

Analytical Study of Issues and Challenges of Indian FMCG Sector

Dissertation Submitted in the partial Fulfillment of

MBA (Logistics & Supply Chain Management)



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DECLARATION

This is to certify that the dissertation report entitled “**Analyzing the issues and challenges for FMCG Sector**” submitted to the University of Petroleum & Energy Studies, Dehradun, by **Mr. Apurv Pande**, in partial fulfillment of MBA (Logistics & Supply Chain Management) course, is bonafide work carried out by him under my guidance.

To the best of my knowledge this particular work has not been submitted anywhere else for any other Degree. He has made an earnest and dedicated effort to accomplish this dissertation work.

I wish him all the best for his future endeavors.

Dr. Sumeet Gupta

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ACKNOWLEDGEMENT

I would like to take this opportunity to express my sincerest appreciation to **Dr. Sumeet Gupta**, my mentor for guiding me in constructing and completing this report. It was really a wonderful opportunity to work with him. His guidance through the discussions and suggestions activated my thought processes and generated a great deal of interest in dissertation.

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Last but not of least, I take this opportunity to thank my **parents and friends** who have been in great support..

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EXECUTIVE SUMMARY

FMCG sector is the fourth largest sector that is providing employment to all people that exists in India. There are various products for FMCG that is household cares, personal care products etc. As, the sector is growing minute by minute so it creates the employment for all people. The sector is growing at faster rate. There are various that are divided in terms for needs of local people, price sensitivity and purchasing power. There are various companies present in this sector namely: P&G, Coca Cola, Pepsi, HUL, Amul etc. FMCG are low cost products and are consumed quickly.

Various products namely soft-drinks, toys, processed foods etc. There are various factors will help the researcher to diagnose the issue and challenges which are needed in FMCG sector in retail, which are responsible for the decline of FMCG growth in recent years. The basic outlines for this research are identifying the issues and challenges and suggest a framework for FMCG sector growth.

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INTRODUCTION

Fast moving consumer goods

FMCG sector is the fourth largest sector that is providing employment to all people that exists in India. There are various products for FMCG that is household cares, personal care products etc.

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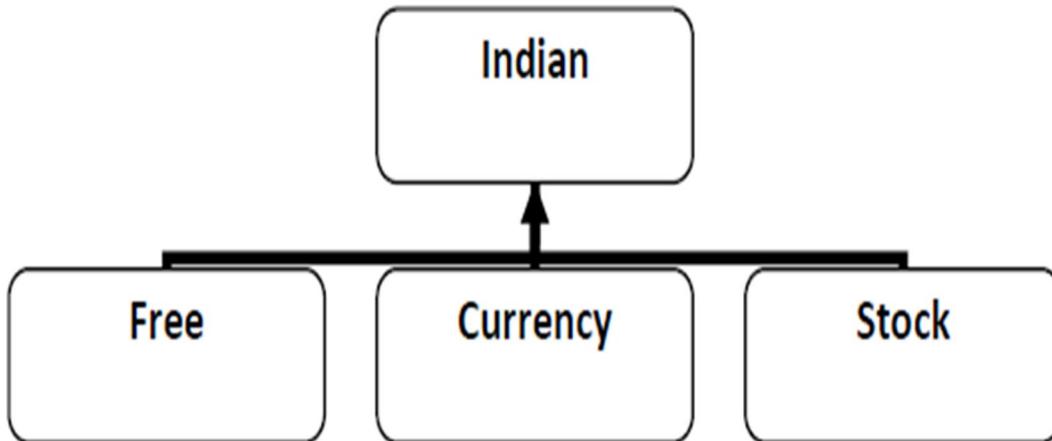
The basic outlines for this research are identifying the issues and challenges and suggest a framework for FMCG sector growth.

Fast Moving Consumer Goods companies

Companies		Electronics Brand in India	FMCG retail outlets operating in India
Britannia	ITC	LG	FoodWorld
Procter & Gamble	Heinz	Samsung	Subiksha
Coca-Cola	Reckitt Benckiser	Nokia	Landmark
PepsiCo	Nestle	Motorola	Health & Glow
Wilkinson	Unilever	Sony	Shahnaz Husain
Lakme	Tata Tea	Videocon	LG & Samsung
Amul	Marico	Panasonic	
Dabur		Phillips	
Kissan		Canon	
Parle			

FORMATION

Indian FMCG is divided in 3 phases of markets that is;



Free markets: Free markets are operational markets which are under no government rule.

Currency markets: Currency markets are those markets which are among traded markets.

Stock markets: It represents as the backbone for an economy where we buy and sell shares. Here, the parties can interact directly.

