

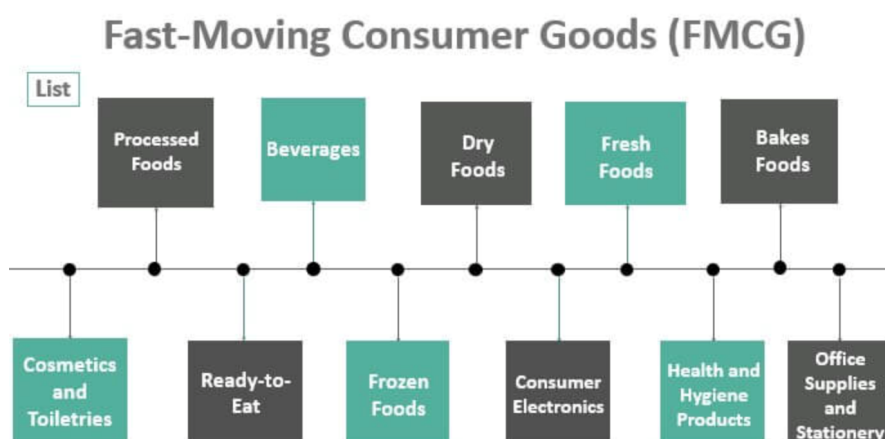
Fast-moving Consumer Goods (FMCG)

Why in news?

Recently, in a surprising turn, FMCG stocks saw an uptick even as the broader market faced a downturn.

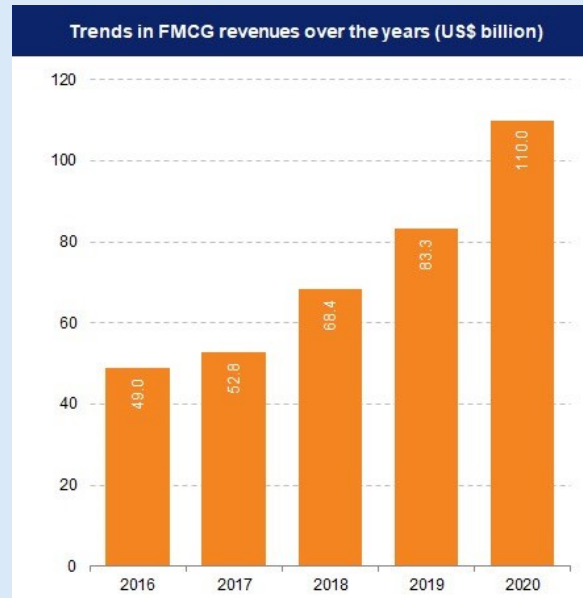
What are the characteristics of FMCGs?

- **FMCG** - They are Fast-moving consumer goods which refers to products *sold quickly at a low costs* and are *typically non-durable*.
 - It includes items such as packaged food, beverages, toiletries, over-the-counter drugs, and other consumables.
- **High demand**- FMCG products are in constant demand due to their essential nature in daily life.
- **Low profit margins**- While individual profit margins are low, the high volume of sales makes up for it.
- **Short shelf life**- Many FMCG items are perishable or have a short shelf life, necessitating quick turnover.
- **High turnover rate**- FMCG products are sold and replaced frequently.



Status of FMCG Sector in India

- It is the *fourth-largest sector* in the Indian economy, valued at \$200 billion
- **Employment** - It provides employment to *around 3 million people* and accounts for approximately *5% of total factory employment* in India.
- **Recent trends** - Its *sales growth (2022-23), grew 7-9% by revenues* with 65% sale in urban areas.
- Packaged food market growth is expected to grow twofold to US\$ 70 billion in the next few years



- **Measures taken** - India have allowed 100% foreign equity in single-brand retail and *51% in multi-brand retail* sectors
- Union government aims to offer USD 1.42 billion investment through Production-Linked Incentive (PLI) scheme.

How FMCGs are marketed?

- **E-Commerce**- It enables the consumers to *purchase FMCG products online*, enjoying the convenience of home delivery and often better pricing.
- They have *expanded the reach* of FMCG products, making them more *accessible to a broader audience*.
 - **For example:** Amazon, Flipkart, and others
- **Q-Commerce**- Quick-commerce refers to *ultra-fast delivery services*, typically *within 10-30 minutes*.
- It focuses on small, high-demand FMCG products like groceries, snacks, and daily essentials.
 - **For example:** Zepto, Swiggy Instamart, Blinkit among others
- **Dark stores**- These are *small warehouses* located strategically within cities to facilitate faster delivery for Q-commerce and e-commerce platforms.
- They are *not open to walk-in customers* but serve as hubs for quick order fulfillment.
- **Phygital retail**- A blend of physical and digital retail experiences, where consumers can shop seamlessly across both channels.
 - **For example**, a customer might try a product in a store but order it online for home delivery.

What are its significances?

- **Economic contribution-** The sector is valued at USD 200 billion, reflecting its importance in the economic landscape.
- **Job creation-** They *employ millions directly and indirectly*, from manufacturing to distribution, contributing significantly to employment across urban and rural areas.
- **Daily essentials-** They are essential for daily living, including food, beverages, personal care, and household products.
- **Widespread distribution-** They have developed extensive distribution networks, reaching even the most remote parts of India.
- **Adopts to consumer trends-** They are key player in adapting to changing consumer behaviors and preferences, such as the shift towards healthier, eco-friendly, and premium products.
- **Resilience-** It is *relatively resilient to economic downturns* as demand for essential goods remains stable, providing a buffer to the economy during difficult times.
- **Rural economy-** They play a crucial role in the rural economy by providing goods, creating jobs, and stimulating demand, *contributing to rural development*.

What are their challenges?

- **Topline growth-** The growth of revenue (topline) for FMCG companies is stagnant.
- **Price pressure-** Consumers are challenging premium pricing, and companies are facing pressure on profit margins.
- **Business model adaptation-** Large FMCG companies are adapting their models to trends, while smaller companies are confused or waiting for market conditions to improve.
- **Shift in consumer preferences** - Consumers are increasingly favoring *small, niche brands* that are perceived as more holistic, green, and healthier.
- Thus, small brands are challenging established FMCG giants.
- **New market entrants-** They are asset-light, leveraging outsourced manufacturing and packaging, and relying on digital distribution channels, reducing costs and increasing flexibility.
- **Logistics challenges-** Disruptions in logistics due to pandemics, geopolitical issues, or natural disasters significantly impact the availability of products and the overall business.
- **Environmental concerns-** There is growing pressure on FMCG companies to adopt sustainable practices, reduce plastic usage, and minimize their carbon footprint.

What lies ahead?

- Offer products *across the economic spectrum*, catering to all classes from poor to super-rich.
- Offer *more health-conscious products*, organic goods, and clean-label offerings as consumers started shifting focus on healthier lifestyle.
- *Adopt a portfolio approach*, offering products that cater to various segments, from value-for-money to premium and ultra-premium.
- Shift towards *localized production and sourcing*, especially for essential goods.
- *Use technologies* such as AI and IoT to optimize supply chain efficiency, predict

demand, and manage inventory more effectively.

- Demonstrate ethical practices, including fair labor practices, responsible sourcing, and contributions to social causes, to maintain consumer trust and brand loyalty.
- *Adopt circular economy models*, focusing on reducing waste, recycling, and reusing materials in their production processes.

References

1. [The New Indian Express | Challenges of FMCG](#)
2. [Invest India | FMCG sector in India](#)
3. [IBEF | Recent Trends in FMCG sector](#)

