since 70% of India's population lives there. Due to the recent government measures like waiver of loans, national rural employment guarantee scheme and
increasing minimum support price, disposable income in rural India has been rapidly increasing. However, rural markets present their own sets of problems. These include poor infrastructure, dispersed settlements, lack of education and a virtually non-existent medium for communication. Furthermore, retailers cannot be present in all the centers as many of them are so small that it makes them economically unfeasible.

- **HINDUSTAN UNILEVER LIMITED (H.U.L.) – SHAKTI:**

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

The recruitment of a Shakti Entrepreneur or Shakti Amma (SA) begins with the executives of H.U.L. identifying the uncovered village. The representative of the company meets the panchayat and the village head and identify the woman who they believe will be suitable as a SA. After training she is asked to put up Rs 20,000 as investment which is used to buy products for selling. The products are then sold door-to-door or through petty shops at home. On an average a Shakti Amma makes a 10% margin on the products she sells.

An initiative which helps support Project Shakti is the Shakti Vani program. Under this program, trained communicators visit schools and village congregations to drive messages on sanitation, good hygiene practices and women empowerment. This serves as a rural communication vehicle and helps the SA in their sales.

The main advantage of the Shakti program for H.U.L. is having more feet on the ground. Shakti Ammas are able to reach far flung areas, which were economically unviable for the company to tap on its own, besides being a brand ambassador for the company. Moreover, the company has ready consumers in the SAs who become users of the products besides selling them.

Although the company has been successful in the initiative and has been scaling up, it faces problems from time to time for which it comes up with innovative solutions. For
example, a problem faced by H.U.L. was that the SAs were more inclined to stay at home and sell rather than going from door to door since there is a stigma attached to direct selling. Moreover, men were not liable to go to a woman's house and buy products. The company countered this problem by hosting Shakti Days. Here an artificial market place was created with music and promotion and the ladies were able to sell their products in a few hours without encountering any stigma or bias.

This model has been the growth driver for H.U.L. and presently about half of H.U.L.'s F.M.C.G. sales come from rural markets. The Shakti network at the end of 2008 was 45,000 Ammas covering 100,000+ villages across 15 states reaching 3 m homes. The long term aim of the company is to have 100,000 Ammas covering 500,000 villages and reaching 600 m people. We feel that with this initiative, H.U.L. has been successful in maintaining its distribution reach advantage over its competitors. This program will help provide H.U.L. with a growing customer base which will benefit the company for years to come.

- **ITC - E-CHOUPAL:**

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

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

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

With a judicious blend of click & mortar capabilities, village internet kiosks managed by farmers - called sanchalaks - themselves, enable the agricultural community access ready information in their local language on the weather & market prices, disseminate
knowledge on scientific farm practices & risk management, facilitate the sale of farm inputs (now with embedded knowledge) and purchase farm produce from the farmers' doorsteps (decision making is now information-based).

Real-time information and customized knowledge provided by 'e-Choupal' enhance the ability of farmers to take decisions and align their farm output with market demand and secure quality & productivity. The aggregation of the demand for farm inputs from individual farmers gives them access to high quality inputs from established and reputed manufacturers at fair prices. As a direct marketing channel, virtually linked to the 'mandi' system for price discovery, 'e-Choupal' eliminates wasteful intermediation and multiple handling. Thereby it significantly reduces transaction costs.

'e-Choupal' ensures world-class quality in delivering all these goods & services through several product / service specific partnerships with the leaders in the respective fields, in addition to ITC's own expertise.

While the farmers benefit through enhanced farm productivity and higher farm gate prices, ITC benefits from the lower net cost of procurement (despite offering better prices to the farmer) having eliminated costs in the supply chain that do not add value.

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

Another path-breaking initiative - the 'Choupal Pradarshan Khet', brings the benefits of agricultural best practices to small and marginal farmers. Backed by intensive research and knowledge, this initiative provides agri-extension services which are qualitatively superior and involves pro-active handholding of farmers to ensure productivity gains. The services are customized to meet local conditions, ensure timely availability of farm inputs including credit, and provide a cluster of farmer schools for capturing indigenous
knowledge. This initiative, which has covered over 70,000 hectares, has a multiplier impact and reaches out to over 1.6 million farmers.

