AN OVERVIEW ON FMCG ROADMAP TO 2020

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ABSTRACT

The Indian FMCG industry at Rs. 1300 billion accounts for 2.2% of the GDP of the country. Given the inherently essential nature of the products, the sector is more or less immune to recessionary pressures. The last decade has seen the sector grow by 11%-15% annually. Robust GDP growth, opening up of rural markets, increased income in rural areas, growing urbanization along with evolving consumer lifestyles and buying behaviors have all been drivers of this growth. Over the next decade, all the above drivers are expected to continue to impact the industry favorably. Based on discussions with industry experts as , it is believed that the FMCG industry will grow at a base rate of at least 15 % annually to become an Rs.4000 billion industry by 2020. Additionally, if some of the factors play out favorably within an environment of enabling policy and easing of supply constraints, 1% growth may be expected over the next decade, leading to an overall industry size of Rs.6200 billion by 2020. FMCG consumption is becoming more and more broad-based, and has reached an inflexion point where the growth can be expected to take off, following the traditional 'S-shaped' curve witnessed across many markets. While on an average, the growth of the industry will be strong, it will not be uniform. Variations are likely across product categories, companies and locations. Based on the research and extensive interviews, it has been identified nine mega trends across consumers, markets, and environment,1. Accelerating Premiumization: 2. Evolving Categories: 3. Goldmine at BOP (bottom-of-the-pyramid): 4. Rapid Globalization: 5. Many India's: 6. Growing Modern Trade:. 7. Eco-consciousness: 8. Game-changing Technologies: 9. Enabling Policies:

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INTRODUCTION:

THE FMCG INDUSTRY: GROWTH IN THE LAST DECADE:

The fast moving consumer goods industry, which accounts for 2.2 % of India's GDP, is expected to attain a size of INR 1300 billion by FY2010. Over the last few years the industry has witnessed a high rate of growth boosted by favorable macroeconomic conditions, increased rural incomes, a rising consumption-culture in India and a proliferation of consumer awareness campaigns. The sector witnessed a robust year-on- year growth of approximately 11 % in the last decade, almost tripling from Rs.470 billion in FY2001 to the current size. The last 5 years have augured well for the industry with an annual growth rate of approximately 17% since FY2005.

OBJECTIVES:

- To develops an excellent model to understand the forces shaping the FMCG industry which is supported by a strong analytical foundation.
- To identify mega trends across consumers, markets, and environments this will shape the industry by 2020.
- To analyze the key role of stakeholders including government, retailers, NGOs, and investors in supporting the growth of the industry, while continuing to deliver on their core business and social mandates.
- To understand possible strategies for FMCG players against all types of risks and challenges.
- To understand and analyze the game changing technologies and implications for the fmcg industry.

DETERMINANTS OF INDUSTRY GROWTH AND OUTLOOK FOR THE FUTURE:

INDUSTRY GROWTH DRIVERS:

Having matured in a decade of tremendous economic growth, the Indian FMCG industry is now ready to sustain that growth and forge ahead. There are three key forces at work within and outside the industry which drive this development.

DEVELOPMENTAL CYCLE OF THE INDUSTRY:

Analysis of consumption patterns across countries has revealed that most categories of consumer products tend to follow an S-curve of growth with the initial consumption driven by rich consumers and early adopters. At the trigger point though, the consumption becomes more wide-spread and then increases exponentially. Subsequently, the categories of consumer products mature as consumers move from a 'need-driven' to a more 'want-driven' consumption pattern. The tipping point for exponential growth, however, varies across categories. At per capita GDP of US$ 7000, the basic consumption of staples as a proportion of total food consumption, initially, tends to grow faster.

MACROECONOMIC FACTORS:

Favorable macroeconomic drivers such as the growth in GDP, coupled with rising incomes, increased participation of women in the workforce and the tapping of the rural markets, are seen to be enabling growth in the FMCG sector. These are elaborated upon below:

- The Indian economy is expected to overtake UK in the coming decade, with GDP growth ranging between 8-10 %.
- India is expected to reach China's current population figure of 1.4 billion by 2020.
- Per capita incomes supported by various government schemes and policies are expected to rise in both rural and urban areas. Participation of women in the Indian workforce is also likely to rise. Estimates suggest that if it increases to approximately 70 %, it will further boost GDP growth by 2-3 %.
- Favorable government policies such as the introduction of GST can be expected to substantially decrease supply chain costs. Increased FDI in multi-brand retail may open up a large channel for sales. Other policy measures such Security Act, Right to Education, infrastructure schemes etc have also acted as enablers of higher consumption.

