

A Study On Indian Fmcg Sector In The Light Of Changing Consumer Behaviour And Marketing Strategies

Abstract

Probably the most challenging task in marketing is to understand consumer behaviour. This paper briefly describes about the present Indian FMCG market scenario, various changes occurred in consumer behaviour as well as marketing practices in India. It explains the challenges a marketer faces while dealing with rural as well as urban consumer. It tries to throw some light on how Indian consumers undergone a major transformation over last few years, growth prospects, advantages, market opportunities, sectoral opportunities etc. The paper highlights on some positive and negative aspects of FMCG sector on the basis of SWOT analysis and different factors responsible for the significant growth and success of this sector.

Ratidev Samal
Regional College of Management
Bhubaneswar

Introduction

Consumer behaviour is the study of when, why, how, and where people do or do not buy products. It blends elements from psychology, sociology, social anthropology and economics. In consumer behaviour the consumer playing the three distinct roles of users, payer and buyer. Today Indian market is one of the most promising in the world the factors being rising incomes, multiple income households, exposure to international lifestyles and media, easier financial credit and are enhancing aspirations and consumption. In this fast changing times, it becomes imperative for companies reaching out to the Indian market, to catch the pulse of the Indian consumer. What does the Indian consumer's shopping basket consist of? What are they buying? How they paying for their purchases? How far they are willing to travel to get one-stop shopping options? Are they enough discount driven to wait for promotions or markdowns? Also, how different is one consumer from the other situated at two separate corner of the country? Consumers do not make their decisions in a vacuum, their purchases are highly influenced by cultural social, personal, and psychological factors which are generally uncontrollable by the marketer but must be taken into account. Most successful companies have adopted the basic philosophy of the marketing concept: "satisfy your consumer needs and wants to make profits". To do so, one must



Srusti Management Review
Vol.- IV, Issue-III, April-2011
pp. 77-84
ISSN 0974 - 4274

understand his customer, and his attitude should be reflected by the whole organisational set up of the company. A good marketing strategy should be centered on the key concept that customer satisfaction is the main goal.

Fmcg Market Scenario In India

Day by day Indian economy and marketplace are undergoing rapid changes and transformation due to a large number of factors like globalization, technological change and internal competition. Indian Economy is among one of the fastest growing economy in the World. Fast moving consumer goods (FMCG) are popularly named as consumer packaged goods. Items in this category include all consumables (other than groceries/pulses) people buy at regular intervals. The most common in the list are toilet soaps, detergents, shampoos, toothpaste, shaving products, shoe polish, packaged foodstuff, and household accessories and extends to certain electronic goods. These items are meant for daily or frequent consumption and have a high return. A major portion of the monthly budget of each household is reserved for FMCG products. The volume of money circulated in the economy against FMCG products is very high, as the number of products the consumer use is very high. FMCG companies maintain intense distribution network. Companies spend a large portion of their budget on maintaining distribution networks. A recent phenomenon in the sector was entry of multinationals and cheaper imports. The market is more pressurized with presence of local players in rural areas and state brands. The Indian FMCG sector with a market size of US\$13.1 billion is the fourth largest sector in the economy. The FMCG producers now realize that there is lot of opportunity for them to enter into the rural market. The sector is excited about the rural population whose incomes are rising and the lifestyles are changing. There are as many middle income households in the rural areas as there are in the urban. Thus the rural marketing has been growing steadily over the years and is now bigger than the urban market for FMCGs. Globally, the FMCG sector has been successful in selling products to the lower and middle income groups and the same is true in India. Many companies including MNCs and regional players started developing marketing strategies to lure the untapped market.

Industry Snapshot

FMCG sector is one of the most important sectors for any economy. It plays a vital role which touches every life in many aspects. India's FMCG sector is the fourth largest sector in the economy and creates employment for more than three million people in downstream activities. Its principal constituents are household care, personal care and food & beverages. The total FMCG market is in excess of INR 85,000 Corers. It is currently growing at double digit growth rate and is expected to maintain a high growth rate. The FMCG Industry remained insulated from slowdown. There is a huge growth potential for all the FMCG companies as the per capita consumption of almost all products in the country is amongst the lowest in the world. According to Credit rating information services of India limited (CRISIL) anticipation, FMCG sector could touch around INR 140,000 crores by 2015. The key players in FMCG industry are Hindustan Unilever Limited, Dabur India Limited, Procter & Gamble Hygiene & Health Care Limited, Nirma Limited, Emami Limited, Colgate Palmolive India Limited, Godrej Consumer Products Limited etc.

