



## Fast-Moving Consumer Goods Sector in India

This editorial is based on [“Packaged goods marketing in rural pockets gets a facelift and a digital push”](#) which was published in The Mint on 07/07/2022. It talks about the Fast-Moving Consumer Goods Sector and challenges related to it.

**For Prelims:** Fast-Moving Consumer Goods (FMCG), E-commerce, Artificial intelligence, Foreign Direct investment, Goods and Service Tax, Inland Waterways Authority of India, Counterfeiting, National Rural Livelihood Mission, Cyber-Security

**For Mains:** Driving factors responsible for Growth of the FMCG Sector, Challenges Associated with the FMCG Sector, Supply Chain Management

**Fast-Moving Consumer Goods (FMCG)** can be defined as packaged goods that are consumed or sold at regular and small intervals. **Household and personal care products accounts for 50% of the sales** in the FMCG industry, **healthcare accounts for 31-32%** and **food and beverage accounts for the remaining 18-19%**.

FMCG is the **fourth largest sector in the Indian economy**. It provides employment to around 3 million people accounting for approximately **5% of the total factory Employment in India**. It is an important contributor to India's **GDP growth**. Growth in the country's FMCG sector is being fuelled by improving scenarios in both demand as well as supply side.

As per reports by **CRISIL**, the **FMCG sector is set for double-digit growth in 2022 at 10-12 percent**. Let us understand the future of FMCG industries in India and related challenges.

### What are the Driving Factors Responsible for the Growth of the FMCG Sector ?

#### ▪ Digitisation:

- In a country where **80% of sales still occur from local Kirana stores**, it becomes critical to make sure that orders from such channels remain steady. **That's what digitisation has ensured over the past couple of years** during multiple waves of the [coronavirus pandemic](#).
  - **E-commerce** share of total FMCG sales is expected to **increase 11% by 2030**.
- FMCG companies are **bringing together suppliers, inventory management, and distributor management within one ecosystem with the help of digital capabilities**.
  - Technologies like **Artificial intelligence, Big Data and Predictive Analysis** are being increasingly used by FMCG companies to predict customer behaviour accurately, helping them to understand what actually interests their customers.
  - Online grocery stores and online retail stores like **Grofers, Flipkart, and Amazon**

are making FMCG **products more readily available.**

- **Digital payments** like **E-wallet and UPI** are making the **transactions smoother and more convenient.**
- The number of **online users in India is expected to cross 850 million by 2025.**

#### ▪ **Increased Initiatives and Investments by the Government:**

- The FMCG sector in India witnessed a robust **Foreign Direct Investment (FDI) inflow of 18.19 billion dollars in 2020.**
  - **Goods and Service Tax (GST):** GST has been quite favourable for FMCG companies. It brought the Indian Market under the same umbrella.
    - With the implementation of Goods and Services Tax, **the GST council has reduced the tax rates down to 5%** on most of the **processed food items, increasing the consumption of food products.**
  - Along with that, the **Production Linked Incentive (PLI)** scheme proposed in November 2020 turned out to be extremely beneficial for the sector to **boost manufacturing capacity and exports.**
  - The FMCG sector will also gain support from **growth from the Inland Waterways Authority of India.**

#### ▪ **Growing Rural Market:**

- The **Retail market in rural India and rise in rural consumption is also responsible for driving the FMCG market.**
  - The **contribution** of the Retail market in rural India is **36% in the overall FMCG spending.**

#### ▪ **Growing Youth Population:**

- Drift in the youth population in India is **changing consumption trends**, inclining more towards ready-to-eat food culture.
  - India has **more than 50% of its population below the age of 25 and more than 65% below the age of 35.**
  - The **Processed Food Market of India** is projected to reach **470 billion USD by the year 2025**, from the 263 billion USD in 2020-21.

#### ▪ **New Product in the Market:**

- **The FMCG sector raises product-launch capacity of different industries.**
  - In November 2021, **Tru Nativ**, a smart nutrition FMCG company, **launched India's first family friend natural protein- 'Everyday Protein'** to **defeat India's macronutrient deficiencies** by providing **natural food fortification solutions to customers.**
  - **Beco**, a startup in India, is **revolutionising the FMCG market** with low-cost, **environmentally friendly consumer goods.**

## **What are the Challenges Associated with the FMCG Sector?**

#### ▪ **High Inflation:**

- The domestic FMCG industry is **hit hard by inflation levels** leading to **successive price hikes as well as impacting volumes.**
  - The **rural markets continued to witness a slower growth compared to the urban markets during the April-June, 2022.**
- **Impacts:**
  - Increase in crude oil price means that crude oil-linked intermediates are likely to be expensive, affecting input costs for fabric and personal care products.
  - Higher fuel prices will add to freight costs. Packaging costs will also go up.

#### ▪ **Counterfeiting:**

- Distribution centres, retail outlets, and third party logistics providers are the most vulnerable to infiltration of counterfeit products.
  - **Counterfeit products** are fakes or unauthorised replicas of the real product.

#### ▪ **Poor Supply Chain Infrastructure:**

- Lack of storage and transport facilities coupled with rising costs of raw materials and energy has been a major challenge for the Indian FMCG market.
  - Growth of many categories of FMCG have been severely constrained by the lack of cold chain infrastructure in the Indian market landscape.

- A **Cold Chain Infrastructure** includes temperature-controlled storage space, and transportation, trained operational, and servicing personnel with efficient management procedures.
- **Large Geographical Expanse:**
  - Large states in India such as Madhya Pradesh present a problem of large distances between two adjacent markets.
    - This has a **crippling effect on the viability of channel partners**, which are serving the isolated markets.

## What should be Our Approach Moving Forward?

- **Efficient Supply Chain Management:**
  - To prevent losses from the mismanagement of supply chain, FMCG companies in India have to ensure that they **exercise greater control over their distribution channel** and **not just leave it to the market forces**.
- **Prevention of Counterfeiting:**
  - Indian FMCG companies can **collaborate with the retail industry** to offer greater visibility and traceability.
    - Measures such as **regular spot checks, proper monitoring system, collaboration with local and national law enforcement agencies** can be taken to curb counterfeiting.
- **Cyber-Security:**
  - Digitalisation in the consumer market is **becoming a threat to privacy**. The FMCG sector should adopt Cybersecurity measures to secure data and ensure consumer safety with a **healthy National CyberSpace**.
- **Reducing Transportation Costs:**
  - Manufacturing Industries collaborating with the third-party logistics partner can help in reducing the excess shipping cost.
- **Increasing Production Capacity:**
  - **Specialisation of labour** and more **integrated technology** boost production volumes.
    - Emphasis should be given on **skill development** to produce a skilled efficient labour workforce.
      - In November 2021, **Flipkart signed an MoU with the Ministry of Rural Development of the Government of India (MoRD)** for their ambitious **Deendayal Antyodaya Yojana - National Rural Livelihood Mission (DAY-NRLM)** programme to **empower local businesses** and **Self-Help Groups (SHGs)** by **bringing them into the e-commerce fold**.
    - With **proper utilisation of machinery**, production cost per unit can be reduced that will in result boost the purchasing power of consumers.

### ***Drishti Mains Question***

Growth in the Fast-Moving Consumer Goods (FMCG) Sector in India is being fuelled by improving scenarios in both demand as well as supply side. Discuss the driving factors responsible for its growth.