



RAPID GROWTH

The fast moving consumer goods sector, with annual revenues of nearly \$18 billion, has emerged as a major component of the Indian economy. It has been recording double-digit growth rates over the past few years and continues to expand phenomenally, reports **Rajeshwari Adappa Thakur**.

India's fast moving consumer goods (FMCG) sector is on a roll. Riding on the back of increasing demand and changing consumer preferences – thanks to higher disposable incomes and the retail revolution – the sector has been posting double-digit growth over the past couple of years.

The sector has seen the emergence of new product categories and products that seek to fulfill the increasing aspira-

tions of a new generation of Indians, who are turning out to be very demanding consumers. According to estimates, the \$18 billion sector is expected to reach \$22.9 billion by 2010.

"The FMCG sector's sustained growth has been possible due to continuous and steady improvement in consumer incomes," says Sunil Duggal, ceo, Dabur India, the fourth largest FMCG company in India, with interests in healthcare,

personal care and food products. "Growth in the sector is led by higher urban and rural demand. Going forward too, the government's growing support to agriculture will drive long-term growth in consumption from the rural sector."

Besides, FMCG products fulfill the primary needs of consumers and are usually small-ticket items that are necessary for most households. "The FMCG sector would continue to do well not only because it is a defensive and well-entrenched one, but also because it logs directly on to the fundamental economic growth potential of the country," explains Milind Sarwate, chief, human resources and strategy, Marico Ltd, makers of hair care, skin care, edible oils and fabric care products. "As income levels continue to grow (although now at six to seven per cent and not eight to nine per cent as earlier) more people are likely to shift to consumption of branded products and services. Hence, the growth trend is likely to continue."

Modern retail formats too have contributed in a major way in pushing growth. According to Duggal, "The FMCG industry's future prospects look bright with rising income levels and the spread of modern retail, which is expected to further boost sales."

Retail comprises various verticals, of which food and grocery – accounting for close to 67 per cent – is the largest.

"It, however, has the lowest organised retail penetration as most of the consumer demand is met by the traditional 'kirana' stores (local groceries)," points out Ajay D'Souza, head, CRISIL Research, India's largest independent, integrated research house. "This is a category, which has demand across all income levels in various forms and thus has large scope for growth."

Owing to the huge opportunities in this segment, many retail players are setting up fresh food stores, supermarkets and hypermarkets across cities and smaller towns.

According to a CRISIL report, over the next five years the organised retail market is poised to grow at 28 per cent per annum to top \$50 billion by 2012. "This is good news for the FMCG sector as the organised retailer provides higher visibility than the traditional 'kirana' stores, and becomes an important point of sale for most goods, right from the humble safety pin to consumer durables and everything in between," notes D'Souza.

The ripple effect of urbanisation and lifestyle changes can be seen in smaller towns as well. While organised retailers have been hitting the dusty trail to tier II and III cities, they are also increasingly emerging as the new hubs for the outsourcing businesses. This has led to the opening of new markets, as rural consumers (from farmers to the youth) emerge as smart shoppers, wanting to



improve their lifestyles.

The FMCG landscape too is seeing a transformation as new players enter the scene. For long, the branded FMCG sector was dominated by multinationals like Hindustan Lever Ltd (now known as Hindustan Unilever Ltd), Cadbury India,

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Colgate Palmolive, Nestle and Reckitt Benckiser, and large domestic groups like Godrej (toilet soaps and hair dye) and Tatas (cosmetics and edible oils).

The entry of detergent-maker Nirma in the 1990s, which successfully carved out a huge size of the market share, proved to be a milestone. It was the first sign of the impending change in the old order.

Over the years several new regional players have emerged, who despite their small size have successfully carved a niche for themselves in the competitive FMCG market. The strategy of these nimble-footed players was to search for a vacuum in the market and introduce innovative products that meet the needs of the consumers.