RESEARCH GAP

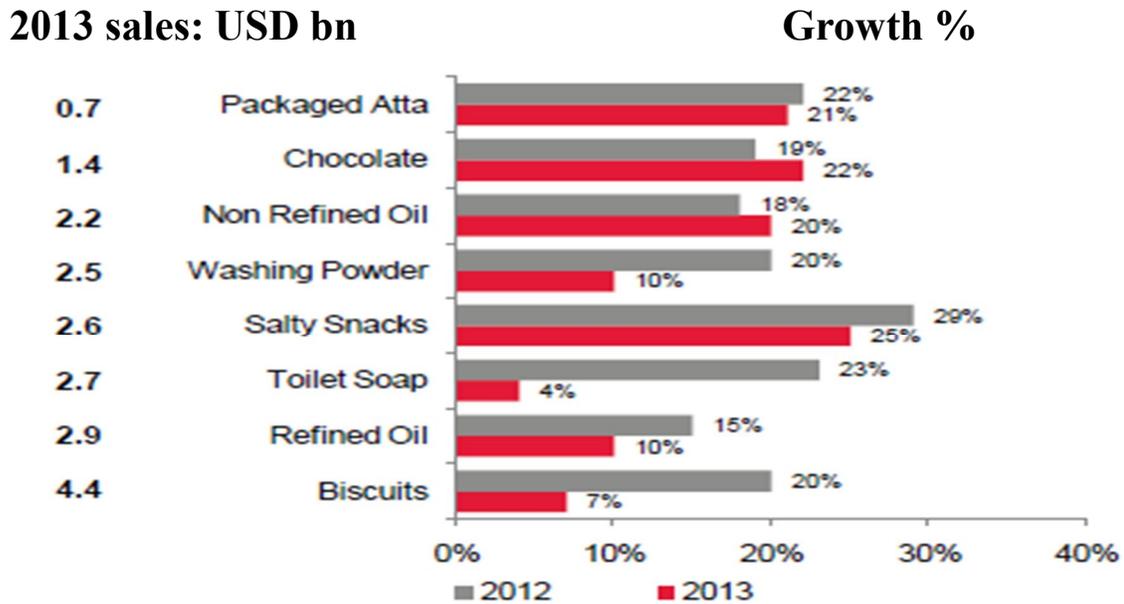
After analyzing all the reports and articles it was analyzed that every report generally provides a description of whole thing. As per various reports and articles past and present are there which generally describes nothing in terms of solution to the problem.

It was observed that there have been problems in terms of inflation, tax structure, infrastructural issues and price of inputs which decline the growth of FMCG in retail. There has been growth in past years but it has been declining year by year.

REVIEW OF LITERATURE

FMCG is the largest sector that is goods which are consumed quickly and are at low cost. Taking the price structure the price are generally less and profits through sales are maximum.

The FMCG retail in India is a growing concept which includes both urban and rural areas.



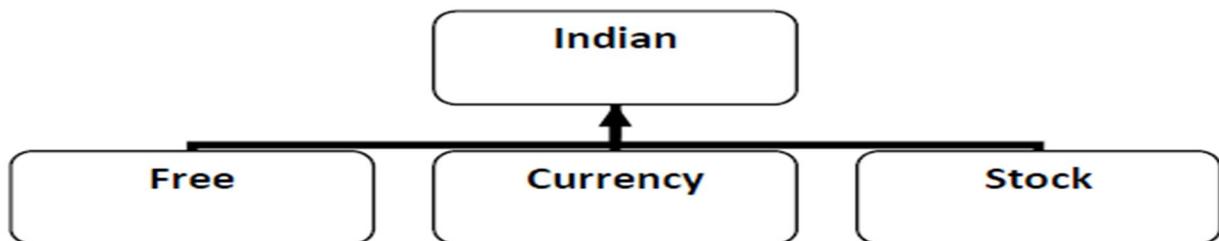
Source: AC Nielsen report

Here, according to statistics sales in products like biscuits, oil, soap and washing powder grew at rate of 4 to 10% in 2013, down from 15 to 23% in 2012. The growth was affected due to consumers opting for cheaper options due to economic low down and inflation, forcing companies to offer discounts to push volume sales.

The paper **Emerging Challenges and prospects of FMCG product development in India** tells about the customer mindset about FMCG products or the new products which are launched in country. Increasing trends in sales and customer attraction which improve new products development (FMCG).

Fast moving consumer goods are consumed or owned by consumers for their own use and are purchased repeatedly. They buy these products on weekly basis due to which the price per unit is low but the consumption is very high due to population. India has always been a country with a big chunk of world population. In that sense, the FMCG market potential has always been very big.

There are 3 phases of Indian markets are as follows;



Free markets: Free markets are operational markets which are under no government rule.

Currency markets: Currency markets are those markets which are among traded markets.

Stock markets: It represents as the backbone for an economy where we buy and sell shares. Here, the parties can interact directly.

Authors	Context	Inferences
G. Nagarajan Dr. J. Khaja Sheriff	Emerging Challenges and prospects of FMCG product development in India	This paper tells about various challenges and issues which FMCG is facing
Rallabandi Srinivasu	FMCG Retail market, growth aspect, market overview and food inflation in Indian Market	This paper tells about the FMCG market in retail and also tells about the various issue and challenges faced by Retail sector in FMCG
FICCI report	Fast moving consumer goods Sector Road Ahead	This paper tells about the various issue related to growth issues which FMCG is facing today

Emerging Challenges and prospects of FMCG product development in India also tells about the FMCG sector deduction in tax structure, raise in level of penetration and consumption in per capita are the major areas for developments.

As, FMCG market is growing so fast but it has some inconvenience too due to fast growth, unsatisfactory customer expectations, new items only exist in product mix etc.

The major drawback is market research because without improper information it would be difficult to judge the desired information. Due to this the basic problem which Fast-moving consumer goods in retail sector face that the growth is gradually declining year by year. There are various possible reasons such as inflation, tax structure, infrastructural issues, and price of inputs which decline the growth.

FMCG Retail market, growth aspect, market overview and food inflation in Indian Market tells about the FMCG as important contributor in Indian GDP. FMCG Industry is distributed in well defined network, where there are low levels for penetration, low operating cost, lower per capita consumption and intense competition between the organized and unorganized segments.

According to a report FICCI several FMCG registered growth in double-digit for example, shaving cream (20%), deodorant (40%), branded coconut oil (10%), anti-dandruff shampoos (15%), hair dyes (25%) and cleaners and repellents (20%).

Category	Products
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.
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).
Personal Care	Oral care; hair care; skin care; personal wash (soaps); cosmetics and toiletries; deodorants; perfumes; feminine hygiene; paper products.