FMCG ROADMAP TO 2020:

Analysis and discussions with industry experts indicate that the FMCG industry may grow at a base rate of at least 15% annually to become Rs.4000 billion industries in 2020. Additionally, if some of the positive factors play out favorably, it could even record a 17 % growth over the next decade, leading to an overall industry size of Rs.6200 billion by 2020. These growth rates, however, depend on varying economic scenarios.

- Base Case models an 'As-Is' scenario where the key assumptions are that GDP growth will continue at the same pace in the next decade and there will be no major change in regulations.
- Optimistic Case models a' Transformation' scenario where growth will touch 9 % in the next decade, and favorable changes in regulations will unlock industry potential. While the overall growth rates may be anticipated to lie in the 12-17 % range, many product categories are likely to grow much faster as consumer incomes increase, behaviors evolve and requirements change. In some areas one would expect Indian FMCGs to follow well-established growth-evolution paths. However, in many product categories growth may be accelerated by the explosive economic rise, young consumer base and the influence of the ubiquitous media. Some of that impact is already evident in a category like liquid hand-wash which has shown very strong growth driven by increased consumer awareness around personal hygiene specifically for children. Given the nascent stage of development across many categories even supply-led actions can help trigger rapid growth. For example, many packaged food categories such as soups, breakfast cereals, and fruit juices have seen rapid growth rates driven by increased presence of modern trade.

EVOLVING CATEGORIES:

There are three ways in which a First, as consumers' needs change, they start purchasing more evolved and sophisticated products within a category, hence, the product offering must also transform to keep pace with demand trends. For instance, consumers have moved from toothpowders to toothpastes and are now also demanding mouth-wash within the same product category. Second, consumers start demanding customized products, specifically tailored to their individual tastes and needs. Nowhere is this more apparent that in the differentiated demand for toothpaste depending on individual oral care needs. Third, driven by growing concerns about beauty, health, and wellness supported by hygienic and healthier lifestyles, consumers shift towards personal grooming products which purportedly further these goals. Such, category evolution is primarily observed among the upper middle and lower middle income classes. While these consumer groups in India account for approximately 150 million people currently, their size is expected to increase to about 500 million people in 2020, which is approximately 1.5 times the current population of the US.

INCREASING BEAUTY, HEALTH AND WELLNESS CONCERNS:

The beauty products market is expected to grow by 15-20 % in the future, which is the direct result of the changing socio-economic status of the Indian consumers, especially the women. Better paying jobs and exposure to fashion and beauty trends prevailing in the developed world through the television and other media have resulted in changing tastes and choices. Middle class women are now more conscious of their appearance and are willing to spend more on enhancing it. Products such as color cosmetics, sun care products have latched on to this trends rapidly.5 Indian men are also becoming more conscious of their appearance, and several companies have been launching beauty and grooming products specifically targeted at men. HUL has launched Vaseline for Men, Emami came out with Fair and Handsome, and L'Oreal has launched Garnier Men Power Light products. As per estimates, the demand for in-salon skin care treatments by men is increasing by 40% annually.6 Along with beauty products; there is an increased awareness about good health practices among consumers today. Sedentary lifestyles and unhealthy habits have led to the rise of lifestyle-related diseases such as diabetes and heart problems. Increased awareness of health related issues has led to the demand for healthier products with lower calories, less sugar, more nutritional content, and with a greater proportion of natural ingredients. This trend has impacted the food and beverages category to a large extent, along with some other categories such as personal care, and fabric care. The market size of health drinks and health foods is about INR 50 billion currently and is expected to grow at approximately 10 % annually in future. It has already witnessed heightened activity around health product launches by FMCG players, and this is only expected to increase in the future.

GROWING MODERN TRADE:

Modern trade is still at a nascent stage in India; the share of modern trade in retail last year was only about 5%t. However, it has been growing very rapidly displaying approximately 25 annual growth Several formats exist within modern trade and organized retail, such as, hyper marts, supermarkets, and cash-and-carry. While supermarkets have the highest share in terms of the number of stores, hyper marts account for the highest area Cash-and-carry is still nascent with only about eight stores in 2009. In a large and growing market such as India, it is expected the existing formats to evolve and new formats to come up in the future, driving the growth of various FMCG categories.