2.1.12 COMPANIES LEVERAGE THE DEEP-ROOTED F.M.C.G. FIRMS’ NETWORK IN RURAL INDIA:

In process of understanding and reaching the scattered rural markets of India, F.M.C.G. majors H.U.L. and ITC have formed a strong rural distribution network over the years. These networks reach out to the billion dollar consumer market which companies from various sectors aim to connect with. Hence, companies across sectors such as telecom, pharmaceuticals, banking and even cosmetics are queuing up to join forces with F.M.C.G. firms to leverage the entrenched network.

Pharmaceutical giants Ranbaxy and Pfizer recently tied up with the F.M.C.G. Company, ITC in order to distribute their over the counter (OTC) products across 6,500 e-Choupal centers spread across 40,000 villages. The e-Choupal initiative by ITC is by far one of the most successful initiatives in empowering the rural farmers thus building a healthy rural network across 40,000 villages in 9 states. The initiative currently empowers 4 million farmers while the number is growing fast. The alliance will open windows for the less equipped consumers in rural areas and provide them with better medical and healthcare products currently available only in urban cities and towns.

As corporate partnerships to push rural growth are on an upswing, the recent Reserve Bank of India (RBI) decision to allow “for profit” companies to be business correspondents of banks has encouraged such tie-ups.

For instance, in a step to promote financial inclusion, SBI bank has tied up with H.U.L. H.U.L.’s ‘Shakti Ammas’ network, the self-help groups that distribute the company’s products in remote villages with a population of 2,000 and less, will now be opening SBI bank accounts for people. The alliance will ensure that the rural folks not only get access to capital, but also generate savings. While multiple banks can use a company as a business correspondent, more than one bank cannot be in the same village. Hence, the wide spread network of consumer product companies is the most effective way to gain access to scattered rural market of India.
The Hindustan Unilever (H.U.L.) board also recently announced its strategic alliance with Tata Teleservices for distribution of latter’s telecom products by leveraging company’s distribution network in rural markets in India.

Creating a distribution network from scratch is a costly affair and hence arrangements with F.M.C.G. players are a win-win for both parties as network costs are shared. However, companies leveraging the F.M.C.G.’s network will be successful only if they come up with a differential pricing mechanism, keeping in mind the sensitivity of the market.

Nonetheless, such tie-ups will induce further consumer brand engagements giving further exposure to the rural folks and also make them aware of various products and services available in the market.

2.1.13: INDIAN COMPETITIVENESS AND COMPARISON WITH THE WORLD MARKETS:

The following factors make India a competitive player in F.M.C.G. sector:

1. **Availability of Raw Materials:*
   
   Because of the diverse agro-climatic conditions in India, there is a 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 produces caustic soda and soda ash, which are required for the production of soaps and detergents. The availability of these raw materials gives India the location advantage.

2. **Labour Cost Comparison:**

   Low cost labour gives India a competitive advantage. India’s labour cost is amongst the lowest in the world, after China & Indonesia. Low labour costs give the advantage of low cost of production. Many MNC's have established their plants in India to outsource for domestic and export markets.
3. Presence across Value Chain:
Indian companies have their presence across the value chain of F.M.C.G. sector, right from the supply of raw materials to packaged goods in the food-processing sector. This brings India a more cost competitive advantage. For example, Amul supplies milk as well as dairy products like cheese, butter, etc.

2.1.14 THE FUTURE OF F.M.C.G. [10]:
Fast moving consumer goods will become Rs 400,000-crore industry by 2020. A Booz & Company study finds out the trends that will shape its future. Considering this, the anti-ageing skincare category grew five times between 2007 and 2008. It’s today the fastest-growing segment in the skincare market. Olay, Procter & Gamble’s premium anti-ageing skincare brand, captured 20 per cent of the market within a year of its launch in 2007 and today dominates it with 37 per cent share. Who could have thought of ready acceptance for anti-ageing creams and lotions some ten years ago? For that matter, who could have thought Indian consumers would take oral hygiene so seriously? Mouth-rinsing seems to be picking up as a habit — mouthwash penetration is growing at 35 per cent a year. More so, who could have thought rural consumers would fall for shampoos? Rural penetration of shampoos increased to 46 per cent last year.

