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**Gunasheela C**  
Assistant Professor  
Department of Economics  
Maharani Women's Arts,  
Commerce and Management  
College, Seshadri Road,  
Bengaluru, Karnataka, India

## **A Theoretical Study of Post Covid-19 scenario of FMCG Sector in India**

**Gunasheela C**

### **Abstract**

FMCG being one of the 4<sup>th</sup> largest sectors in Indian economy has been a major source of revenue to the economy. The urban market alongside the emerging rural market has doubled the prospects for the Industry. Online platforms are seamlessly used post covid-19 scenario. The penetration to the on-line market was but inevitable. The present conceptual study accounts for the FMCG market in Indian Context and tracks the growth path.

**Keywords:** Consumers, Growth, FMCG.

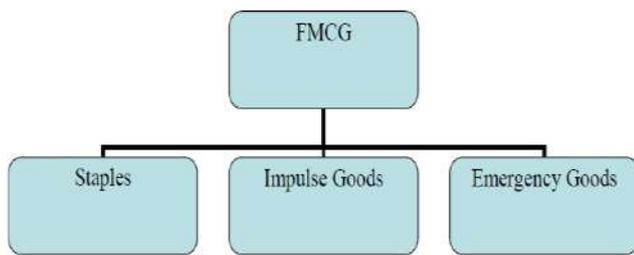
### **Introduction**

FMCG is the 4<sup>th</sup> largest sector in the Indian economy and is valued at about USD 49 billion as of 2016 (as per IBEF). Household & Personal Care is the leading segment accounting for 50% of the overall market. This is followed by Healthcare at 32% and Food & Beverages comes next in terms of market share at 18%. Under Household & Personal Care, Hair care accounts for about 23% followed by Oral care at 15%, Home care at 6% and Skin care at 5%. Credit Appraisal is the process by which a lender appraises the technical feasibility, economic viability and bankability including creditworthiness of the prospective borrower. However, in the last few years, the FMCG market has grown at a faster pace in rural India compared with urban India. Semi-urban and rural segments are growing at a rapid pace and FMCG products account for 50 per cent of total rural spending. (Dr. R Jayanthi, 2017) <sup>[3]</sup> With Increasing purchasing power and rising middle class the FMCG industry is poised to grow at faster speed. The distribution network is key to success of any product as its effectiveness will enhance the consumer experience. Traditionally the FMCG industry depends on conventional distribution network of Stockiest, Wholesaler and retailer. With the technological advancement and shift in consumer behaviour the ways of distributing the products is also changing. The Hyper markets, Super Markets and modern trades have become integral part of urban lifestyle. Easy home delivery and convenient payment options have made online purchase of FMCG products very popular in Urban India. (Nafde, 2017) <sup>[9]</sup>.

### **FMCG**

FMCG means fast moving consumer goods which are frequently purchased essential or non-essential goods such as food, toiletries, and soft drinks and pampers. They are products that have a quick turnover and relatively low cost. Fast moving consumer goods are also known as Consumer Packaged Goods (CPG). (Dr. Suganthi.V, 2016) <sup>[4]</sup>. Every day, every minute, from the start to the end of the day, we are bounded by products which make our life easier in a lot of ways. And this is achievable due to the dedication and effort of FMCG companies. Examples of FMCG products comprise toiletries, soap, cosmetics, oral hygiene, detergents, packaged food products, soft drinks, shaving products, candy and chocolate bars, etc. This industry essentially comprises Consumer Non-Durable products which are required to fulfil the everyday need of the population. A customer generally spends least amount of effort to procure them. Based on the prime factor behind consumers buying, FMCG's can be divided into three classes:

**Corresponding Author:**  
**Gunasheela C**  
Assistant Professor  
Department of Economics  
Maharani Women's Arts,  
Commerce and Management  
College, Seshadri Road,  
Bengaluru, Karnataka, India



**Fig 1:** Types of Fast Moving Consumer Goods

Source: (Product Management in India by Ramanuj Majumdar, Page no-36-37).

### Staples Goods

Goods that consumer purchases on a regular basis. For example toilet soap, detergent, sauce, toothpaste, biscuits etc.

