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.

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*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.