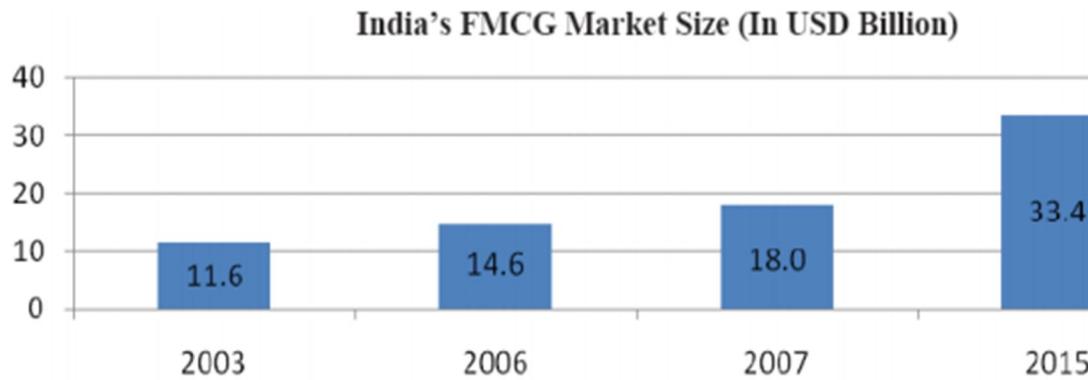
Source: IBEF report

It has been divided in organized and unorganized segments that are the major components in FMCG.

Rural and Urban FMCG Potential Profile		
Particulars	Urban	Rural
Population 2001-02 (million household)	53	135
Population 2009-10 (million household)	59	153
Per cent distribution (2009-10)	28	72
Market (towns/villages)	3,768	627,000
Universe of outlets (million)	1	13.3

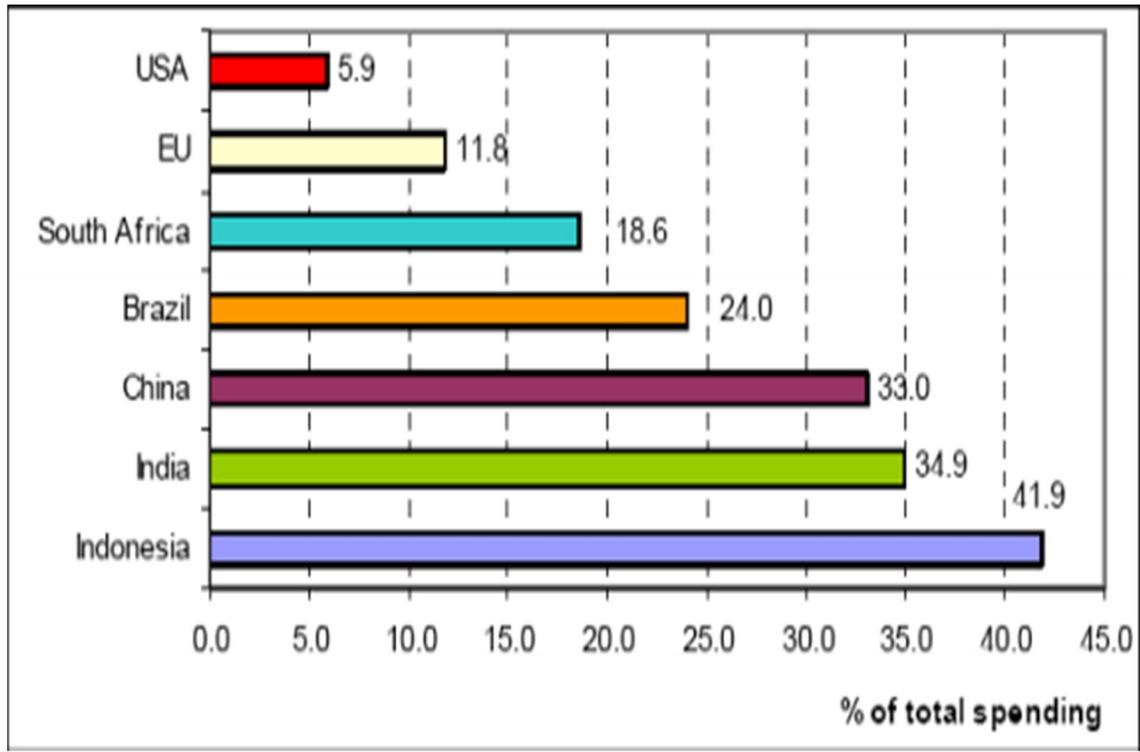
Source: Statistical Outline of India, NCAER

The research paper also tells about the market size and it generates 5% total factory employment in country.