### Impulse Goods

Goods which are purchased with any planning or searching. These goods are usually purchased due to external stimulus. For example soft drink, potato chips which are displayed in the stores because shoppers may not have thought of buying until spotting them.

### Emergency Goods

Emergency Goods are those goods which are purchased when the need for that particular product arises. For example the requirement of seasonal products such as umbrellas required at the time of monsoon or sweaters in winters.

### Attributes of Fmcg Sector

Fast-Moving Consumer Goods (FMCG) or Consumer Packaged Goods (CPG) are products that are sold quickly and at relatively low cost. Examples include non-durable goods such as packaged foods, beverages, toiletries, over-the-counter drugs and many other consumables. (Wikipedia).

Any product that is used quite frequently, on the daily regular basis, sells faster from the store shelf can be classified as FMCG.

They are food and groceries, cold drinks, chocolates, candies, bread, butter, soap, toothpaste, batteries, cigarettes, floor cleaner, edible oils etc. FMCGs are essential, relatively low priced, goods of regular consumption and are purchased at regular intervals. They are also called non-durable goods – as against durable goods like car, TV, refrigerator, camera etc. The consumer behavior towards this category is less attentive and exhibit low concern, consumers tend to spend minimum effort in comparison and buying them. But for marketers, this creates a very difficult situation where consumer behavior is not explicit and designing marketing strategies for these products need a lot of insights and innovative research methods. FMCGs are broadly divided into 4 segments:

- Food & Beverages - Health beverages, staples/cereals, bakery products, snacks, chocolates, ice cream, tea/coffee/soft drinks, processed fruits and vegetables, dairy products, and flour, etc.

- Personal Care - Oral care, hair care, skin care, cosmetics/deodorants, perfumes, feminine hygiene, baby care, shower products, etc.
- Household Care: Dish/utensil cleaners, floor cleaners, toilet cleaners, air fresheners, insecticides and mosquito repellents, etc.
- Others: OTC products, Tobacco products etc.

(Source: Indian FMCG Market 2020: ASSOCHAM & Tech Sci Research) (Dr. Arvind Kumar Shukla, 2018) [5].

### Characteristics of Fmcg

FMCG sector has typical characteristics compared to other industries.

#### From the consumer's perspective, they are –

- Frequent purchase: these products touch every aspect of daily life, looks to hygiene to the palate.
- Low involvement: the consumer has little or no effort to choose the items.
- Low price: it is a high volume, a low value is driven industry in most categories.
- Short shelf life: usually perishable goods even some with 12 months consumption period.
- Rapid consumption: products are consumed on regular basis and have fast shelf transfer cycle.

#### From the marketer's perspective, they are:

- High volumes: the volume brings the viability and thus requires large logistics support.
- Low contribution margins: almost all categories have low margin contribution, items sell at a huge discount on MRP. Extensive distribution networks
- High stock turnover: the turnover is quite high and often on daily basis, sometimes supplies are made twice in a day.

(Source: Wikipedia)

### Evolution of Fmcg in India

- FMCG is the 4th largest sector in the Indian economy
- Household and Personal Care is the leading segment, accounting for 50 per cent of the overall market. Hair care (23 per cent) and Food and Beverages (18 percent) comes next in terms of market share.
- Growing awareness, easier access and changing lifestyles have been the key growth drivers for the sector
- The number of online users in India is likely to cross 850 million by 2025.
- Retail market in India is estimated to reach US\$ 1.1 trillion by 2020 from US\$ 672 billion in 2016, with modern trade expected to grow at 20 per cent - 25 per cent per annum, which is likely to boost revenues of FMCG companies
- People are gracefully embracing Ayurveda products, which has resulted in growth of FMCG major, Patanjali Ayurveda, with a m-cap of US\$ 14.94 billion. The company aims to expand globally in the next 5 to 10 years. (Dr. R Jayanthi, 2017) [3].

