

The fmcg sector is currently economics essay



**ASSIGN
BUSTER**

India has a huge untapped market in the rural areas as well which accounts for more than 700 Million consumers i. e. 40 of the total FMCG market. This market provides a huge opportunity for the FMCG sector because of its large market space and low levels of organized player penetration.

7) The FMCG sector has a strong future and will continue to see growth because it depends heavily on an ever-increasing internal market for consumption, and demand for these goods is more or less inelastic irrespective of recession or inflation. Thus, this sector will grow, though it may not be a smooth growth path, due to the present world-wide economic slowdown, rising inflation and fall of the rupee. However, this sector will see strong growth in the long run.

8) Unlike the developed countries where the FMCG sector is dominated by only a few players India's FMCG sector is highly fragmented with both Organized and unorganized players playing an important role. The government's proposal of allowing 51% FDI in multi brand retail may impact the future of the retail sector to some extent though the impact is expected to be highly positive.

Threat of new entrants: Moderate

- Low regulatory barriers

- Intense competition requires

heavy investments in brand building which discourages small players

Threat of substitutes: High

- Multiple brands positioned with narrow product differentiation

- Companies trying to gain market share compete on pricing which increases product substitution

Rivalry among competitors: High

- Entry of MNCs into the country

- Use of extremely aggressive marketing strategies

Bargaining power of consumers: Low

- High brand loyalty for some products, discourages product shifting

- Low switching costs

- Aggressive marketing induce customers to switch between products

MICHAEL PORTERS 5 FORCE MODEL

Bargaining power of supplier: Moderate

- Prices are governed by International commodity markets, making FMCG co's price takers

- Due to the long term relationships with suppliers etc., FMCG companies

negotiate better rates during times of

high input cost inflation

The above graph is based on the analysis of the sales and profitability of approximately 100 listed FMCG companies across foreign MNCs and large and small Indian players. As can be seen from the graph the average CAGR of the FMCG sector rose from 8% (2001-05) to 17% (2006-10). There has been a drastic increase in the CAGR in the case of foreign MNC's which shows the variety of choices available to the consumers

Economy Impact:

Favorable economic factors like GDP growth coupled with a rise in incomes, increased participation of women in the workforce and the tapping of rural markets have led to a spurt in the growth rate of the FMCG sector in the past decade.

The Indian economy is expected to overtake UK in the coming decade, with GDP growth ranging between 8-10 per cent.

India is expected to reach China's current population figure of 1.4 billion by 2020.

Per capita incomes supported by various government schemes and policies are expected to rise in both rural and urban areas (The UPA govt cash transfer scheme for the poor people, expectations of economic recovery bring with it the hope of increased salaries and more employment

opportunities all of which will lead to increase in the per capita income of the country that will have a direct impact on the FMCG sector)

Participation of women in the Indian workforce is also likely to rise. Estimates suggest that if it increases to approximately 70 percent (as in the developed nations), it will further boost GDP growth by 2-3 per cent.

Favorable government policies such as the introduction of GST can be expected to substantially decrease supply chain costs.

FDI in multi-brand retail up to 51% will open up a large channel for sales. Other policy measures such as lower income taxes, the Food Security Act, Right to Education, infrastructure schemes etc have also acted as enablers of higher consumption.

Evolving Consumer Profile: India has a comparatively younger population compared to most other countries of the world, who have greater willingness to spend on better quality products which is expected to boost the consumption-driven economy. Young population (below age of 30 years) comprise 59 per cent population currently, and the composition is likely to remain similar over the next decade.

Rural markets, given the current low penetration and high untapped potential are expected to bring about super-normal growth for FMCG companies.

All these factors will combine to catapult consumer demand for FMCGs to newer heights.

Interest rates and inflation and its impact on the FMCG sector:

Given the current economic scenario and the average inflation rates at 9.09% in India (2012) it has taken a toll on the FMCG sector.