Growth Prospect

Large Market

According to preliminary report India has a population of more than 1.21 billions which is just behind China. According to the estimates, by 2030 India population will be around 1.450 billion and will surpass China to become the world largest in terms of population. FMCG industry which is directly related to the population is expected to maintain a robust growth rate.

Source : UN Population Division: Medium variant

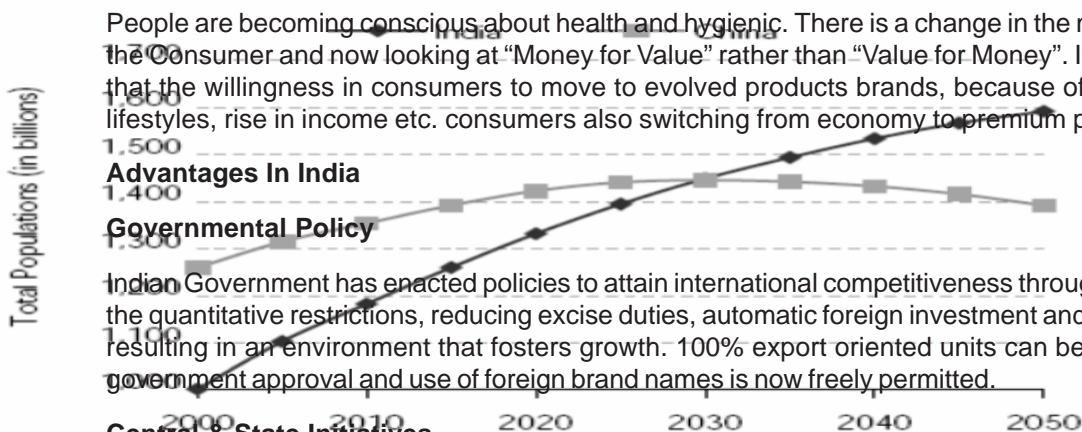
Spending Pattern

An increase in spending pattern has been witnessed in Indian FMCG market. There is an upward trend in urban as well as rural market and also an increase in spending in organized retail sector. An increase in disposable income, of household mainly because of increase in nuclear family where both the husband and wife are earning, has leads to growth rate in FMCG goods.

Changing Profile and Mind Set of Consumer

People are becoming conscious about health and hygienic. There is a change in the mind set of the consumer and now looking at “Money for Value” rather than “Value for Money”. It has seen that the willingness in consumers to move to evolved products brands, because of changing lifestyles, rise in income etc. consumers also switching from economy to premium product.

India overtakes China in 2030



Advantages In India

Governmental Policy

Indian Government has enacted policies to attain international competitiveness through lifting of the quantitative restrictions, reducing excise duties, automatic foreign investment and food laws resulting in an environment that fosters growth. 100% export oriented units can be set up by government approval and use of foreign brand names is now freely permitted.

Central & State Initiatives

In recent past government has announced a cut of 4% in excise duty to fight with the slowdown of the economy. This announcement has a positive impact on the industry. Besides this there are many supportive schemes laid down in agriculture based product by state as well as central government. Much care is given to organizations who want to market their product globally.

Foreign Direct Investment (FDI)

Automatic investment approval up to 100% foreign equity or 100% 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). There is a continuous growth in net FDI inflow. There is an increase of about 150% in net inflow for vegetable oils and vanaspati for the year 2008.

Market Opportunities

Vast Rural Market

Rural India accounts for more than 700 million consumers, or 70% of the Indian population and accounts for 50% of the total FMCG market. The working rural population is approximately 400 millions and an average citizen in rural India has less than half of the purchasing power as compared to his urban counterpart, still there is an untapped market and most of the FMCG Companies are taking different steps to capture that market share. The market for FMCG products in rural India is estimated 52% and is projected to touch 60% within a year. Hindustan Unilever Ltd is the largest player in the industry and has the widest market coverage.

Export “Leveraging the Cost Advantage”

Cheap labor and quality product & services have helped India to represent as a cost advantage over other countries. Even the government has offered zero import duty on capital goods and raw material for 100% export oriented units. Multinational companies outsource its product requirements from its Indian company to have a cost advantage.

Sectoral Opportunities

Dairy Based Products

India is the largest milk producer in the world, yet only around 15% of the milk is processed. The organized liquid milk business is in its infancy and also has large long term growth potential.

Packaged Food

Only about 10-12% of output is processed and consumed in packaged form, thus highlighting the huge potential for expansion of this industry.

Oral Care

The oral care industry, especially toothpastes, remains under penetrated in India with penetration rates around 50%. With rise in per capita incomes and awareness of oral hygiene, the growth potential is huge. Lower price and smaller packs are also likely to drive potential up trading.