### The Fmcg Industry

The Indian FMCG sector is the fourth largest sector in the economy with a total market size in excess of US\$ 13.1 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. Availability of key raw materials, cheaper labor costs and presence across the entire value chain gives India a competitive advantage. The FMCG market is set to treble from US\$ 11.6 billion in 2003 to US\$ 33.4 billion in 2015. Penetration level as well as per capita consumption in most product categories like jams, toothpaste, skin care, hair wash etc in India is low indicating the untapped market potential. Burgeoning Indian population, particularly the middle class and the rural segments, presents an opportunity to makers of branded products to convert consumers to branded products. Growth is also likely to come from consumer 'upgrading' in the matured product categories. With 200 million people expected to shift to processed and packaged food by 2010, India needs around US\$ 28 billion of investment in the food-processing industry. Products belonging to the FMCG segment generally have the following characteristics:

- They are used at least once a month
- They are used directly by the end-consumer
- They are non-durable
- They are sold in packaged form
- They are branded

### Review of Literature

Dr. Suganthi V (2016) <sup>[4]</sup> Aims to gain an understanding of how FMCG companies are creating exclusive rural marketing strategies and the initiatives and marketing strategies of Hindustan Unilever Limited which is India's largest Fast Moving Consumer goods company, touching the lives of most of the Indians.

The Indian rural market with its vast size offers great opportunities to Companies. The rural economy contributes nearly half of the country's GDP. More than 50 percent of the sales of FMCG companies come from the rural areas. In recent years, rural markets have acquired significance in India. In this context, a special marketing strategy, namely, rural marketing has taken form. As markets change and develop, companies must be able to develop the strategy and choose the correct way to enter the markets and remain competitive. (Dr. Suganthi.V, 2016) K. Pongiannan and Jayakumar Chinnasamy (2014) <sup>[4, 6]</sup> opines that fast Moving Consumer Goods (FMCG) are products that are required by almost all users in their day today life. The advertisements for these products need more attention in terms of creating responsiveness among the consumers for their purchase decision. The article studies effectiveness of the advertisements in creating responsiveness for the FMCG products. India is an agro based economy from the time immemorial.

Azees KA (2018) <sup>[1]</sup> focuses on marketing of fast moving consumer goods. Fast moving consumer goods are generally low profit margin. Products are therefore sold in large quantities. Therefore, it is very important to focus on how to improve brand value for the customers as many brands are available for the same categories of products. Another area focused is how recession affects the demand for fast moving Consumer Goods and what are the reasons for these changes. In such a situation, it becomes necessary for the producers or the companies to increase the investments in these brands and products so that consumers are attracted towards them (Azees KA, 2018) <sup>[1]</sup>.

### Factor Influencing Customer Preference for Fmcg

#### a) Demographic factors

Market strategy for products depends on demographical factors. These factors further useful in segmenting the market. These factors include age, gender, place for residence (rural/urban), marital status, income, occupation family size. The preference of customer varies according to demographical factor.

#### b) Market factors

##### ➤ Brand name

A measure of identification for product provides strength to the product .Perception for brand varies from customer to customer, thus the image of brand also varies. It boosts level of confidence among customer, and hence the acceptability for new products becomes easy for marketers.

##### ➤ Product quality

It is a strong input to competition and a measure of brand image. Product quality has its own importance in long – run, for gaining trust of customers. Customers are oriented towards quality as basic requirement for purchasing product.

##### ➤ Price

Price is a sensitive factor for buying a product. It not only provides economic value to the product but also it is a measure of quality, status symbol. Price response has direct impact on sale prediction for a product.

##### ➤ Available brand at shop

Customer irrespective of their choice for particular brand expect array of product shop. Due to unavailability of desired brand of customer choice, they switch to the other brand. Switching for products also depends on brand loyalty.

##### ➤ Retailer advice

Retailers advice facilitates the ease in complex decision making of customer through their product knowledge and awareness of market trends. Customer usually admires retailer's recommendation regarding the product due to their interaction with customers. The information on sales volume of brand of the store, which is generally provided by retailers propel customers to buy the product.

##### ➤ Extra quantity offered

The customers are generally attracted through lucrative offers of the markets. These offers provide a competitive advantage to the company in the short –run in grasping market share. Customers are psychologically motivated towards extra quantity offered by the companies. (Khare, 2018) <sup>[7]</sup>.

### Weak Areas of Fmcg Sector

- Lower scope of investing in technology and achieving Economies of scale, especially in small sectors
- Low exports levels.
- Rising income levels and higher disposable income, resulting in increase in purchasing power of consumers
- Large domestic market with more population of age group Between 20 and 30. (Azees KA, 2018) <sup>[1]</sup>.