Source: Naukri Hub, IBEF, Chennai Online

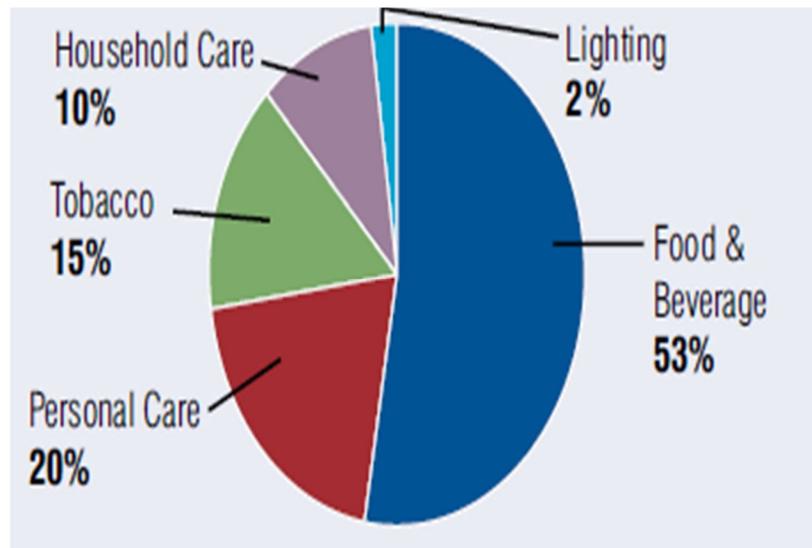
The major disadvantages which the paper shows that due to different tax structure, inflation there was crisis in food price in 2007-08. The developing countries like Indonesia, India spent on customer spending on food but due to changes in interest rates done by Indian central bank lowers the food prices.



Source: Euromonitor, OECD, Eurostat

FMCG Sector Road Ahead 2020 tells that the growth has been slow between 12% - 15%, and it will be expected to grow at a CAGR of around 12% over the next few years to reach a size of US\$ 43 billion (Rs. 206,000 crores) by 2013 and US\$ 74 billion (Rs. 355,000 crores) by 2018.

FMCG Industry Category Breakup

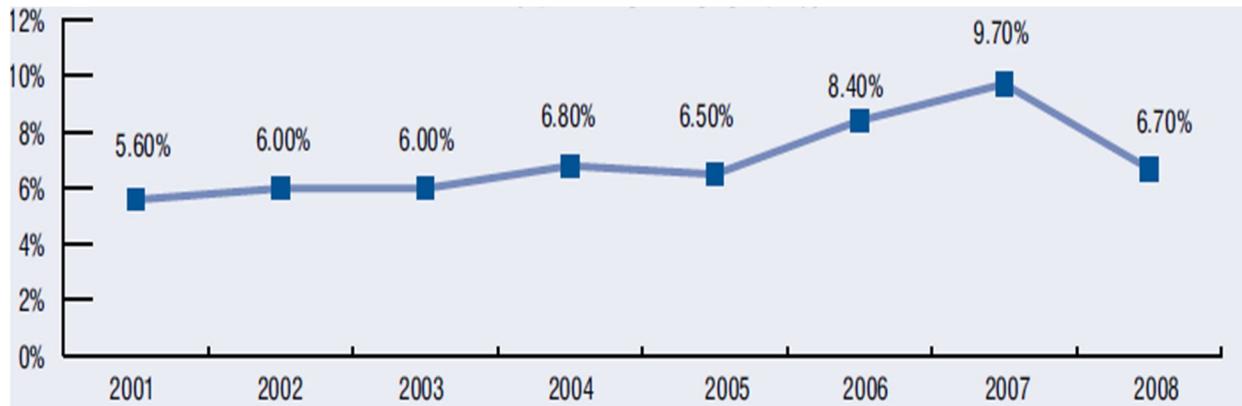


Source: FMCG Sector Road Ahead

At times of economic slowdown as at present, for instance, consumers may be cutting down on durable and other capital expenditure but cannot avoid spends on daily necessities and sometimes even be more willing to splurge in the form of little indulgences on the FMCG products.

According to this paper there are various drivers which are used in FMCG are growth, demand side and supply side drivers.

Here, the research paper shows that the economy is growing but there was a decline of 6.7%.



Source: Economic Survey 2008-2009

There are various challenges in this paper are,

1. Tax Structure which is indifferent tax structure state by state, high indirect tax, lack of uniformity, high octroi & entry tax and changing tax policies.
2. Infrastructural Bottlenecks includes agriculture infrastructure, power cost, transportation infrastructure and cost of infrastructure.

BUSINESS PROBLEM

The research tells the basic problem that is despite Technological development, fast-moving consumer goods (FMCG) Sector is facing gradual decline in terms of growth. The growth was declined by 6.7% in 2008 compared to 2007.



Source: Economic Survey 2008-2009

RESEARCH OBJECTIVES

According to this research, the research problem is faced by Fast moving consumer goods is that study focuses on the factor responsible for the low growth of FMCG sector. This study will be conducted to suggest the framework for effective growth of FMCG Sector.

Due to this various research objectives are there which are used which can predict or form an image which is needed.

1. To identify various factors which are declining the growth of FMCG sector
2. To analyse the impact on growth structure of Indian FMCG sector
3. To suggest the framework for the growth of Indian FMCG Sector

RESEARCH METHODOLOGIES

Research Methodology is collecting the data and information for business decisions which includes articles, surveys, research papers etc.

1. Descriptive research design which includes either quantitative or qualitative. Here, descriptive research design is research questions, design and data analysis.
2. Analytical research design involves thinking skills and the evaluating facts and information.

Source of data

Secondary Sources: Information collected through internet sources, newspapers, articles etc.

Scope of study

The scope of study is done for FMCG sector because the whole research is based upon the issues and challenges for FMCG sector.

DATA ANALYSIS

Retail the growing market which represents as the selling of goods from one user to other user. It can be taken place at markets, stores or through door to door.

FMCG are the products or goods which can be consumed quickly and sold at low cost structure. There are various goods i.e. soft-drinks, toys and processed foods etc.

The ISIC has been classified FMCG in seven categories;

- ISIC 5211
- ISIC 5219
- ISIC 5220
- ISIC 5231
- ISIC 5251
- ISIC 5252
- ISIC 5259

FMCG sector has been facing various issues that are inflation, tax structure, infrastructural issues and price of inputs which decline the growth.