Beverages

Indian tea market is dominated by unorganized players. More than 50% of the market share is captured by unorganized players. So obviously there are huge opportunities to build a brand and capturing the market.

Rural Vs Urban Consumers Challenges

The biggest mistake a FMCG company can make while entering the rural India is to treat it as an extension to the existing urban market. But there is a vast difference in the lifestyles of the rural

and urban consumers. The rural Indian consumer is economically, socially, and psychographically different from his urban consumers. On top of this there has hardly been any research into the consumer behavior of the rural areas, whereas there is considerable amount of data on the urban consumers regarding things like who is the influencer, who is the buyer, how do they go and buy, how much money do they spend on their purchases, etc. On the rural front the efforts have started recently and will take time to come out with substantial results. So the primary challenge is to understand the buyer and his behavior. Even greater challenge lies in terms of the vast differences in the rural areas which severely limits the marketer's ability to segment, target and position his offerings. Also with agriculture being the main business of rural sector the purchasing power of rural consumer is highly unpredictable which can lead to high variations in demand patterns. Rural consumer's brand choices are greatly restricted and this is where the retailer comes into the picture. The rural customer generally goes to the same retailer to buy goods. Naturally there's a very strong bonding in terms of trust between the two. Also with the low education levels of rural sector the rural buying behavior is such that the consumer doesn't ask for the things explicitly by brand but like "laal wala sabun dena" or "paanch rupee waali chai dena". Now in such a scenario the brand becomes subservient to the retailer and he pushes whatever brand fetches him the greatest returns. Thus, as there is a need to understand the rural consumer, similarly need is there to study the retailer as he is a chief influencer in the buying decision.

SWOT Analysis of FMCG Sector

Strengths

- Presence of established distribution networks in both urban and rural areas
- Low operational costs
- Presence of well known brands in FMCG sector
- Availability of raw materials

Weaknesses:

- "Me-too" products which illegally mimic the labels and brands of the established brands lower scope of investing in technology and achieving economies of scale, especially in small sectors.

- Low exports levels

Opportunities:

- Large domestic market over a billion populations
- Untapped rural market
- Rising income levels, i.e. increase in purchasing power of consumers
- Export potential and tax and duty benefits for setting exports units
- High spending on consumer goods

Threats

- Tax and regulatory structure
- Removal of import restrictions resulting in replacing of domestic brands
- Slowdown in rural demand due to low monsoon
- Temporary slowdown in economy can have an impact on FMCG industry Company Prospects

Hindustan Unilever Limited

Unilever is lowering its expenditure on packaging across its portfolio of food brands as part of a wider cost cutting drive. HUL has pared down the colour palette used for printing across many products. The system has been used to reduce printed packaging costs for Unilever products. It is also eco friendly because it reduces waste in the printing process. HUL is taking different steps to reduce the cost and increase the margin. Net profit of HUL rose a mere 4% to Rs 394.99 crore on net sales increasing a modest 5% to Rs 4035.37 crore in the quarter ended March 2009 over the quarter ended March 2008.

Procter & Gamble Hygiene & Health Care Limited (P&G)

The company has 21 product categories out of which only 8 product have presence in India. The company is planning to launch the rest 13 product in India. The company expects to see a growth in other categories. The company has an aggressive plan to set up 20 new factories across the World out of which 19 is expected to come in emerging markets and most of them would be seen in Brazil, Russia, India, and China (BRIC) nations. Procter & Gambles net profit grew 27% for the third quarter ended March 31, 2009, to Rs 34.8 crore, from Rs 27.37 in the corresponding quarter of the last financial year. Revenue grew 20% to Rs 177.8 crore from Rs 148.23 crore. Feminine hygiene business posted 25% growth in sales to Rs 108.2 crore, compared with Rs 86.9 crore in the same period a year ago. Whisper which is one of the company's power brands has recorded 50% market share in urban India.

Godrej Consumer Products Limited (Godrej)

Net profit of GCPL rose 51% to Rs 56.10 crore and net sales 29% to Rs 275.50 crore in the quarter ended March 2009. The company benefited from rise in operating profit by 18% rise and other income 50% to Rs 4.31 crore. GCPL's domestic sales of soap increased 46% to Rs 182.1 crore and hair colorant sales 20% to Rs 69.3 crore. Toiletries sales were Rs 14.6 crore and liquid detergents sales Rs 5.5 crore.

ITC Ltd.