FUTURE TRENDS IN MODERN TRADE:

This analysis has tried to capture the ongoing and future trends within modern trade which are expected to impact the FMCG industry. Among these are a focus on supply chain management for improved profitability, emergence of private labels, expansion of modern trade beyond metros and the rise of cash-and- carry business in India.

FOCUS ON SUPPLY CHAIN MANAGEMENT:

Organized retailers are going to be increasingly interested in reducing time-to-market. To achieve this, it will be important to invest in inventory management and related technology for capturing sales data, forecasting demand and generating automatic replenishment. Decreasing inventory levels will also require strong backward integration with distributors or manufacturers. Retailers will also need to optimize logistics further in terms of warehousing and transportation etc. For this it will be imperative to increase supplier collaborations.

EMERGENCE OF PRIVATE LABELS:

Private labels or products manufactured and marketed by retailers have been growing in India as they are very attractive to retailers for three reasons:
First, they help retailers to improve profitability as the margins for private labels are higher compared to the manufacturer's brands. Second, they help retailers to create differentiation between competitors as they are unique to their stores. Third, the emergence of retailing as a specialist function and the growth of mu Experience have shown that the retailers who most consistently exceed expectations are rewarded with higher average sales, more repeat business, and invaluable goodwill. All these are critical stepping stones on the journey to sustainable loyalty. Further, penetration by private labels in India is quite low compared to other developed countries. Due to all these factors, it is expected that private labels will become a major threat to FMCG players in the future.

GAME-CHANGING TECHNOLOGIES:

Technology, an all-pervasive factor, is significantly impacting all facets of business. In the FMCG sector, technology facilitates front-end processes of business by creating consumer awareness, enables efficient sales and distribution and runs backend processes like market research, generating shopper insights; gathering business intelligence, supply chain management etc. It is believed that in the future, FMCG players will need to significantly increase their investments in technology and use it to derive competitive advantage.

TECHNOLOGY AT THE FRONT-END:

Technology options for creating consumer awareness and promoting sales have proliferated in the last decade, with increased adoption of broadband the evolution of social networking sites as major media platforms, and the growth of value-added services on mobiles. An increasingly young population coupled with increased participation of women in workforce has lent support to the adoption of new consumer favoring technologies. While print and television account for 86 % share in advertising at present, internet advertising has grown at approximately 30 % annually. The Indian youth is spending most of their time at the television and on the Internet. As per estimates, Google products account for 30 % of online time spent by Indian consumers. Four platforms or technologies which could play a major role in consumer awareness in future have been detailed below:

- **SOCIAL MARKETING:**

  Social marketing sites such as Face book, Orkut, Twitter, LinkedIn etc are becoming increasingly popular, especially among the youth. Face book for instance has approximately 14 million Indian users at present. Similarly LinkedIn, aimed at creating a network of professionals, has about 3 million users and India is one of its fastest growing subscriber bases. Several FMCG players have started targeting social networking sites for creating brand awareness. Capital Foods has reported 30 % growth in revenue over the past six months attributing its growth to the advertising campaign it launched on Face book. Amul has 52,000 fans on Face book and heavy traffic of discussions on its community page.

- **LEVERAGING SOCIAL MARKETING SITES FOR CO-CREATION AND SALES:**

  FMCG players can also leverage these sites for engaging with consumers on product design and sales imperatives. Apparel brands such as Benetton, Wills Lifestyle, Pantaloons and Van Heusen are tapping social networking sites as design centers driving efforts of co-creation with end-users. The contributions from users on various features ranging from color, textures to designs are welcomed. Also, some players such as ITC are seen pushing their online sales for Wills Lifestyle through their member community on Face book. However, given the nascent nature and untested efficacy of social marketing, it will be prudent to use it complementarily with other offline channels for a holistic engagement.

- **INCREASING POPULARITY OF MOBILE ADVERTISING:**

  Given the advantages such as direct and personalized communication, and a high access to rural consumers who accounted for more than 100 million subscribers in 2009, mobile advertising is seen to be gaining popularity.