As, per data of January- March 2014 quarter the growth of FMCG is getting slow day by day. FMCG have been decreased to 6 per cent from 18 per cent.

WHAT SLOWDOWN?		
	Sales growth %	Profit growth %
Hindustan Unilever	16.4	30.1
Dabur India*	34.5	11.9
Godrej Consumer*	35.9	40.6
Britannia Inds.	15.4	44.8
Marico*	29.4	21.0
Colgate-Palmolive	20.0	74.5
GlaxoSmithkline Consumer	18.6	10.7
Emami*	15.9	15.2
P & G Hygiene	18.7	13.9
Gillette India	27.5	(0.3)
Jyothy Labs	12.1	78.4

Growth in Oct-Dec 2011 over Oct-Dec 2010
 * Consolidated operations, including international subsidiaries

For Example

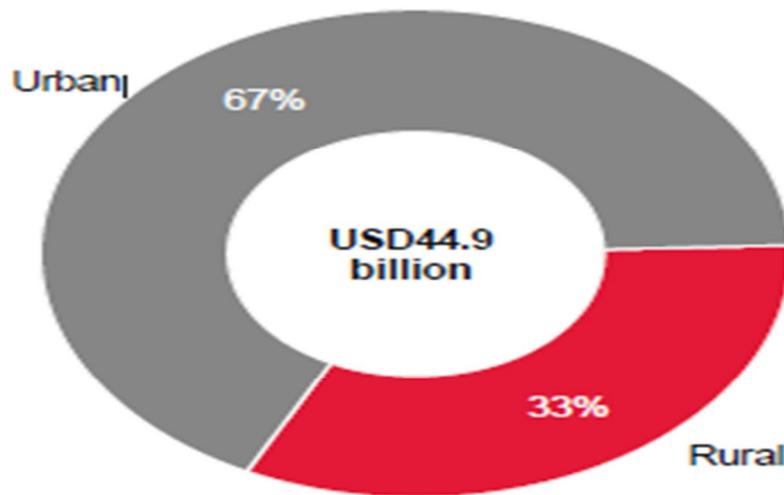
In the Jan-March quarter brand like Yum! India, which has KFC and Pizza Hut, realized the growth lowered by 1 per cent.

Brands like Coca cola, HUL, Amul, unilever has reported the low growth structure at March Quarter.



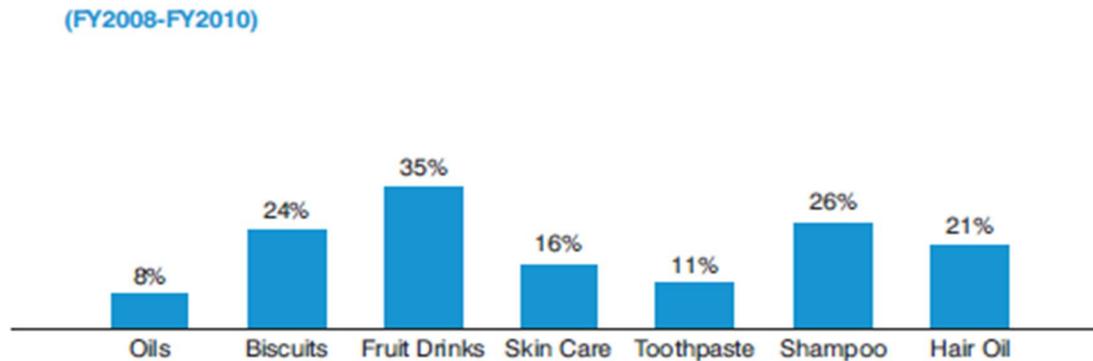
The key challenge which an FMCG is facing is to grow. It comprises of rural and urban sector. Since, the urban sector grows rapidly and becoming quite discerning in the taste of customers which are attracted and relevant to large number of customers. For rural market, this constitutes 70% of population of India. The major key challenge is that the product should be available to customers and they should be aware about the product.

Share in %



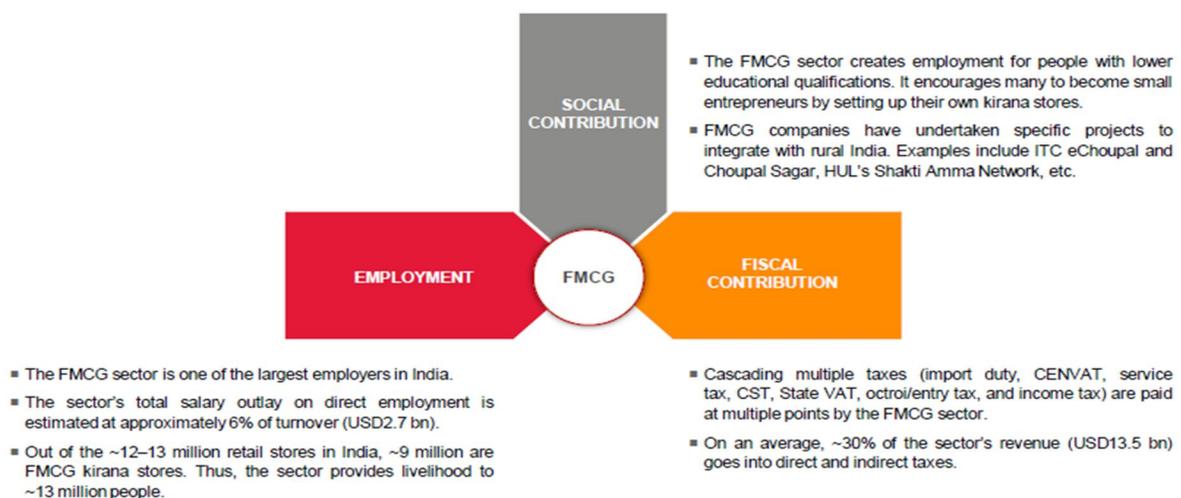
The urban sector in India is comprises of 67% of total FMCG market and had a market size of USD 30bn in 2013 whereas for rural sector is 33% of total FMCG market and market size is USD 15bn.

