



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.