Consumption patterns have evolved rapidly in the last five to ten years. The consumer is trading up to experience the new or what he hasn’t. He’s looking for products with better functionality, quality, value, and so on. What he ‘needs’ is fast getting replaced with what he ‘wants’. A new report by Booz & Company for the Confederation of Indian Industry (CII), called F.M.C.G. Roadmap to 2020: The Game Changers, spells out the key growth drivers for the Indian fast moving consumer goods (F.M.C.G.) industry in the past ten years and identifies the big trends and factors that will impact its future. It has been estimated that F.M.C.G. sector witnessed robust year-on-year growth of approximately 11 per cent in the last decade, almost tripling in size from Rs 47,000 crore in 2000-01 to Rs 130,000 crore now (it accounts for 2.2 per cent of the country’s GDP). Growth was even faster in the past five years — almost 17 per cent annually since 2005. It identifies robust GDP growth, opening up of rural markets, increased income in rural areas, growing urbanization along with evolving consumer lifestyles and buying behaviours as the key drivers of this growth. It has been estimated that the F.M.C.G.
industry will grow at least 12 per cent annually to become Rs 400,000 crore in size by 2020. Additionally, if some of the factors play out favourably, say, GDP grows a little faster, the government removes bottlenecks such as the goods and services tax (GST), infrastructure investments pick up, there is more efficient spending on government subsidy and so on, growth can be significantly higher. It could be as high as 17 per cent, leading to an overall industry size of Rs 620,000 crore by 2020. Abhishek Malhotra (2010) told that the Indian GDP per capita is low but many Indian consumer segments which constitute rather large absolute numbers are either close to or have already reached the tipping point of rapid growth. The sector is poised for rapid growth over the next 10 years, and by 2020, the industry is expected to be larger, more responsible and more tuned to its customers. Based on research on industry evolutions in other markets and discussions with industry experts and practitioners, Booz & Company has identified some important trends that will change the face of the industry over the next ten years. Some key ones related to evolution of consumer segments are as follows:

1. Accelerating ‘Premiumisation’:

The rising income of Indian consumers has accelerated the trend towards ‘premiumisation’ or up-trading. The trend can be observed prominently in the top two income groups — the rich with annual income exceeding Rs 10 lakhs, and the upper middle class with annual income ranging between Rs 5 lakhs and Rs 10 lakhs. The rich are willing to spend on premium products for their ‘emotional value’ and ‘exclusive feel’, and their behaviour is close to consumers in developed economies. They are well-informed about various product options, and want to buy products which suit their style. The upper middle class wants to emulate the rich and up-trade towards higher-priced products which offer greater functional benefits and experience compared to products for mass consumption. While these two income groups account for only 3 per cent of the population, it is estimated that by 2020 their numbers will double to 7 per cent of the total population. The rich will grow to approximately 30 million in 2020, which is more than the total population of Sweden, Norway and Finland put together. Similarly, the upper middle segment will be a population of about 70 million in 2020, which is more than the population of the UK. Over the next ten years, these groups will constitute large enough numbers to merit a dedicated strategy by F.M.C.G. companies. Abhishek Malhotra (2010) added that they have seen companies focused on selling primarily to the
mid segments. Often, there is no clear segmentation being offered. Players would do well to clearly separate their offerings for the upper and mid segments, and the two should be treated as separate businesses with a dedicated team and strategy for each.

2. Evolving Categories:
Categories are evolving at a brisk pace in the market for the middle and lower-income segments. With their rising economic status, these consumers are shifting from need- to want-based products. For instance, consumers have moved from toothpowders to toothpastes and are now also demanding mouthwash within the same category. Also, consumers have started demanding customised products, specifically tailored to their individual tastes and needs. The complexities within the categories are increasing significantly. Earlier a shampoo used to have two variants — normal and anti-dandruff. Now, you have anti-dandruff shampoos for short hair, oily hair, curly hair, and so on. Everything is getting customised. The trend towards mass-customization of products will intensify with F.M.C.G. players profiling the buyer by age, region, personal attributes, ethnic background and professional choices. Micro-segmentation will amplify the need for highly customized market research so as to capture the specific needs of the consumer segment targeted, before the actual product design phase gets underway. The beauty products market will grow by 20 per cent per annum as result of the changing socio-economic status of consumers, especially women. Middle-class women are now more conscious of their appearance and are willing to spend more on enhancing it. Products such as colour cosmetics (growing by 46 per cent) and sun care products (growing at 13 per cent) have latched on to this trend rapidly.