Net profit of ITC rose 10% to Rs 808.99 crore despite net sales falling 3% to Rs 3927.41 crore in the quarter ended March 2009. Lower exports of agri commodities consequent to adverse market conditions affected turnover and provision for depreciation rising 19%, net profit rose to Rs 808.99 crore in the quarter ended March 2009.

Dabur India Limited (Dabur)

Dabur India, one of the oldest FMCG companies, is rapidly emerging as a leading consumer goods manufacturer. Its growth story is pinned by a robust business model, diversified product

portfolio and execution abilities. The company recently acquired 72% in Fem Care Pharma, a leading player in the women skincare product market. This acquisition is expected to be completed by June 2009. Traditionally a company with a dominant presence in North India, making inroads into the southern markets has been one of its recent initiatives. The southern region now contributes 8-10 % to total revenues. The company expects it to increase this to 12% this fiscal. The company net sales have grown at a compounded annual growth rate (CAGR) of 16% over the past five years to Rs 2805.4 crore in FY09. During this period, net profits have grown at a CAGR of 30% to Rs 391.2 crore. Against this, the company dividend payouts have grown at a lower CAGR of 27% during the corresponding period.

Findings

- Consumer behaviour is limited to a specific period of time, products, and individuals or groups so it should be tackled with greater care by adopting developed technology.
- Currently in India, the national economy and marketplace are undergoing rapid changes and transformation. A large number of reasons could be attributed to these changes are globalization, internal competition, technological change which really make the Indian market and global market place cutthroat.
- In the Indian Marketing Scenario, the market success goes to those companies that are best matched to the current environmental imperatives and those companies that can deliver what the people want and can delight the Indian customers.
- In order to win, the companies are coming out with various new and evolving strategies because the Indian market is also changing very fast and to capture the Indian market the multi national companies are using all of their resources. The winner is one who provides value for money.
- The Indian market is no longer a sellers market. A large number of companies have huge idle capacities, as they have wrongly calculated the market size and installed huge capacities. This has further contributed to converting the Indian market into a buyers market.
- The Indian marketing scenario is one of the biggest consumer markets and that is precisely the reason why India has attracted several MNC's. These large multi national companies have realized that to succeed in the Indian market place they need to hire Indian representative who are much more aware of the Indian economic, political, legal and social realities. In the Indian marketing scenario, it is the MADE FOR INDIA marketing strategies that work.

Suggestions and Conclusions

- New entrants who wish to bring their products in the national level need to invest huge sums of money on promoting brands, manufacturing can be outsourced.
- As good marketing has become an increasing vital ingredient for business success and change is the only constant in today's market scenario, marketer must go for the best fitted and separate marketing strategy depending on the situation to win the competition.

-
- Over 70% of sales are made to middle class households today and over 50% of the middle class is in rural India, so the sector should be excited about the rural population whose incomes are rising and which is willing to spend more for an improved lifestyle.
 - To stay in competition companies should plan for different new marketing strategies for changing Indian marketing scenario. While developing the strategies, the marketers need to treat the rural consumer differently from their counterparts in urban because they are economically, socially and psychologically different to each other.
 - In the end it is certain that FMCG companies will have to really gain inroads in the rural markets in order to achieve double digit growth targets in future. There is huge potential and definitely there is a lot of money in rural. The companies entering rural market must plan for strategic reasons and not for tactical gains as rural consumer is still a closed book and it is only through unwavering commitment that the companies can make a dent in the market. Ultimately the winner would be the one with the required resources like time and money and also with the much needed innovative ideas to tap the rural markets.
 - Rural consumers are less brand conscious, they generally go to same retailer for purchasing products, so in this context role of CRM becomes very important to gain market share.

References

Dibb, S., Simkin, L., Pride, W. and Ferrell, O. (2006) *Marketing: Concepts and Strategies*, 5th Edition, Houghton Mifflin

http://en.wikipedia.org/wiki/Consumer_behaviour

http://en.wikipedia.org/wiki/Marketing_strategy

<http://www.indianchild.com/marketing/india-marketing-scenario.htm>

<http://www.management-hub.com/marketing-consumer-behavior.html>

<http://dspace.iimk.ac.in/bitstream/2259/381/1/103-110.pdf>

<http://www.iimahd.ernet.in/publications/data/2004-11-04preeta.pdf>

Indian Express (1st April, 2011)

Palmer, R. (1999) "So Precisely What is Relationship Marketing?" In Proceedings of the 15th Annual IMP

Conference, McLoughlin, D. and Horan, C. (eds) UCD

Webster, F. (1992) "The Changing Role of Marketing in the Corporation", *Journal of Marketing*, Vol. 56,

October, pp.1-17

www.pdfqueen.com

www.hemonline.com