

# ***IMPACT OF FAST MOVING CONSUMER GOODS (FMCG) IN INDIAN ECONOMY-A STUDY***

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## **Abstract**

*Fast Moving Consumer Goods (FMCG) are the 4th largest sector in the Indian economy. FMCG sector is a vital contribution to India's Gross Domestic Product. It has been contributing to the demand of lower and middle income groups in India. India's FMCG sector creates employment for more than three million people in downstream activities. The Indian rural and urban markets provide abundant opportunities for organisation to enter and operate profitably. In India has emerged as a large market for numerous goods and services such as financial services, FMCG, healthcare and telecommunications. In today's competitive scenario, the rural markets are as vital as the urban markets for marketers. The productions of Fast Moving Consumer Goods companies have massive competition and they are forced to find new ways of making money.*

## **I. INTRODUCTION**

In the current scenario FMCG product play vital role in packaging consumer goods. Majority of rural and urban (Indian) consumer are buying FMCG products like Bathing, toiletries, beverage etc. In the year 2016-2017 Economic value of FMCG Product is USD\$49 billion, it contribute to our GDP 0.8 percent. In this paper explained overview of FMCG in Indian Economy. In Indian Fast Moving Consumer Goods (FMCGs) play vital role in economy. It provides

employment opportunity and also it contributes to GDP. It fulfils the demand for consumer. Meaning of FMCG "Fast Moving Consumer Goods or consumer packaged goods are products that are sold quickly and at relatively low cost. Examples include non-durable goods such as packed foods, beverage, toiletries, over-the-counter drugs and many other consumable goods".

FMCG sector is a vital contribution to India's Gross Domestic Product. It has been contributing to the demand of lower and middle-income groups in India. Over 73 percent of FMCG products are sold to middle class households in which over 52 percent is in rural India. The Indian FMCG sector is the fourth largest sector in the economy with a total market size in excess of US\$ 44 billion. It has a strong MNC presence and is characterized by a well-established distribution network, intense competition between the organized and unorganized segments and low operational cost. The Indian FMCG sector has a market size of US\$ 13.1 billion and is the fourth largest sector in the Indian economy. A well-established distribution network, mature logistics, intense competition between the organized and unorganized segments, National brands and private labels/local brands characterize the sector. It has been estimated that FMCG sector sales in India is likely to increase from Rs. 92,100 cores in 2011-12, to over Rs.1,30,000 cores in 2015.

Also, with Indian retail market being estimated to reach USD 1.15 trillion by 2020 from USD 672 billion in 2016 by CARE and modern trade projected to grow at about 20 percent per annum, it is expected to give an impetus to revenues of FMCG companies going forward. India's FMCG sector creates employment for more than three million people in downstream activities. The total FMCG market is in excess of Rs. 850 billion. It is currently growing at double-digit rate and is expected to maintain a high growth rate. The Indian rural and urban markets provide abundant opportunities for organizations to enter and operate profitably. In India has emerged as a large market for numerous goods and services such as financial services, FMCG, healthcare and telecommunications. In today's competitive scenario, the rural markets are as vital as the urban markets for marketers.

This study main objective is to examine overview of the fast moving consumer goods see in Indian economy.

Methodology this study fully based on the secondary data, secondary data collected by various, Books, Journals, Articles, Newspapers, Internet and secondary government and private data.

The profit from these products is relatively very small and the selling is in large quantities, so the cumulative profit on such products can be large. The productions of Fast Moving Consumer Goods companies have massive competition and they are forced to find new ways of making money. They did this by learning the consumer common needs and buying motives, and to developing the solution. This is very difficult because of the consumers has different needs, different expectations and also a sea changes in the standard of living and life styles. At present the consumers are more dynamic, their taste,

preferences are also changing. The consumers are also looking product differentiation and the convenience offered. The consumer has certain expectation from branded items in terms of its quality, price and packaging. The money spent on advertisement makes the consumer aware of the latest brands in the market. The markets conditions in do not assume an organized functioning pattern. FMCG sector is more lucrative because of low penetration levels, well established distribution network, low operating cost, lower per capita consumption, large consumer base and simple manufacturing processes for most of products resulting in fairly low capital investments. Urban India accounts for 66 percent of total FMCG consumption, while rural India accounts for the remaining 34 percent. However, rural India accounts for more than 40 percent of the consumption in major FMCG categories such as personal care, fabric care and hot beverages.

#### IMPACT OF FMCG SECTOR IN INDIA ECONOMY

Employment: Direct employment is estimated at approximately 6 percent of turnover, i.e. US\$ 1.5 billion (Rs. 7,000 crores). Approximately 12-13 million retail stores in India, out of which 9 million are FMCG kirana stores. Thus the sector is responsible for the livelihood of almost 13 million people.