3. Value at the Bottom:
It has been defined the bottom-of-the-pyramid or BoP consumers as those who earn less than Rs 2 lakhs per annum per household. The group constitutes about 900 to 950 million people. While the middle class segment is largely urban, already well-served and competitive, the BoP markets are largely rural, poorly-served and uncompetitive. A lot of the basic needs of BoP consumers are yet unmet: Financial services, mobile phones & communication, housing, water, electricity and basic healthcare. And so there is untapped opportunity. Abhisek Malhotra (2010) added that the aspiration was always there, and increasingly money is coming in. The segment is being targeted primarily with
lower-priced products, say, Rs 2 Parle-G. But increasingly it will need products that deliver more value say, Rs 5 product that serves as dinner and also delivers nutrition (vitamins, proteins etc). Companies like PepsiCo and Tata are working on such products.

It is added that the rural BoP population is estimated to be about 78 per cent of the total BoP population. The segment is becoming an important source of consumption by moving beyond the ‘survival’ mode. As a result of rising incomes, the growth of F.M.C.G. market in rural areas at 18 per cent a year has exceeded that of the urban markets at 12 per cent. While the rural market comprises only 34 per cent of the total F.M.C.G. market, given the current growth rates, its contribution is expected to increase to 45-50 per cent by 2020. It will require tailored products at highly affordable prices with the potential of large volume supplies. Products such as fruit juices and sanitary pads which had no demand in the rural markets earlier have suddenly started establishing their presence. While most F.M.C.G. players have succeeded in establishing sufficient access to their products in rural areas, the next wave of growth is expected to come from increasing category penetration, development of customized products and up-trading rural consumers towards higher-priced and better products.

4. Increasing Globalisation:
While many leading MNCs have operated in the country for years given the liberal policy environment, the next 10 years will see increased competition from Tier 2 and 3 global players. In addition, larger Indian companies will continue to seek opportunities internationally and also have an access to more global brands, products and operating practices.

5. Decentralization:
Despite the complexity of the Indian market (languages, cultures, distances) the market has mainly operated in a homogenous set-up. Increased scale and spending power will result in more fragmented and tailored business models (products, branding, operating structures).
6. Growing Modern Trade:
Modern trade share will continue to increase and is estimated to account for nearly 30% by year 2020. This channel will complete existing traditional trade (~8 million stores which will continue to grow) and offer both a distribution channel through its cash & carry model as well as more avenues to interact with the consumer.

7. Focus on Sustainability:
Global climatic changes, increasing scarcity of many natural resources (e.g. water, oil) and consumer awareness (e.g. waste) are leading to increased concerns for the environment. The pressure on companies to be environmentally responsible is gradually increasing due to involvement of various stakeholders – from government (through policy) to consumers (through brand choice) and NGOs (through awareness).

8. Technology as a Game Changer:
Increased and relevant functionality coupled with lower costs will enable technology deployment to drive significant benefits and allow companies to address the complex business environment. This will be seen both in terms of efficiencies in the back-end processes (e.g. supply chain, sales) as well as the front-end (e.g. consumer marketing).