High prices have led to reduced consumption of FMCG goods leading to fall in demand which has led to lower sales for the companies and affected their profit margins. Also, as a result of inflation prices of raw materials have shot up leading to a spurt in the cost of production for companies which has again had a negative impact on the profit margins. The central bank's decision of cut in interest rates has made it easier for the companies to borrow money in the capital markets to further their plans of expansion and diversification but it has not led to any major increase in consumer spending.

Major players in the FMCG industry:

- 1) Foreign Players: Hindustan Unilever Ltd., ITC, Nestle, Reckitt Benckiser, Cadbury, Procter & Gamble, Godfrey, Phillips, Henkel, Spic, Johnson & Johnson, Revlon, PepsiCo
- 2) Indian Players: Marico, Dabur, Godrej, Wipro, Amul, Nirma, Britannia
- 3) Regional or small domestic players: Ajanta, Anchor, CavinKare etc

SWOT Analysis of the FMCG sector:

STRENGTHS:

- 1) Favourable government policies in terms of reduced level of taxes, fewer import restrictions on raw materials and technology and reduced barriers of entry of foreign players
- 2) Low operational costs as labour costs in India are very less
- 3) Existing and well established brands in the FMCG sector
- 4) Good supply chain and distribution networks in both urban and rural markets
- 5) FDI of 51% in multi brand retail will redefine the entire retail sector with new entrants, improvements in supply chain and distribution networks
- 6) Demand for FMCG products is mostly inelastic

WEAKNESS:

- 1) Counterfeit products: This is a major problem that is hampering the growth of the FMCG industry. Counterfeit products account for an estimated 10-15% of the total size of the FMCG industry which resulted in a loss of INR 45 billion to the exchequer.
- 2) The scope of investing in technology is less and it is difficult for companies to achieve economies of scale particularly the small sector ones.

OPPORTUNITY:

- 1) The rural Indian market presents a huge opportunity for the FMCG sector as still most of it is untapped and yet to be explored

- 2) Slow and steady rise in per capita income of the Indian population would lead to increase in demand for FMCG products
- 3) Burgeoning middle class with a lot of potential to spend large amounts of their income on FMCG products
- 4) India has a huge domestic market with close to 1 billion population
- 5) Tremendous export potential

THREAT:

- 1) Increasing rate of inflation which is likely to raise the cost of raw materials thereby increasing cost of production and putting stress on overall industry profits
- 2) Rise in fuel prices may further lead to increase in distribution costs
- 3) Declining value of the rupee against other currencies of the world may further reduce margins as cost of importing raw materials will rise
- 4) Dipping industrial growth and slowing global economy may lead to fall in demand for FMCG products

Future of the FMCG sector in India (2020)

As per recent estimates the FMCG industry may grow at a base rate of at least 12 per cent annually to become INR 4000 billion industry in 2020.

However, if the economic conditions turn out to be favourable and everything goes as expected the sector may even record a 17 per cent growth over the next decade, leading to an overall industry size of INR 6200

billion by 2020. This however depends solely on the future economic scenario.

Modern trade is expected to grow very rapidly in the future with its share in total retail projected to reach 11 per cent by 2014 and 30 per cent by 2020. This growth will be supported by:

- High economic growth: GDP is expected to grow at 8-10 per cent in the future, boosting growth in all sectors.
- Increasing incomes: Incomes are expected to continue to rise which should further drive spending.
- Increasing urbanization: Organized retail will continue to increase presence in Tier 1 and Tier 2 cities, which are growing faster than metros.
- Improving infrastructure: The government is also focusing a lot on infrastructure development which is expected to improve the supply chain and distribution networks.

Key to EDUCORPORATEBRIDGE investment rankings: BUY = Expected to outperform the local market by > 10%; O-PF = Expected to outperform the local market by 0-10%; U-PF = Expected to underperform the local market by 0-10%; SELL = Expected to underperform the local market by > 10%.

Performance is defined as 12-month total return (including dividends).

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Other disclosures will come

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