- **MARKETING CAMPAIGNS ON MOBILES:**

  Several FMCG players have started creating marketing campaigns for mobile phones. Cadbury came which allowed students to check their exam results using Reliance India mobile service. If the student passed, he got an SMS congratulating him saying 'Pappu Pass Ho Gaya' along with the exam results and this encouraged him to celebrate the moment with a Cadbury Dairy Milk Chocolate. Similarly, Coca-Cola started a contest titled 'Sprite Kholega to Bolega' in which all Sprite bottles would have a code number printed under the crown. When this code was sent as an SMS to a designated phone number, the buyer could win free talk-time ranging between Rs.50 and Rs.5,000, and other mobile freebies.

- **ADVENT OF 3G:**

  Historically, the mobile has attracted low advertising expenditure because of its format of advertising—simple text SMS or basic pictures. However, 3G will enable rich media content and video transmission over the phone. About 100 million users are expected to have 3G handsets in 2012-13 up from the current 20 million users. With 3G, advertisers would be able to subsidize the cost of downloading rich media content by subscribers. For instance, a song from a new Bollywood film could be put up for download with an advertisement of a soft drink company as a pre-roll or a mid-roll. Consumers could download this song for free while the soft-drink company would pay for the download.

Reinventing Marketing for 'i-Consumers' Deep consumer understanding and interaction has always been at the heart of the FMCG sector. Going into the future, marketing will need to target individual consumers who want customized products, as well as consumers who are spending more and more time online, hence the term 'i-consumers'. Many companies periodically engage with consumers through surveys, focus groups, test markets, product testing and other mechanisms. Similarly FMCG companies have been significantly large users of advertising mediums to communicate with their consumers. In the rapidly evolving environment it becomes more critical to know, respond to and communicate with the consumer. Across the globe, companies are migrating away from traditional paid advertising towards 'below the line' media and marketing programmes that put them in direct contact with consumers. In India, new platforms have emerged in the form of mobile phones; with planned investments in broadband there will be significant increase in online usage. This shift is giving rise to a new generation of customized marketing platforms, transforming the way in which consumers experience advertising and establish relationships with brands. Digital marketing platforms will be a big part of this strategic shift. They will redefine what it takes to succeed in building brands and reaching customers. Companies will need to use emerging technology in new assets such as databases, websites, and branded content. They will need to develop new analytical models to measure the effectiveness of media spending. They will also need to manage the integration of advertising planning, media buying, promotions management, and other tasks currently handled by multiple agencies. Companies that build these capabilities will find that their marketers can play a more strategic business role. Yesterday's marketing organizations used to stick to tactical functions to support strategic decisions that had already been made. Tomorrow's marketing leaders will help set the strategy for major advertising, promotions, and public relations campaigns, and serve as growth champions in the development of brands, products, and new businesses. Over the next few years, FMCG marketers will look to shift their creative and media strategies to fully capitalize on the online opportunity and make digital media a bigger priority in their brand strategies. In India, mass marketing through traditional print and television will continue to play a role in driving increased awareness, but marketers will need to develop their presence in interactive channels that not only drive greater brand awareness but also enable new insights into consumers.

Re-engineering Supply Chains As consumer behavior shifts across segments, re-engineering the supply chain will be critical to stay abreast of these changes and reach an increasingly fragmented customer base. Supply chains are already under pressure to deliver at lower costs and offset generally rising costs for raw materials and energy. This pressure may intensify even further as governments put a price on carbon emissions and establish new regulations on waste. Changing tax laws with the implementation of GST would lead to simplification and more uniformity. Today's supply chains were built on yesterday's blueprints, in a world where low energy and transportation costs, cheap labor, relatively inexpensive raw materials, complex tax laws and scarce environmental regulations were fixed assumptions. The supply chain of the future, by contrast, will have to be leaner, greener, and more tailored to manage increasing complexity. This will require three key actions:

- **RETHINK PRODUCT AND PACKAGING FORMULATION:**
  Companies will need to consider their choices in product design and process technology the inherent drivers of cost, sustainability, and risk. What ingredients are used, how much packaging is required for the finished product, and what changes in material choice or manufacturing process would reduce material and energy usage would be important decision points. It is essential to understand the economics of product and process choices before considering supply chain changes. Small \ changes to such inherent factors can create large market and cost impacts.