### Threats

- Liberal import policies resulting in replacing of domestic brands.
- Government Taxation policies and regulatory structure
- Rural demand is seasonal and depends upon monsoon. Fast moving consumer goods (FMCG) – or Consumer Packaged Goods (CPG) – are products that are consumed quickly over a shorter period of time.

Examples include non-durable goods such as grocery items, soft drinks, dairy products and toiletries. Conditionally, the absolute margins on goods are very low and profit made on FMCG is comparatively low, the products are sold large quantities so the substantial profits are generated. The term FMCG refers to those consumer goods that are sold quickly and at lesser prices. The life of the FMCG is very short and the products are used up over a short period of days, weeks, or months, and within one year. FMCGs have a short period of life, either due to high consumer demand or because the product deteriorates rapidly. Some FMCGs – such as dairy products, fruits and vegetables, meat, etc. are highly perishable in nature and should be used at earliest. Other goods such as soft drinks, alcohol, cleaning products, toiletries and pre-packaged foods, have higher sales volume and high turnover rates. (Azees KA, 2018) <sup>[1]</sup>.

### Indian Fmcg Market in Comparison with Global Fmcg Market

Currently India accounts for a share of just 0.68% of the Global FMCG market, this share is expected to increase significantly over the next 5 years mainly due to the macro-economic factors such as improving demographics, rising disposable income, expansion of organised retail in tier II & III cities in India, changing consumer preferences etc. Major FMCG markets include USA, China, European Union, Japan etc. Globally, the FMCG sector is expected to grow at a CAGR of 4.4%, which when compared to India is a lot slower. Many foreign FMCG multinationals have established themselves in India.

Globally, the FMCG companies have now shifted their focus on E-commerce due to the increasing mobile internet penetration. Globally, the share of online sales of FMCG products accounted for around 5% in 2015, which is relatively higher than India where online FMCG sales accounted for a share of just 1-2% of the overall FMCG market in 2015. The global economic growth has been decelerating as several large economies face decreasing economic growth, primarily China and the Eurozone, as well as a few key emerging markets like Brazil and Russia. This offers an advantage to India which has a significantly better economic condition. According to The World Bank, India's per capita income is expected to cross INR100, 000 (USD 1,505.4) in FY 2017 from INR93, 231 (USD 1,403.5) in FY 2016. Technology adoption, urbanisation and other structural reforms are the other major drivers resulting in better market potential compared to other markets (Mahendru, 2020) <sup>[8]</sup>.

### Prospects of Rural Marketing

The largest population in rural areas provides more opportunities in rural marketing. Rural Market, Rural consumption of FMCGs products has outpaced urban consumption. Leading companies in the FMCGs sector have a strong distribution network in rural India and are benefitting from the contribution of technological advances such as internet and better logistics services. As Indian consumers become increasingly exposed to global products, their demand for innovative products has been increasing. With an emergence of India as a strong regional economy, domestic and multinational FMCGs players can leverage India as a strategic sourcing hub for costcompetitive

products to cater to international markets. Inorganic Growth Strategies for a Wider Footprint Companies are entering into partnerships that will help them to cater to the market, and improve their distribution networks and skills to deliver to the last mile. Most of the household and personal care products sold in India still have low market penetration in rural and semi-rural areas. This offers a wide opportunity for market players to tap these markets by offering low cost, small packaging products, and increases in purchasing power and disposable income. Consequent lifestyle upgrade has added a new spectrum. (Baisantri, 2018) <sup>[2]</sup>.

### Market Size

The retail market in India is estimated to reach US\$ 1.1 trillion by 2020 from US\$ 840 billion in 2017, with modern trade expected to grow at 20-25% per annum, which is likely to boost revenue of FMCG companies. Revenue of FMCG sector reached Rs. 3.4 lakh crore (US\$ 52.75 billion) in FY18 and is estimated to reach US\$ 103.7 billion in 2020. FMCG market is expected to grow at 9-10% in 2020. Rise in rural consumption will drive the FMCG market. It contributes around 36% to the overall FMCG spending. In the third quarter of FY20 in rural India, FMCG witnessed a double-digit growth recovery of 10.6% due to various government initiatives (such as packaged staples and hygiene categories); high agricultural produce, reverse migration and a lower unemployment rate.

