

BREAKTHROUGH OPPORTUNITIES AND COMPETITIVE ADVANTAGES OF FMCG MARKETS IN INDIA: AN OVERVIEW.

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Abstract: The market size of FMCG in India is expected to grow from US\$ 30 billion in 2011 to US\$ 74 billion in 2018 and generated revenues worth US\$ 34.8 billion last year in 2011, a growth of 15.2 per cent as compared to the previous year 2010. During 2006 – 11, the sector's revenues recorded a CAGR of 17.3 per cent. The reasons for the growth of FMCG are increasing consumer awareness, easier access to markets, and changing lifestyles of consumers. With rise in disposable incomes, mid- and high-income consumers in urban areas have shifted their purchasing trend from essential to premium products. In response, firms have started enhancing their premium products portfolio. Therefore Indian and multinational FMCG players are leveraging India as a strategic sourcing hub for cost-competitive product development and manufacturing to cater to international markets. Hence this paper discusses the issues of opportunities and advantages in Indian FMCG Market.

Key Words: Consumer Retailing, Disposable Income, Market Share, Purchasing Power.

INTRODUCTION:

Indian markets are undergoing vast transformation and marketers are continuously upgrading their strategies to woo the customers. Integration of entertainment, information and telecommunication, majorly driven by introduction of digital technologies, is impacting the consumer base across the country. Fast moving consumer goods (FMCGs) such as snacks business where players like Haldiram, Frito-Lays and many other local brands are present. Let's take the example of Kurkure. They did a market research where they got the insight that people want something extra from just Kurkure. They must have analyzed the eating habits of consumers and found that they like eating with some onions, ketchup/ lemon or something else which add something new. Also Indian consumers like chats, rajachoris and other chatka – bhatka stuff. So Kurkure invented "Kurkure Shake". In fact, in FMCG segments there are two types of innovations - evolutionary and revolutionary. Evolutionary innovations are an addition to some innovation/ launch etc done in past. Just take the example of Colgate Maxfresh. It's just an addition of a new attribute to the existing portfolio. Whereas revolutionary, is something out of box, altogether new where nobody has entered so far. Let's take an example of Lays Kukure where they did some innovation with snack foods category in FMCG. But definitely there are untapped innovations which FMCG marketers keep exploring to increase their business and move up the value chain. With this introduction, Section 2 briefs on the journey of Indian FMCG sector, Section 3 mentions the growth drivers of FMCG sector, Section 4 contains the break through opportunities in FMCG markets, Section 5 illustrates the competitive advantages of the Indian FMCG markets and Section 6 has the conclusion.

The Journey of Indian FMCG Sector

Table 1 shows the classification of FMCG market. Global researchers have been releasing many forecasts about Indian consumer market segments. For instance, an industry body predicts that the size of India's retail industry would grow by more than 100 per cent to become US\$ 1.3 trillion by 2020 from the current size for US\$ 500 billion. Similarly, the Indian direct selling industry is anticipated to touch Rs 7,120crore (US\$ 1.29 billion) by the end of 2012-13, according to a study by Ernst and Young.

Table 1: FMCG Category and Products.

| Category | Products |
|--------------------|---|
| Household Care | Fabric wash (laundry soaps and synthetic detergents); household cleaners (dish/utensil cleaners, floor cleaners, toilet cleaners, air fresheners, insecticides and mosquito repellents, metal polish and furniture polish). |
| Food and Beverages | Health beverages; soft drinks; staples/cereals; bakery products (biscuits, bread, cakes); snack food; chocolates; ice cream; tea; coffee; soft drinks; processed fruits, vegetables; dairy products; bottled water; branded flour; branded rice; branded sugar; juices etc. |
| Personal Care | Oral care, hair care, skin care, personal wash (soaps); cosmetics and toiletries; deodorants; perfumes; feminine hygiene; paper products. |
| Health Care | OTC products and ethical products. |

Note: OTC is over the counter products; ethical products are range of pharmaceutical products.

Source: "Marketing Function in FMCG Environment – Brand Building", Marketing Career Options in Unilever, Hindustan Unilever Limited, 2012.