Fiscal contribution: Cascading Multiple Taxes by the FMCG sector (import duty, service tax, CST, income tax). 30 percent revenue of the sector goes into both direct and indirect taxes. Estimated size of \$25 billion (Rs. 120,000 crores), that would constitute a contribution to the exchequer of approximately US\$ 6.5 billion (Rs. 31,000 crores).

Social contribution: Create employment for people with lower educational qualifications. FMCG

firms have also undertaken some specific projects to integrate with upcountry and rural areas for both inputs and for distributions as well as to fulfil CSR.

### **Economical**

**GDP Growth:** Growth of FMCG industry is consistent with the Indian Economy. It has grown by 15 percent over past 5 years. It shows good scope for this sector in near future.

**Inflation:** Inflationary pressures alter the purchasing power of consumer which Indian economy is facing in recent years. But it has not affected much to Indian FMCG sector.

**Consumer Income:** Over the past few years, India has seen increased economic growth. The GDP per capita income of India increased from 797.26 US dollars in 2006 to 1262.4 US dollars in 2014. It resulted in increase of consumer expenditure.

**Private Consumption:** The Indian economy, unlike other economies, has a very high rate of private consumption (61 percent).

### **Social**

**Change in Consumer Profile:** Rapid urbanization, increased literacy, increase in nuclear families 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.

**Change in Lifestyle:** In past decade changes are taking place in consumption pattern of Indian consumer with more spending on discretionary (52 percent) than necessities (e.g. food, clothing's). In last decade the apparel, footwear and healthcare segments have registered highest growth whereas essentials such as cereals, edible oil, fruits and vegetables shown decline.

**Rural focus:** As market is getting saturated, companies are focusing on rural area for penetration by providing consumers with small sized or single-use packs such as sachets

### **Recent Trends and Growth of FMCG Sector in India**

Fast moving consumer goods (FMCG) are the 4th largest sector in the Indian economy. There are three main segments in the sector-food and beverages which accounts for 19 percent of the sector, health care which accounts for 31 percent and household and personal care which accounts for the remaining 50 percent. The FMCG sector has grown from US\$ 31.6 billion in 2011 to US\$ 49 billion in 2016. The sector is further expected to grow at a Compound Annual Growth Rate (CAGR) of 20.6 percent to reach US\$ 103.7 billion by 2020. Accounting for a revenue share of around 60 percent, urban segment is the largest contributor to the overall revenue generated by the FMCG sector in India and recorded a market size of around US\$ 29.4 billion in 2016-17. Semi-urban and rural segments are growing at a rapid pace and accounted for a revenue share of 40 percent in the overall revenues recorded by FMCG sector in India. The rural FMCG market in India is expected to grow at a CAGR of 14.6 percent from US\$ 29 billion in 2016 to US\$ 100 billion by 2020. Growing awareness, easier access, and changing lifestyles are the key growth drivers for the consumer market. The Government of India's policies and regulatory frameworks such as relaxation of license rules and approval of 51 percent Foreign Direct Investments (FDI) in multi-brand and 100 percent in single-brand retail are some of the major growth drivers for the FMCG market.

### Recent Trends

Foreign Direct Investment- Foreign investments in this sector have grown gradually to reach the current size. FDI in the FMCG sector accounts for approximately 3 percent of the nation's total FDI inflows between April 2000 and May 2015. Cumulative FDI inflows into India from April 2000 to May 2015 in the food processing sector stood at USD 6,360million, accounting for 2.49 percent of overall FDI inflows, while that in the soaps, cosmetics and toiletries stood at USD 1,050 million, accounting for 0.41 percent.

Economic Progress is favourably influencing the FMCG sector. Growth in FMCG sector majorly depends upon the performance of the economy, since pickup in economic growth leads to better consumption, which in turn helps consumer goods companies to perform better. The economy is on a growth trajectory – India's Gross Domestic Product (GDP) expanded 6.9 per cent in FY 2014 compared with 5.1 percent expansion in FY 2013. This coupled with other factors such as low retail inflation, fall in international commodity and crude prices are expected to drive consumption demand for FMCG products.

Rising advertisement spend by FMCG companies. FMCG companies in India have increased their expenditure on advertisement and sales promotion by about 10 percent in 2014-2015 on account of growing competition and in an effort to reach out to a wider target audience. Of all the FMCG companies, Hindustan Unilever (HUL) spent the highest at USD 646 million in 2014-2015 as compared to USD 602 million in 2013-2014. HUL was very aggressive in A&P spends to retain market share and increase its volumes.

Growing contribution from rural markets – Several FMCG companies have been investing to expand rural reach in the past few years. HUL nearly trebled its rural presence in the past three years, while Britannia and Godrej Consumer doubled their direct distribution network and P&G stepped up investment to push mass priced products. The rural contribution to overall FMCG revenue has gone up from 30 percent five years ago to 33 percent now, on the back of increased government focus and support to the rural segment in the form of investments in rural infrastructure, higher minimum support price on crops, employment guarantee schemes, etc. All this has increased farm income and boosted demand for FMCG products.