Market for FMCG is highly vast as it contains large population which still goes for non-branded goods or home products. So, it will be difficult for the retailers to set their market in India.



Source: IDFC Institutional Research, Euro monitor, Booz & Company analysis

Companies like P&G, Amul, and Unilever etc. have also certain drawback in supply chain of FMCG products.

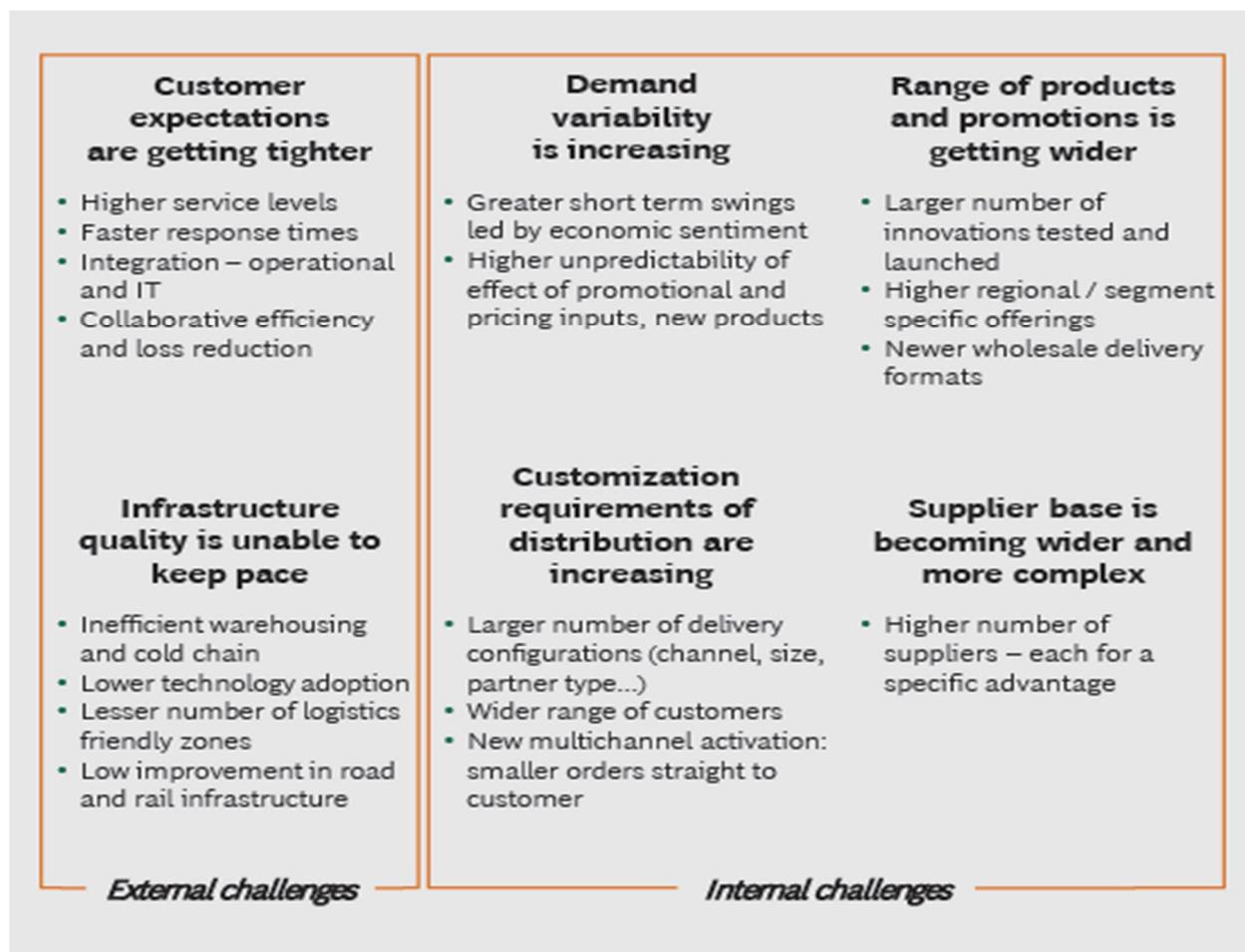


Source: FICCI report

ISSUES AND CHALLENGES

FMCG works is a complex network that consists of different retailers between the company structure and end customers. Company like Marico has to reach 1.6 million retailers spread all over world. As the stock keeping units has been increasing to ensure last stage of distribution.

Supply chain challenges



Source: BCG Analysis

Dealing with complex taxations structures

India cannot be treated as one market because of different tax structures. Due to different tax structure state wise the price of commodities are different from state by state. Due to different tax structure the companies can't move the products to other state. They transfer to state level warehouse and then to customers.