However, in particular, FMCG sector in India has seen some ups and downs in the last half decade. The intension of this section is to give a flavor of the journey of FMCG market after independence till date splitting it into five stages.

Lackluster stage (1950 – 1970)

Post independence (During 1950's to 1970's), there was not much happening in the FMCG sector in India. The business was limited to the upper segment of the society, as the purchasing power was low. Companies like HLL (presently HUL) were purely focused on the urban areas and never bothered to enter the rural hinterland of India. The investment in the sector was low, with few FMCG companies selling their products. Also, the government's emphasis was more on the small-scale sector. There was never a doubt in the potential of the sector, with such a big base of consumers residing in India.

"Rural sensitization" stage (1970 – 1990)

Let us discuss two examples, which changed the rules of the game, and brought focus to the rural markets. *Nirma*, in the early 1970s, when *Nirma* washing powder was introduced in the low-income market, Hindustan Lever Limited reacted in a way typical of many multinational companies. Senior executives were dismissive of the new product and never considered the potential and opportunity. But very soon, *Nirma's* success in the detergents market convinced HLL that it really needed to take a closer look at the low-income market. At the time, the focus of the organized players like HLL was largely urbane. There too, the consumers had limited choices. However, *Nirma's* entry changed the whole Indian FMCG scene. The company focused on the 'value for money' plank and made FMCG products like detergents very affordable even to the lower strata of the society. *Nirma* became a great success story and laid the roadmap for others to follow. Multi National Corporations (MNC's) like HLL, which were sitting pretty till then, woke up to new market realities and noticed the latent rural potential of India.

"Liberalization boom and stabilization" stage - post liberalization (1991 - 2000)

Post liberalization not only saw higher number of domestic choices, but also imported products. The

lowering of the trade barriers encouraged MNC's to come and invest in India to cater to billion Indians' needs. Rising standards of living urban areas coupled with the purchasing power of rural India saw companies introduce products targeting both rural and urban markets with value for money and value added offers. Companies started investing in increasing the distribution depth, upgrade existing consumers to value added premium products and increase usage of existing product ranges.

"Drop" stage (2000 – 2005)

The year 2000 was a rather uneventful year for manufacturers and marketers of FMCGs. The growth rate of FMCG categories was torpid to say the least and the marketing environment was such that, even veterans like HLL and Procter & Gamble (P&G) found it difficult to hold on to their market share. The market grew more crowded, what with the entry of new brands entering categories which were virtually the bastions of HLL, Colgate or P&G. Even in 2001 prominent, high penetration categories such as toilet soaps and detergent bars were very badly affected, actually shrinking in real value terms.

"Boom revisited" stage (2005 onwards)

Everything turned positive thereafter from 2005. 2006 was a different story altogether though the FMCGs seem to have gotten a new lease of life 2005 onwards. Be it hair care products to sunscreen, they were flying off the shop-shelves. In fact sale of white goods dipped while toiletries registered an increase. The key reasons look like the following i) Increased disposable income ii) Organized Retail Boom iii) Increased Rural Penetration.

Growth Drivers of FMCG Sector

India's flourishing consumer markets are largely being driven by factors like favorable demographics, increasing levels of disposable income, positive business environment and supportive government policies. The FMCG segment is the fourth largest sector in the Indian economy.

Disposable Income & Luxury Markets:

There is increase in disposable income, observed in both rural and urban consumers, which is giving opportunity to many rural consumers to shift from traditional unorganized unbranded products to branded FMCG products and urban fraternity to splurge on value added and lifestyle products. The increasing salaries, along with rising trend of perks in the corporate sector at regular intervals, have increased people's spending power and disposable income. Considering the urban clan in India which is a big force behind the growth of luxury brands in

the country, India's luxury market is pegged to touch US\$ 14.73 billion by 2015, according to industry projections, from an estimated US\$ 8.21 billion in 2013.

Retailing & Modern Trade: A total of 7.8 million retail outlets sell FMCG in India. Grocers are the dominant retail format, accounting for 59.0 per cent. The emergence of organized retail have lead to more variety with ease in browsing, opportunity to compare with different products in a category, one stop destination (entertainment, food and shopping) etc, which is playing an important role in bringing boom in the Indian FMCG market. Currently the modern trade is capturing nearly 10 per cent of the total retail space, which will increase to 20 per cent and 40 per cent in 2015 and 2020 respectively. Investment approval of up to 100 per cent foreign equity in single brand retail and 51 per cent in multi-brand retail is a major mile stone in the Industry.

