The Great Indian Bazaar

The India Brand Equity Foundation collates, publishes and disseminates well-researched and comprehensive information on the Indian economy and industry. We present here a feature from the IBEF publication *Fast Moving Consumer Goods* which profiles the opportunities in the $13.1 billion market, prepared by Crisil

The Indian FMCG sector is the fourth largest sector in the economy with a total market size in excess of $13.1 billion. It has a strong MNC presence and is characterised by a well established distribution network, intense competition between the organised and unorganised segments and low operational cost. Availability of key raw materials, cheaper labour costs and presence across the entire value chain gives India a competitive advantage. The FMCG market is set to treble from $11.6 billion in 2003 to $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 $28 billion of investment in the food-processing industry.

POLICY

India has enacted policies aimed at attaining international competitiveness through lifting of the quantitative restrictions, reduced excise duties, automatic foreign investment and food laws resulting in an environment that fosters growth. Cent per cent export oriented units can be set up by government approval and use of foreign brand names is now freely permitted.

Automatic investment approval (including foreign technology agreements within specified norms), up to 100 per cent foreign equity or 100 per cent for NRI and Overseas Corporate Bodies (OCBs) investment, is allowed for most of the food processing sector except malted food, alcoholic beverages and those reserved for small scale industries (SSI). 24 per cent foreign equity is permitted in the small-scale sector. Temporary approvals for imports for test marketing can also be obtained from the Director General of Foreign Trade. The evolution of a more liberal FDI policy environment in India is clearly supported by the successful operation of some of the global majors like PepsiCo in India.

The Indian government has abolished licensing for almost all food and agro-processing industries except for some items like alcohol, cane sugar, hydrogenated animal fats and oils etc., and items reserved for the exclusive manufacture in the SSI sector. Quantitative restrictions were removed in 2001 and Union Budget 2004-05 further identified 85 items that would be taken out of the reserved list. This has resulted in a boom in the FMCG market through market expansion and greater product opportunities.

RURAL MARKETS: SMALL IS BEAUTIFUL

By the early nineties FMCG marketers had figured out two things:

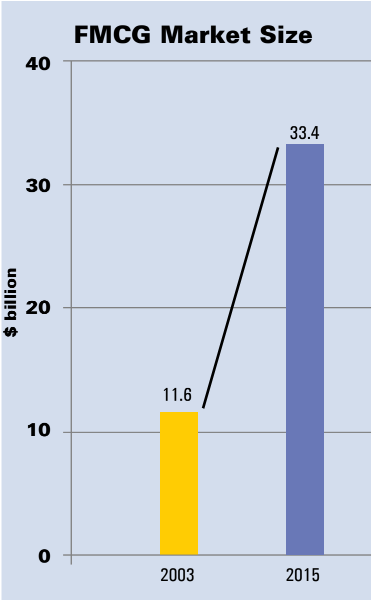
- Rural markets are vital for survival since the urban markets were getting saturated.
- Rural markets are extremely price-sensitive.

Thus, a number of companies followed the strategy of launching a wide range of package sizes and prices to suit the purchasing preferences of India's varied consumer segments. Hindustan Lever, a subsidiary of Unilever, coined the term nano-marketing in the early nineties, when it introduced its products in small sachets. Small sachets were introduced in almost all the FMCG segments from oil, shampoo, and detergents to beverages.

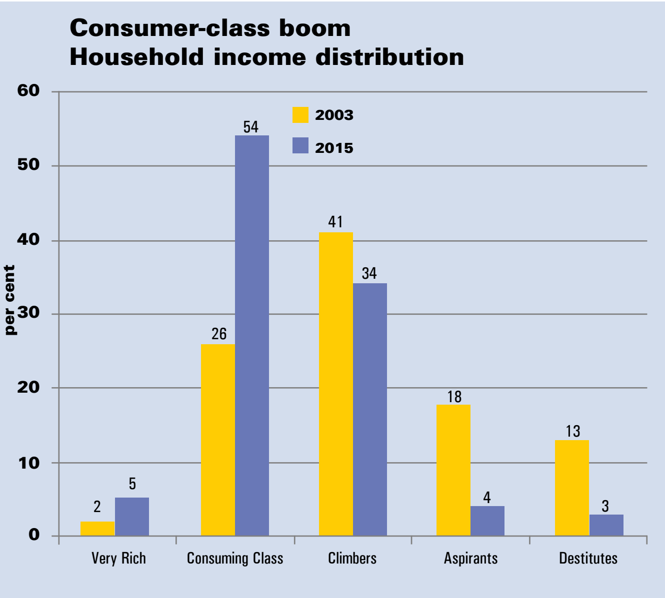
Cola major, Coke, brought down the average price of its products from around twenty cents to ten cents, bridging the gap between soft drinks and other local options like tea, butter milk or lemon juice. It also doubled the number of outlets in rural areas from 80,000 during 2001 to 160,000 the next year, almost doubling its market penetration from 13 per cent to 25 per cent. This along with greater marketing, led to the rural market accounting for 80 per cent of new Coke drinkers and 30 per cent of its total volumes.

