

Challenges for Consumer Goods Sector

Why in news?

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The consumer goods sector needs to rework their strategies to accommodate the changing consumer preferences in India.

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What is their current status?

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- The consumer goods sector is a category of stocks and companies that relate to items purchased by individuals rather than by manufacturers and industries.

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- This sector includes companies involved with food production, packaged goods, clothing, beverages, automobiles and electronics.

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- Despite low investment and less export growth in the economy, consumer-facing companies are the only ones to have managed predictable earnings growth in recent times.

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- This is shown by the Nifty India Consumption index rising up 180% since December 2011, which is higher than the Nifty500's 150% gain.

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- In the last five years, companies in the Nifty Consumption index have grown their sales at an annual rate of 7%, while their operating and net profits have expanded at 12% a year.

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What are the concerns?

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- **Deflation** - Branded consumer goods players have always enjoyed the ability

to raise their retail prices to compensate for rising input costs.

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- Increases in both price and volume of goods have thus contributed to the sales growth of these companies so far.

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- However, consumer companies in India face threats to their pricing power, due to deflationary trends in the economy.

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- CPI inflation has collapsed to 4.8% in the last five years from the peak 10.3% between 2008-2013.

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- Inflation rates determine income growth which has a direct bearing on consumer spending.

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- Hence, the consumer companies have to rely more on their volume growth than on the pricing power.

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- **Regulation** - A new wave of consumer activism resulted in tightening of India's weak consumer protection laws.

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- The anti-profiteering authority under the GST law, which is mandated to ensure that the benefits of GST rate reduction are passed on to consumers.

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- Under the Consumer Protection Bill 2018, a regulator will be appointed to oversee the entire gamut of consumer goods and services, with provisions for product liability claims.

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- These regulatory changes will raise compliance costs for consumer firms and could disrupt established brands and categories.

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- **Rise of big retail** - The organised retail sector in India now faces disruption from e-commerce players like Amazon and Flipkart.

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- Though online retail makes up less than 5% of retail trade in India, e-commerce players have already made significant headway in select products like mobile phones, beauty and electronics.

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- Hence the unquestioned clout of the listed consumer firms in India will possibly come down in the future.

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What should be done?

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- Studies have shown that the current generation prefer customisation over mass production.

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- Their product and brand choices has the potential disrupt the large consumer categories.

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- Hence, the listed consumer firms in India should rework their strategies and get themselves adjust to these shifts.

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Source: Business Line

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