Buying Pattern & Market Share: India has strong demographic factors to bring the FMCG markets into multi folded sales. For instance, food categories like muesli, oats and olive oils are getting increasingly competitive with more food marketers trying to capitalize on increasing demand for health food. Edible oil major Marico is planning to launch its Saffola brand into the Rs 100crore (US\$ 18.15 million) muesli market. Another trend of consumer shift from powder to bars and now it's moving to liquid dish wash. The emerging category in dish wash market is the liquid dish wash. Pril from Henkel commands this market with a share of 70 per cent. Table 2 shows the picture of few FMCG brands and their market share by the year end 2012.

Table 2: Market share of FMCG companies (selected categories). (Market share in per cent)

| FMCG Category | Market Leader | Others | | |
|---------------|---------------|---------------|-----------------|--------------|
| | | | | |
| Hair Oil | Marico (42%) | Dabur (15%) | Bajaj (8%) | Emami (5%) |
| Shampoo | HUL (46%) | P&G (24%) | CavinKare (10%) | Dabur (6%) |
| Oral Care | Colgate (50%) | HUL (23%) | Dabur (13%) | Others (14%) |
| Skin Care | HUL (59%) | Dabur (7%) | Emami (7%) | Loreal (6%) |
| Fruit Juice | Dabur (52%) | Pepsico (35%) | Others (13%) | |

Source: India Brand Equity Foundation, Report on FMCG, March 2013.

Break through Opportunities in FMCG Markets

Increased competition:

In last few years, we have seen large number of companies expanding their portfolio into other categories, which is

leading to fragmentation of market. This will lead to cut throat competition from regional/ national companies, giving the ultimate benefit to the consumers. In this environment, only the innovators will survive. Focus will be the key to profitability. Further with the entry of foreign players (MNCs), whatever is the strategy for competition, there are Indian companies who will strategize and re-strategize to retain their market share. In Table 3 we can see the foreign brands entered Indian subcontinent after the liberalization of the country's economy.

Table 3: Comparing Pre and Post Liberalization Scenario of FMCG Brands.

| FMCG Sector | Major Brands 1970s & 80s | New Brands – 1990s onwards | |
|------------------|---|---|---|
| | | Indian Brands | Global brands |
| Soaps | Lifebuoy, Cinthol, Liril, Lux, Pears, Rexona, Mysore Sandal, Neem, Margo. | Nirma Beauty soap, Santoor Sandal soap. | Palmolive, Dettol, Dove. |
| Creams & Lotions | Fair & Lovely, Pond's, Johnson & Johnson. | Dabur, Himalaya. | Oriflame, Avon, Biotique, Amway, Garnier. |
| Detergents | Surf, Nirma, Wheel. | Fena, Lakhani. | Ariel, Tide, Henkel |
| Processed foods | Maggie, Kissan, Parle, Britannia. | MTR, Aashirwaad, Haldiram, Bikaner. | Heinz, Pillsbury. |
| Beverages | Nescafe, Red Label, Campa, Thumsup. | Haldiram, Tata Tea, Bisleri, Tajmahal. | Pepsi, Coke, Sprite, 7 up |

Source: Published information on FMCG companies in various reports and journals.

Micro segmentation: In recent past we have seen companies developing products targeting niche segments, by addressing specific needs. Some time it looks logical and sometimes absolutely silly. Let's look at few examples. Marketers are segmenting Horlicks into Women and Junior Horlicks. Fairness creams for men. Pepsodent Barbie toothpastes for kids. It is just the start; many marketers are ready for further segmentation of many

FMCG categories.