Particulars	Description	Implications
Goods and Service Tax (GST)	<ul style="list-style-type: none"> ▪ GST, which would replace the multiple indirect taxes levied on the FMCG sector with a uniform, simplified, and single-point taxation system, is likely to be implemented soon. ▪ The proposed rate of GST on services and goods is 16% and 20%, respectively. 	<ul style="list-style-type: none"> ▪ GST is expected to reduce prices, increasing consumption of FMCG products.
Food Security Bill (FSB)	<ul style="list-style-type: none"> ▪ FSB was passed by the Union Cabinet in September 2013. The bill guarantees 5 kg of rice, wheat, and coarse cereals per month per person at a fixed price of INR 3, 2, 1, respectively. 	<ul style="list-style-type: none"> ▪ FSB would reduce prices of food grains for below poverty line (BPL) households, allowing them to spend resources on other goods and services, including FMCG products. ▪ This is expected to trigger higher consumption spends, particularly in rural India, which is an important market for most FMCG companies.
Foreign Direct Investment (FDI)	<ul style="list-style-type: none"> ▪ 100% FDI is allowed in food processing, a priority sector under the automatic route. ▪ 51% FDI is allowed in multi-brand retail and 100% FDI in single-brand retail. 	<ul style="list-style-type: none"> ▪ This would bolster employment and supply chains, and also provide high visibility for FMCG brands in organized retail markets, bolstering consumer spending and encouraging more product launches.
Telecom Regulatory Authority of India (TRAI) advertising regulations	<ul style="list-style-type: none"> ▪ Effective October 1, 2013, broadcasters are allowed advertisement time of not more than 10 minutes for commercials per hour and additional 2 minutes for own channel promotion. 	<ul style="list-style-type: none"> ▪ FMCG companies, which are top advertisers on television (50%+ share), are likely to face the twin risks of reduced inventory to advertise, which could be cut 25–30%, and increased prices as broadcasters hike prices.

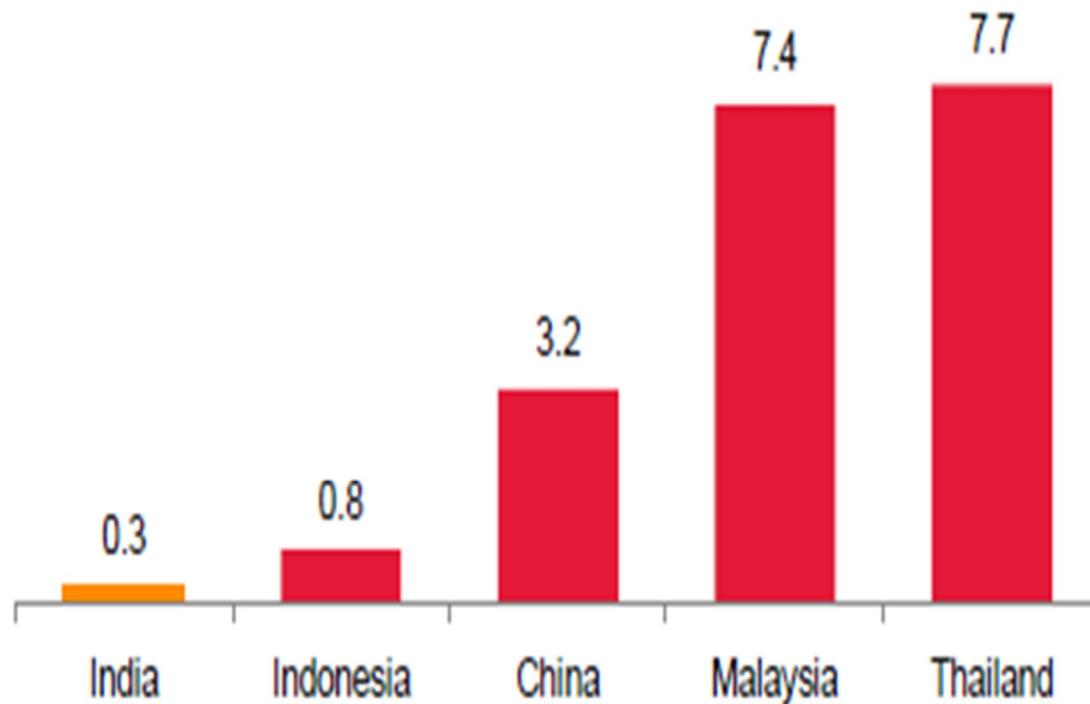
Source: Economic Times

Infrastructure

Improper roads and improper supply chain has an impact in terms of cost and uncertainties. Taking example of ice-cream supply chain if the infrastructure is poor or improper or non-availability of power sector adds the uncertainty. For ice-cream business if the ice cream melts whole quality of ice cream is affected.

Per capita consumption

On comparing to other countries India has very low capita income. The below statics is of per capita consumption of shampoo in USD.



Source: Dabur investor presentation–November 2013

FINANCIAL YEAR 2013-14

FMCG was slowed down in off take. The overall growth of the industry halved to 9.4% during the year. Industry had clocked a 9% growth in off take. The slowdown in off take during 2013 was more pronounced in non-food discretionary items such as personal care products.

Most of the FMCG companies have reported double-digit growth. However, FMCG behemoth Hindustan Unilever clocked an 8.7% top line growth due to slower growth in the Home and Personal care segment.

Even Marico's sales grew by a measly 1% as the company demerged its Kaya skincare business during the year. Procter & Gamble posted the fastest growth of 22% backed by double-digit in both feminine hygiene and healthcare businesses.

FINDINGS

RIB cage effect is the strategy where there are constituents of Rural, Impulse and Baby care. So, the companies will target these areas to increase the growth section of FMCG to certain level.