Today, some of these brands, which started small, have metamorphosed into national brands. For instance, the



GROWING OPPORTUNITIES: The move away from the 'kirana' store to organised retailing provides huge opportunities for the FMCG sector



SCOPE FOR GROWTH : Food and grocery is the largest segment in the FMCG sector

little known Jyothi Laboratories, which started operations with a corpus of less than \$900, has turned into a \$90 million company with its Ujala brand of fabric whiteners.

Chennai-based CavinKare, Kanpur-based Ghari Detergent, Ahmedabad-based tea company Wagh Bakri and Gujarat-based Anchor Toothpaste are among the challengers, who have now become national brands.

Meanwhile, existing domestic players have become bigger, have a more diversified portfolio and are going global through acquisitions and alliances. ITC, Dabur,

Godrej Consumer Products and Marico are competing successfully with existing multinationals in India and abroad, even as they make inroads into smaller domestic markets.

But despite such rapid growth, the penetration of FMCG products is still very low. In the case of snack foods, the per capita consumption in India, at less than a kilo, is quite low compared to other emerging markets. Besides, urban consumption outstrips rural by 10:1.

According to analysts, in the case of cosmetics, while India is the 13th largest market in the world, the per capita spend



LURING CONSUMERS : The consumer has gained a lot thanks to growing competition in the sector

is low at less than \$4 in India. Consequently, the country presents headroom for growth. Not surprisingly, the market remains attractive for new players.

To tap into this potential, existing players too are entering new categories so as to shore up their product portfolios. ITC commenced its personal care business with the launch of a range of shampoos, soaps, shower gels and conditioners under the brand names of 'Fiama Di Wills,' 'Vivel Di Wills,' 'Vivel' and 'Superia.'

Similarly, Dabur, which recently launched several new products, entered the conditioner market in April with a range of products under the Vatika brand. It has also launched a range of hard surface cleaners under the Dazzl brand. "Going forward too, we will continue to launch new products," explains Duggal.

Companies have increased their promotion and advertising budgets to drive volumes in an increasingly competitive market.

"Dabur India will continue to focus on driving profitable growth through aggressive marketing strategies and new product introductions."

Besides, companies are introducing products across the entire value chain to meet the needs and aspirations of consumers. Thus, Dove – a premium soap brand – shares the same shelf space as Lifebuoy, a value-for-money product. Both the toilet soaps are part of the HUL stable.

Notes Adi Godrej, chairman and managing director, Godrej Consumer Products Ltd: "Companies have increased

their promotion and advertising budgets to drive volumes in an increasingly competitive market. By investing behind brands, players have witnessed an increase in demand and in turn earnings growth.”

The two fastest-growing categories in the FMCG sector are food and personal and beauty care products. Food is growing at a brisk 43 per cent, followed by personal care at 22 per cent. Categories such as home care and baby care record growths in single digits.

Packaged food like biscuits, sauce, dairy products, jam, bread, wheat flour, chocolates and confectionaries and juices and drinks form part of the food basket. The rise of nuclear and double-income families has seen a major change in consumer preferences, with the result that the packaged food business is one of the fastest growing.

The Indian Government, keen to promote the food processing industry, has extended excise relief to low and mid-priced biscuits, giving a fillip to the sector. The prospects of the FMCG

industry are anchored on the interplay of demographic dividend, rising incomes and increasing urbanisation. The low penetration of many FMCG products and the growing population of working women also augur well for the sector’s growth.

Interestingly, growing competition between the leading players has seen the consumer gain substantially because of

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the launch of new categories of products, new flavours, better packaging and more quantity for less money.

Personal care and beauty products too have been witnessing a sharp uptrend. Analysts believe that the increased preference for beauty products – especially in urban areas – is another factor for the recent upturn in the FMCG sector.

The \$4.5 billion personal care industry in India is growing at a healthy 10-12 per cent per annum due to the interplay of economic, demographic and sociological factors. Many players are also focussing on the beauty, hygiene and personal care and wellness segments.

Says Sarwate of Marico: “We plan to grow in the hair care, health care and skin care categories using variants of existing products and also new ones.”

This category has seen the entry of several international players, including cosmetics, perfume and hair care solution providers like Revlon, Calvin Klein, Tommy Hilfiger and L’Oreal.