Growth of under-penetrated categories: There is huge scope in lot of under-penetrated categories like Household Cleaners, Deodorants, Skin Creams, Shampoos and Coffee etc. For example, companies in the last decade have positioned tea and coffee as recreational products, which have majorly attracted younger population. Growing at a CAGR of 20 per cent, it is expected to touch Rs 33,000crore (US\$ 6.13 billion) by 2015 from the current level of Rs 19,500crore (US\$ 3.62 billion in 2011), according to recent study by ASSOCHAM. Domestic coffee outlets, which have a lot of appeal for the new generation, are set to double over 2012-15, majorly driven by the foray of global players such as Starbucks and Dunkin' Donuts in India. However, fish consumption is low compared to other emerging economies, at 4.8 kg per head, and much of India's marine production is exported. However, fruit and vegetables are largely consumed fresh, with only a very small proportion of output processed.

Organized Retail: The organized retail sector accounts for nearly 15 percent of the total retail market at present (although the proportion is growing fast), most of the retailing still takes place in mom and pop stores and supermarkets. The structure of retailing will also develop rapidly. Shopping malls are becoming increasingly common in large cities, and announced development plans projected to at least 350 new shopping malls by 2015. The number of department stores is growing much faster than overall retail, at an annual 24 per cent. Supermarkets have been taking an increasing share of general food and grocery trade over the last two decades. Companies expect that the next cycle of change in Indian consumer markets will be the arrival of foreign players in consumer retailing.

Competitive Advantages of FMCG Markets

FMCG not being very capital-intensive, rising input prices, inflation and increased commoditization of products are forcing FMCG companies to adopt new strategies, to have a viable business proposition. Let us enlist few of the strategies which companies have adopted and the outcome of the same.

a) Increase in price: Due to increase in raw material prices, many companies were forced to increase their prices and pass on the cost to the consumers. HUL hiked the price of its detergent bar Surf Excel (120 g) earlier known as *Rin Supreme* from Rs 13 to 15. They have also increased some of their toilet soap brands. Tea Companies such as Tata Tea and Duncan's Tea have also hiked prices for select brands in their stables. Some companies have been able to maintain the prices. Parle Agro has not changed the price of *Frooti* in spite of upward pressure on prices. It may be easy to increase the prices of premium products but in case of popular products, the preferred

choice is between reducing weight of units and maintaining the same price points or introducing another price point to suit consumer pockets.

b) Introduction of lower SKUs: To prevent down trading, the companies have introduced packs with lower Stock Keeping Units (SKUs) so that per unit purchase does not pinch the consumer's wallet. With that companies are sharpening their focus on the existing smaller packs and increase their availability. *Henkel* introduced a new 400 gm pack of *Henko* washing powder at Rs 40 and withdrawn the 500 gm pack that used to sell for Rs 46. As quoted by *Henkel*, "A family of four requires only 400-425 gm of washing powder in a month. We withdrew the 500 gm packs as they were making consumers spend more and consume more". The company reintroduced *Pril* liquid for Rs 50 (425 gm bottle), down from Rs 55 (500 gm). P&G has reduced the pack size of its flagship detergent brand *Tide* from 1 kilo to 850 gm while maintaining the price point at Rs 62. It has also reduced the size of its 500 gm to 480 gm at the same price. In the recent scenario, 25 gm and 50 gm packs are selling in higher numbers. As an outcome, companies are registering faster off take in the mid-sized packs.

Cost Cutting Strategies: While companies resorted to price hike, many companies are exploring ways to cut down cost. Companies are busy in strengthening their distribution and logistics, by bringing in more efficiency and innovation in the supply chain. Companies are closely monitoring their stock levels and loading patterns. For example, soap companies have shifted to cheaper options of raw materials to source their products at a competitive price. Some companies have cut down their spending on advertisement.

Restructuring to leverage synergies: With the 'power of one' strategy, PepsiCo is aligning its beverages and snacks businesses under a common leadership. This will help them to maximize synergies of the two businesses across key functions such as procurement, agriculture and production, which will lead to production efficiencies. This will help them to minimize the price hike. Adversely, on the other side Dabur among the top four FMCG companies in India with 10 brands with sales worth over USD20 million each having wide distribution network covering 2.8 million retailers across the country having 17 world-class manufacturing plants catering to needs of diverse markets is still stood as a successful Indian brand.

CONCLUSION:

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. An average

Indian spends around 40 per cent of his income on grocery and 8 per cent on personal care products. 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.

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