Increasing use of online platforms for ordering FMCG products- It has been witnessed that there has been a growing demand for online FMCG products. There is a visible shift in consumer behaviour in India as more and more people are turning to online platforms for ordering goods such as shampoo, makeup, deodorants, and toiletries. It is estimated that the online sales in FMCG categories, such as male grooming, beauty, food and beverages, and infant care would reach USD 5 billion by 2020. This would make up five percent of total FMCG sales, estimated to reach USD 104 billion by 2020. Majority of the FMCG companies leverage e-commerce websites like Amazon India and Flipkart.com to sell their products. It is believed, that, in the near future as well, the FMCG companies are not considering setting up their own online portals on account of economic and logistical challenges, insufficient metrics, poor infrastructure support and lack of appropriate talent.

Emergence of Social Media – As per a recent Nielsen report, consumer buying decisions are

influenced a lot by social chatter. This puts the onus on brands to remain socially active so they can remain in the consumer consideration. However, this also makes them vulnerable with the empowerment which internet gives to the consumer.

The consumers have shown increased confidence in local and private labels, reflected in double digits growth for them in recent years. There are a lot of factors that seem to be driving the wind in favour of these players – a) pride in local produce b) low sized SKUs leading to lower price point c) assurance and trust in quality d) innovative and attractive packaging, with the flexibility to change graphics faster than that for a bigger MNC which are driven by global protocols etc.

### **Growth Opportunities in the Indian FMCG Industry**

With fast-evolving lifestyles and the increasing disposable income of urban consumers, there exists a definite opportunity for lifestyle and high-end products. With more than 33 per cent of the Indian consumer base present in rural areas, the rural market will be a key growth driver for FMCG majors planning to expand their domestic business. Indian consumers are highly adaptable to new and innovative products. For instance, the market acceptance of men's fairness creams clearly demonstrates an opportunity for companies to offer new products targeting specific customer segments. Indian and multinational FMCG players can leverage India as a strategic sourcing hub for cost-competitive product development and manufacturing for their international markets.

#### **Rural Market**

Leading players of consumer products have a strong distribution network in rural India; they also stand to gain from the contribution of technological

advances such as internet and e-commerce to better logistics. Godrej is focusing on rural market for household insecticides segment. At present, Godrej accounts for 25 percent of the household insecticides sales from rural areas.

Rural FMCG market size is expected to touch USD 100 billion by 2025 Innovative products.

Indian consumers are highly adaptable to new and innovative products. For instance there has been an easy acceptance of men's fairness creams, flavoured yoghurt, and cuppa mania noodles, gel based facial bleach, drinking yogurt, sugar free Chyawanprash.

#### **Premium Products**

With the rise in disposable income semi-and high-income consumers in urban areas have shifted their purchase trend from essential to premium products

Premium brands are manufacturing smaller packs of premium products. For example, Dove soap is available in 50g packaging

In response, firm shave started enhancing their premium products portfolio Sourcing base

Indian and multi-national FMCG player scan leverage India as a strategic sourcing hub for cost-competitive product development and manufacturing to cater to international markets.

#### **Penetration**

Low penetration levels offer room for growth across consumption categories.

Major players are focusing on rural markets to increase their penetration in those areas Align partnership

Creating strong distribution network sand skills to deliver to the last mile

Entering in to partnerships that help to reach market, such as those with farmers, self-help groups,

microfinance, NGOs, etc. In 2015, ITC partnered with farmers of MP to improve the living conditions in villages. It aims at improving water shed development programmes where IT Chas factory or agri operations

### **Challenges Faced by FMCG Sectors for Rural Marketing**

The peculiarities of the rural and urban markets and rural and urban consumers pose challenges to the marketers in reaching them effectively. While making out a case for opportunities that are rapidly developing in rural and urban markets, one should not underestimate the several daunting problems in planning for growth. There are a large number of small town, city, villages which are not easily accessible because of all weather roads. The main problems of rural and urban marketing are discussed below:

1. Transportation problems
2. Warehousing
3. Packaging
4. Media Problems
5. Seasonal Marketing
6. Low per Capita Income
7. Low Level of Literacy Rate in rural people
8. Distribution
9. Career in Rural Market
10. Cultural Factors

## **II. CONCLUSION**

Over 73 percent of FMCG products are sold to middle class households in which over 52 percent is in rural India. Indian retail market being estimated to reach USD 1.15 trillion by 2020 from USD 672 billion in 2016 by CARE and modern trade projected to grow at about 20 percent per annum; it is expected to give an impetus to revenues of FMCG companies going forward. It is currently growing at double-digit rate and is expected to maintain a high growth rate.

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