The rise of the ‘metrosexual male’



BOOSTING SALES: Modern retail format is also helping transform the FMCG sector

has led to the creation of a new category: grooming products for males including fairness creams that were once considered the sole preserve of women.

Many companies have also introduced innovative strategies that have rewritten the rules of marketing. One such strategy is the introduction of small sachet packs of shampoos, conditioners and detergents for as low as Re. 1 or Rs. 2, which has helped FMCG majors popularise their branded products even among price and value conscious customers.

International cereal-maker Kellogg's too has introduced a single-serve cereal pack as a low-price entry point for new customers.

Besides, the product positioning is in sync with consumer trends. India's new-age consumers are becoming aware of the difference between good food and food good for them. Healthy eating is in and FMCG firms are taking advantage of this trend and offering solutions for the health conscious.

Thus, Tata Chemicals has introduced Tata Salt Lite, a low sodium salt, for people suffering from high blood pressure.

The 120-year-old Dabur India Group has positioned its products on the 'health and wellness' platform with great success. Other FMCG majors too are rustling up just what the customers need: be it nutritional drinks, multi-grain biscuits and other ready-to-eat, fruit-based drinks and organically grown food items.

Similarly, in the personal care and beauty segment, the 'back to nature' theme is used to woo those who prefer 'natural' products. Thus, toothpastes with



extracts of plants like neem, babool, clove oil and even 'active salt' are popular.

Indian FMCG products have also found a market abroad. Companies like ITC and MTR export ready-to-eat Indian food, while firms like Dabur sell beauty products based on ayurvedic principles in international markets.

"The overseas sales franchise of Marico's consumer products is one of the largest amongst Indian companies and is entirely in branded products and services," points out Sarwate.

The real challenge before FMCG companies is to chip away at the huge unorganised sector. Players need to introduce affordable products that meet the health, hygiene and safety concerns as also the aspirational needs of the Indian consumer.

The relentless focus of FMCG majors on providing consumers well-differentiated best-in-class products, supported by significant investments in product development, innovation, manufacturing technology and unmatched distribution infrastructure has indeed dramatically changed the business. 🌱

BRAND BUILDING

THE fast moving consumer goods (FMCG) sector is also a rapidly evolving one, where companies have to literally 'move fast' to ensure they are ahead of the competition.

While advertising and promotion costs are high, companies have to frequently launch new products to expand their market share. Leading FMCG players have a vast portfolio of products and brands that keeps growing by the day.

It takes anywhere between six months to a year for a company to introduce a new product, so the planning process begins well ahead of the peak season. Though the Indian financial year starts in April, the peak consumption season – both for agricultural and consumer products – in India is in the post-monsoon phase, beginning October.

This also coincides with the festive

season and manufacturers and retailers come out with several attractive offers and schemes for consumers. Rural India is flush with cash following the monsoon, and consumers are inclined to spend a great deal more during this period.

For many FMCG companies a large chunk of their revenues – up to about 60 per cent – comes from new product launches. Companies like Dabur, ITC, Britannia Industries, Nestle and Amul are among those, which are currently unveiling dozens of new products in time for the peak consumer season.

Leading FMCG firms like HUL, ITC, Nestle, Procter & Gamble and GlaxoSmithKline Healthcare – which account for almost 70 per cent of FMCG revenues in the country – spend almost 10 per cent of their turnover on advertising and brand promotion. They also focus a great deal on new product launches.

With growing competition in the

sector, it is natural that ad spends keep rising. Unlike the manufacturing sector, FMCG is not capital-intensive, but expenditure on promotions and branding is huge.

FMCG players also have to diversify into other sub-sectors to ensure continuous growth. For instance, leading companies are now briskly expanding their presence in the bakery segment, enhancing their product portfolios by launching new brands. ITC, Britannia Industries, Amul and even a relatively smaller player like Gujarat-based Rasna, are currently unveiling new campaigns relating to their bakery product launches. The promotion strategy includes tying up with top Bollywood actors and other celebrity brand ambassadors, besides going in for high-profile launches at leading retail malls and outlets.