CENTRAL AND STATE INITIATIVES

Various states governments like Himachal Pradesh, Uttaranchal and Jammu & Kashmir have encouraged companies to set up manufacturing facilities in their regions through a package of fiscal incentives. Jammu and Kashmir offers incentives such as allotment of land at concessional rates, 100 per cent subsidy on project reports and 30 per cent capital investment subsidy on fixed capital investment upto $63,000. The Himachal Pradesh government offers sales tax and power concessions, capital subsidies and other incentives for setting up a plant in its tax free zones



Source: HH Panel Data



Source: HLL, NCAER

TRENDS AND PLAYERS

The Indian FMCG sector is the fourth largest sector in the economy and creates employment for three million people in downstream activities. Within the FMCG sector, the Indian food processing industry represented 6.3 per cent of GDP and accounted for 13 per cent of the country's exports in 2003-04. A distinct feature of the FMCG industry is the presence of most global players through their subsidiaries (HLL, P&G, Nestle), which ensures

new product launches in the Indian market from the parent's portfolio.

Demand for FMCG products is set to boom by almost 60 per cent by 2007 and more than 100 per cent by 2015. This will be driven by the rise in share of middle class from 67 per cent in 2003 to 88 per cent in 2015.

The boom in various consumer categories, further, indicates a latent demand for various product segments. For example, the upper end of very rich and a part of the consuming class indicate a small but rapidly growing segment for branded products.

The middle segment, on the other hand, indicates a large market for the mass end products.The BRICs report indicates that India's per capita disposable income, currently at $556 per annum, will rise to $1150 by 2015 - another FMCG demand driver. Spurt in the industrial and services sector growth is also likely to boost the urban consumption demand.

HOUSEHOLD CARE

The size of the fabric wash market is estimated to be $1 billion, household cleaners to be $239 million and the production of synthetic detergents at 2.6 million tonnes. The demand for detergents has been growing at an annual growth rate of 10 to 11 per cent during the past five years. The urban market prefers washing powder and detergents to bars. The regional and small un-organised players account for a major share of the total volume of the detergent market.

PERSONAL CARE

The size of the personal wash products is estimated at $989 million; hair care products at $831 million and oral care products at $537 million. While the overall personal wash market is growing at one per cent, the premium and middle-end soaps are growing at 10 per cent. The leading players in this market are HLL, Nirma, Godrej Soaps and Reckitt & Colman. The oral care market, especially toothpastes, remains under penetrated in India (with penetration level below 45 per cent). The industry is very competitive both for organised and smaller regional players.

The Indian skin care and cosmetics market is valued at $274 million and dominated by HLL, Colgate Palmolive, Gillette India and Godrej Soaps. The coconut oil market accounts for 72 per cent share in the hair oil market. In the branded coconut hair oil market, Marico (with Parachute) and Dabur are the leading players. The market for branded coconut oil is valued at approximately $174 million.

FOOD AND BEVERAGES

The size of the Indian food processing industry is around $ 65.6 billion, including $20.6 billion of value added products. Of this, the health beverage industry is valued at $230 million; bread and biscuits at $1.7 billion; chocolates at $73 million and ice creams at $188 million.

The size of the semi-processed/ready-to-eat food segment is over $1.1 billion. Large biscuits & confectionery units, soya processing units and starch/glucose/sorbitol producing units have also come up, catering to domestic and international markets.

The three largest consumed categories of packaged foods are packed tea, biscuits and soft drinks.

The Indian beverage industry faces over supply in segments like coffee and tea. However, more than half of this is available in unpacked or loose form. Indian hot beverage market is a tea dominant market. Consumers in different parts of the country have heterogeneous tastes. Dust tea is popular in southern India, while loose tea in preferred in western India. The urban-rural split of the tea market was 51:49 in 2000. Coffee is consumed largely in the southern states. The size of the total packaged coffee market is 19,600 tonnes or $87 million. The total soft drink (carbonated beverages and juices) market is estimated at 284 million crates a year or $1 billion. The market is highly seasonal in nature with consumption varying from 25 million crates per month during peak season to 15 million during offseason. The market is predominantly urban with 25 per cent contribution from rural areas. Coca cola and Pepsi dominate the Indian soft drinks market.

Mineral water market in India is a 65 million crates ($50 million) industry. On an average, the monthly consumption is estimated at 4.9 million crates, which increases to 5.2 million during peak season.