### Investments/ Developments

The Government has allowed 100% Foreign Direct Investment (FDI) in food processing and single-brand retail and 51% in multi-brand retail. This would bolster employment, supply chain and high visibility for FMCG brands across organised retail markets thereby bolstering consumer spending and encouraging more product launches. The sector witnessed healthy FDI inflows of US\$ 17.8 billion from April 2000 to September 2020.

Some of the recent developments in the FMCG sector are as follows:

- In November 2020, Emami Ltd. announced its entry into home hygiene segment with products under 'Emasol' range.
- In December 2020, FreshToHome (FTH), which sells online fresh fish and meat, announced that it aims to more than double its revenue over the next 12 months to Rs 1,500 crore, supported by business-wide expansion, including its 'FTH Daily' service.
- In November 2020, NIVEA, by launching the first ever e-commerce ready-to-ship kit, 'NIVEA CARE BOX', in collaboration with Amazon India, has taken a step towards being more sustainable through its packaging.
- In November 2020, Bahrain's Investcorp stated it had invested in Xpressbees, an Indian start-up in logistics, as part of a group of local and global investors. With more than 1,000 customers across sectors including e-commerce, pharmaceuticals, consumer goods, retail, manufacturing, electronics and consumer durables, Xpressbees has presence in >2,000 cities and towns in India. The size of the investment was not disclosed.
- In November 2020, TradeIndia announced to conduct the 'Consumer Goods Expo India 2020' to minimise geographical barriers and generate new opportunities in the manufacturing industry and MSME sector.

### Government Initiatives

Some of the major initiatives taken by the Government to promote the FMCG sector in India are as follows:

- On November 11, 2020, Union Cabinet approved the production-linked incentive (PLI) scheme in 10 key sectors (including electronics and white goods) to boost India's manufacturing capabilities, exports and promote the 'Atmanirbhar Bharat' initiative.
- Developments in the packaged food sector will contribute to increased prices for farmer and reduce the high levels of waste. In order to provide support through the PLI scheme, unique product lines—with high-growth potential and capabilities to generate medium- to large-scale jobs—have been established.
- The Government of India has approved 100% FDI in the cash and carry segment and in single-brand retail along with 51% FDI in multi-brand retail.
- The Government has drafted a new Consumer Protection Bill with special emphasis on setting up an extensive mechanism to ensure simple, speedy, accessible, affordable and timely delivery of justice to consumers.
- The Goods and Services Tax (GST) is beneficial for the FMCG industry as many of the FMCG products such as soap, toothpaste and hair oil now come under the 18% tax bracket against the previous rate of 23-24%. Also, GST on food products and hygiene products have been reduced to 0-5% and 12-18% respectively.
- GST is expected to transform logistics in the FMCG sector into a modern and efficient model as all major corporations are remodelling their operations into larger logistics and warehousing.

### Road Ahead

Rural consumption has increased, led by a combination of increasing income and higher aspiration levels. There is an increased demand for branded products in rural India. The rural FMCG market in India is expected to grow to US\$ 220 billion by 2025 from US\$ 23.6 billion in FY18.

On the other hand, with the share of unorganised market in the FMCG sector falling, the organised sector growth is expected to rise with increased level of brand consciousness, augmented by the growth in modern retail.

Another major factor propelling the demand for food services in India is the growing youth population, primarily in urban regions. India has a large base of young consumers who form majority of the workforce, and due to time constraints, barely get time for cooking.

Online portals are expected to play a key role for companies trying to enter the hinterlands. Internet has contributed in a big way, facilitating a cheaper and more convenient mode to increase a company's reach. It is estimated that 40% of all FMCG consumption in India will be made online by 2020. The online FMCG market is forecast to reach US\$ 45 billion in 2020 from US\$ 20 billion in 2017.

It is estimated that India will gain US\$ 15 billion a year by implementing GST. GST and demonetisation are expected to drive demand, both in the rural and urban areas, and economic growth in a structured manner in the long term and improved performance of companies within the sector.

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