9. Favourable Government Policy:
Many government actions – in discussions as well as planned – will help in creating a more suitable operating environment. This will be done both on the demand side by increased income and education as well as on the supply side by removing bottlenecks and encouraging investments in infrastructure. The confluence of many of these change drivers – consumers, technology, government policy, and channel partners – will have a multiplication impact and magnify both the amount as well as the pace of change. Winning in this new world will require enhancing current capabilities and building new ones to bridge gaps. In this new world F.M.C.G. companies will have 6 imperatives from a business strategy perspective:
1. Disaggregating the operating model
2. Winning the talent wars
3. Bringing sustainability into the strategic agenda
4. Re-inventing marketing for ‘i-consumers’ Re-engineering supply chains
6. Partnering with modern trade
Another big trend that has been is the emerging idea of many Indians. It is added that despite the complexities of language, culture and distances, the Indian market has largely been seen as a homogenous market. There’s one product for the entire country — the same Maggi noodles for Karnataka and West Bengal, or the same Diet Coke for Punjab and Assam. Besides, these products have the same advertisements that run across the country. Increasingly, F.M.C.G. players are realizing that India is not a homogenous market and consumer preferences vary significantly. By 2020, Maharashtra’s GDP will exceed that of Greece, Belgium, and Switzerland, and Uttar Pradesh’s economic size will exceed that of Singapore and Denmark. So, having a dedicated firm for Maharashtra or Gujarat can prove to be a realistic and profitable proposition. We will see companies coming up with regional products. Hindustan Unilever has teas which are very different in one state versus the other. Pepsi has a different product in Andhra Pradesh which is not sold anywhere else. Differentiation used to happen at the country level; now you will see at the state level. F.M.C.G. players need to grow ‘regional’ in their thinking and move towards an increasingly decentralized operating model in India. As consumer preferences differ across regions and states, companies may follow a regional strategy in terms of product ingredients, positioning, marketing campaign, and channels. Overall, decentralization or regionalization will become an increasingly important theme for F.M.C.G. players.

F.M.C.G. in India has a strong and competitive MNC presence across the entire value chain. It has been predicted that the F.M.C.G. market will reach to US$ 33.4 billion in 2015 from US $ billion 11.6 in 2003. The middle class and the rural segments of the Indian population are the most promising market for F.M.C.G., and give brand makers the opportunity to convert them to branded products. Most of the product categories like jams, toothpaste, skin care, shampoos, etc, in India, have low per capita consumption as well as low penetration level, but the potential for growth is huge.

The big firms are growing bigger and small-time companies are catching up as well. According to the study conducted by AC Nielsen, 62 of the top 100 brands are owned by MNCs, and the balance by Indian companies. Fifteen companies own these 62 brands, and 27 of these are owned by Hindustan Lever. Pepsi is at number three followed by Thums Up. Britannia takes the fifth place, followed by Colgate (6), Nirma (7), Coca-Cola (8) and Parle (9). These are figures the soft drink and cigarette companies have
always shied away from revealing. Personal care, cigarettes, and soft drinks are the three biggest categories in F.M.C.G. Between them, they account for 35 of the top 100 brands.

Table: 2.1 The Top 10 companies in F.M.C.G. sector

<table>
<thead>
<tr>
<th>SR.NO.</th>
<th>Companies</th>
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<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>
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<tr>
<td>4.</td>
<td>GCMMF (AMUL)</td>
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<tr>
<td>5.</td>
<td>Dabur India</td>
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<tr>
<td>6.</td>
<td>Asian Paints (India)</td>
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<tr>
<td>7.</td>
<td>Cadbury India</td>
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<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>
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</tbody>
</table>

(Source: Abhisek Malhotra (2010), — The future of FMCG, Strategist Team / November 29, 2010, 0:03 IST)

The foods category in F.M.C.G. is gaining popularity with a swing of launches by H.U.L., 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 H.U.L., ready to eat rice by H.U.L. 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 F.M.C.G. 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, H.U.L.'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 F.M.C.G. companies in India and is the 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.

The Rs.85, 000 crore F.M.C.G. market in India is growing at a fast pace despite of the economic downturn. The increasing disposable income and improved standard of living in most tier II and tire III cities are spearheading the F.M.C.G. growth across the nation. The changing profile and mind set of the consumers has shifted the thought to —Value for Money from —Money for Value. Over the years companies like H.U.L., ITC and Dabur have improved performance with innovation and strong distribution channels. Their key categories have strengthened their presence and outperformed peers in the F.M.C.G. sector. On the contrary, Colgate Palmolive and Britannia Industries are strong in single product category i.e. tooth - Pastes and Biscuits. In addition companies have been successful in reviving their presence in the semi-urban and rural market. In 1991, India has opened country to foreign brands. As per this liberalization policy many a foreign players ventured into our country finding it a lucrative large mass market. This research paper is a theoretical paper studying the coping strategies of Indian players in competition to the MNC companies. It studies those Indian players who have stood out in this competition and have been successful in doing so.