- **RESTRUCTURE THE SUPPLY CHAIN NETWORK AND FOOTPRINT:**

  Once product and process choices have been reconsidered, the supply network needs to be realigned to balance cost, service, risk, and sustainability in meeting market demand. Changing regulation, specifically GST, as well as new areas of demand acceleration, such as eastern India, will need to be incorporated. The challenge for manufacturers is to make the right footprint trade-offs not only for today but also for an uncertain tomorrow. Successful companies will build more flexibility and adaptability into their networks with investments in technologies and assets that can react to changes in demand as well as variability in factors like labor costs and energy use.

- **REALIGN THE ROLE OF SUPPLIERS AND THIRD PARTIES:**

  In an environment of increased uncertainty, close collaboration between supply chain partners has become more important than ever. Pressures felt by manufacturers—higher material costs, sustainability requirements, supply and demand imbalances, product safety issues, resilience and environmental concerns—are shared by suppliers. Today, the role played by suppliers has gone well beyond merely providing raw materials. Now suppliers routinely provide a broad set of materials and services. They also participate in product development efforts by sharing ideas as well as making investments in new processes and technologies.

IMPLICATIONS FOR OTHER STAKEHOLDERS:

While FMCG companies will have to significantly change to meet the requirements of the evolving industry, this will also have an impact on the entire ecosystem and other stakeholders. It is broadly divided the stakeholders in the FMCG industry into these five entities— FMCG players, government, retailers, NGOs and investors. Each of these stakeholders will need to play a key role to support the growth of the industry towards a win-win situation for all.

GOVERNMENT:

The FMCG industry supports many social objectives and plays a key role in driving economic growth by providing significant direct and indirect employment opportunities, making vast contributions to the exchequer, and supporting growth of agriculture through backward linkages. The government has taken several steps towards inclusive growth of the FMCG industry by supporting the demand growth, which should be continued in the future. However, on the supply side, there are a few areas which need regulatory intervention to unlock the breakthrough potential of the industry. These include implementation of GST which can save FMCG companies from multi-layered taxes and drive long-term efficiencies in supply chain; allowing FDI in multi-brand retail which will enable large global retailers to bring best-practices to India; enforcing regulations to curb counterfeit consumer products which will significantly reduce economic loss to the industry; revamping the Agriculture Products Marketing Act to allow food processing players to buy directly from the farmers; and revamping labor laws to drive efficiencies among FMCG manufacturers.

NGOs:

NGOs which act as the guard rails of the FMCG industry can have a major role to play in driving sustainability efforts. Going forward, NGOs would need to act aggressively as the sustainability gatekeepers, and increasingly monitor and track the industry to ensure that best-practices are highlighted and sustainability agenda is not ignored. Secondly, NGOs can indirectly continue to enable expansion FMCG off take into rural markets, acting as financial enablers by giving credit to small retailers / entrepreneurs and through other measures.

INVESTORS:

Global as well as domestic investors should seriously consider the Indian FMCG industry for future investments given the highly attractive market. Also, along with market expansion, investors will need to monitor FMCG companies, tracking their expenditures to ensure that the bottom-line growth matches / exceeds the top-line growth.

CONCLUSION:

In conclusion, the FMCG sector in India is poised for rapid growth in the next 9 years. Companies will need to evolve to better meet the rapidly changing consumer needs within an increasingly complex operating environment. The FMCG industry in 2020 will be larger, more responsible, and more tuned to its evolved customers. The robust growth in GDP, rising income levels, especially in the rural areas of the country as also increased urbanization and evolving consumer lifestyle and buying behavior are the positive growth drivers. Supply-chain expertise and product quality are the other areas that need to be looked at. FMCG needs to follow the telecom sector route by outsourcing areas such as HR, and they could leverage technology to supply goods at lower prices. The drive to create new categories must persist. Supply-chain expertise and product quality are the other areas that need to be looked at. FMCG needs to follow the telecom sector route by outsourcing areas such as HR, and they could leverage technology to supply goods at lower prices. The next 10 years would see an era where the face of the consumer will be changing. Consumers will seek greater value and be willing to experiment. They would be consciously seeking Health and wellness concerns and the demand for premium products are all set to rise. However, the traditional trade will also grow and compete with modern retail. While technology in the FMCG sector will see increased investments, especially in front-end operations, social media and online advertisements will fuel growth further.

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