FMCG PROTECTED BY 'RIB' CAGE IN THE SLOWDOWN

RURAL

GROWING **1.5X** URBAN

▶ **71%** CATEGORIES GROWING FASTER IN RURAL

LED BY **FOOD** (GROWING AT 23%)

IMPULSE

GROWING **2.5X** FMCG

▶ GROWING AT **32%** IN RURAL AND **20%** IN URBAN

LED BY **SNACKS/CHOCOLATES** (GROWING >20%)

BABY CARE

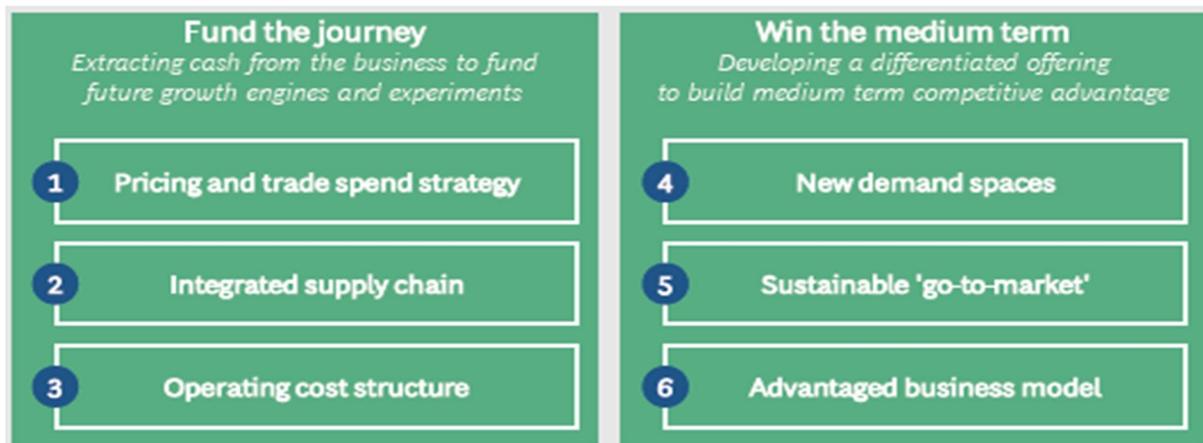
GROWING **2.7X** FMCG

▶ GROWING AT **34%** IN RURAL AND **10%** IN URBAN

LED BY **DIAPERS/OLIVE OIL** (GROWING >25%)

Source: Nielsen

Source: RIB cage effect



There are six strategies which can help FMCG companies to increase the growth structures are;

1. Price and trade spend strategy
2. Integrated supply chain
3. Operating cost structures
4. New demand spaces
5. Sustainable ' go-to-market'
6. Advantaged business model

There are two levels that are Fund the journey and Win the medium terms. Here in Fund the journey that simple initiative should be taken in business to generate cash quickly. This can be done by smart pricing, driving supply chain performance and also taking care of end to end operating costs.

Here, in Win the medium terms is used to develop a customer proposition and define key business model. As Indian customers are price sensitive for Indian FMCG companies, for higher price customer dissatisfaction should be there. So, product pricing is a complex thing.

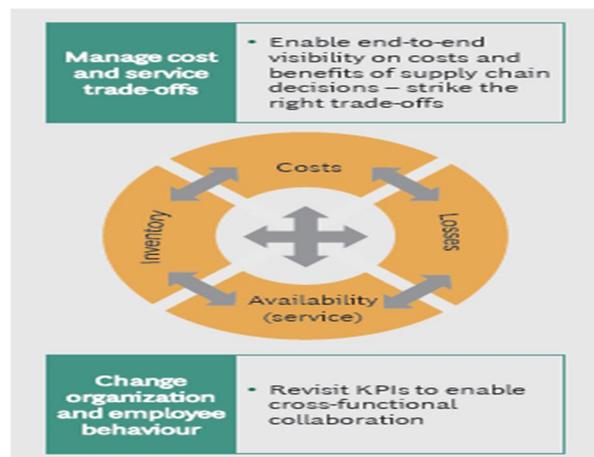
Here, BCG suggests that pricing can be improved through flowing increments straight through to company bottom line.

Re-modelling the supply chain

The supply chain can be re-modelled through two elements that is:

1. End to end view

Here, in end to end view of supply chain it prevents isolated calls for optimizing a set of KPIs instead of focusing on larger organizational objectives.



2. Ensure supply chain building blocks in place

Here, we have to set up the structural building blocks for supply chain to perform.

Rethink operations and network	<ul style="list-style-type: none">• Size batches and minimum order quantities in production• Remap: Source – Plant – Market• Push to increase Just-In-Time
Revisit data collection and analysis	<ul style="list-style-type: none">• Collect data at every step of value chain – integrate and analyze for sources of inefficiency
Set up right technology infrastructure	<ul style="list-style-type: none">• Set up data-exchange platform• Allow seamless access and integration across functions
Align metrics and incentives	<ul style="list-style-type: none">• Incentivize suppliers and retailers• Share critical outcomes across functions

RECOMMENDATION

States like Bihar, UP,MP etc. consist of 36% of Indian population and on cumulative they consume only 24% of FMCG which reflects the low growth. So, for that decentralization or regionalization strategies are used in these areas.

FMCG players should also focus on regional markets so that the product should not be out of market. They should also take care of marketing strategy which would clearly reflect the growth of a product.

Sales and distribution structures, investment in logistics and warehousing can help in supply chain strategies. FMCG players should decentralize their organizational design through use of separate R & D and the planning operations.

CONCLUSIONS

As the sector is growing at fast rate so that everyone should get employment which resulted in making the sector as the fourth largest sector. Though re-modeling the supply chain the growth related factors can be modified and can be increased to a higher level. RFID can help the supply chain by insuring the right product at right place for improving the efficiency and reliability.

The growth of sector in future would be because of improvement in standard of living in rural and urban sector. Through use of various strategies like RIB effect, use of RFID will help to increase the growth structure which got lowered.

By the use of efficient and effective supply chain for FMCG it would help to generate growth.

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