

## AN ANALYSIS OF THE INDIAN FAST MOVING CONSUMER GOODS INDUSTRY AND THE OPPORTUNITIES FOR MICRO SMALL AND MEDIUM ENTERPRISES IN FMCG SECTOR

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### ABSTRACT

*Fast-moving consumer items have an impact on a wide range of aspects of human life (FMCG). These are goods that all social groups regularly use and spend a sizable portion of their income on. The industry also contributes significantly to India's economy. Fast-moving consumer goods are those that can be bought easily and frequently. These, in addition to groceries, meet a household's essential needs on a daily basis. This study's goal is to evaluate India's FMCG market from its historical context to the present, taking into account market size, investment, distribution, governmental initiatives, and the prospects for MSMEs within the FMCG sector. The study is based on secondary data.*

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**Keywords:** FMCG, Indian Economy, Market Size, Income, MSMEs.

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### Introduction

Consumer packaged goods (CPGs), often known as fast moving consumer goods (FMCG), that consumers use frequently on a daily basis are non-durable goods. Processed meals, soft drinks, cosmetics, home cleaning goods, etc. are a few examples of FMCG products. These items are often less expensive as compared to more sturdy goods like home appliances, autos, consumer electronics, etc. The FMCG industry makes up the 4<sup>th</sup> largest sector of the Indian economy. According to expectations, India's fast-moving consumer products market will grow from USD 110 billion in 2020 to USD 220 billion by 2025. The personal care and home sector, which accounts for 50% of the industry's total sales, dominates the FMCG market in India.

### Objectives of the Study

- To comprehend the idea of fast moving consumer goods.
- To examine the Indian fast moving consumer products market in relation to the rural and urban markets.
- To know about MSMEs' potential in the FMCG industry.

### Methodology of the Study

Descriptive research design is used for the study. Secondary data were employed in the study through a variety of publications, magazines, reports, newspapers, and websites, secondary data were gathered.

### The Urban Market is Growing

Urban areas account for approximately 60% of the FMCG market in India. Over the past ten years, urban India has made a significant contribution to the expansion of the FMCG sector there. Over the past few years, people's purchasing habits, particularly in urban areas, have shifted away from necessary commodities and toward premium goods. In turn, this triggered a sharp increase in FMCG sales in urban India. Future demand for FMCG products in urban areas will only rise as more and more people relocate from rural areas to cities and towns.

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### **Developing Rural Markets**

While the majority of the FMCG business is concentrated in metropolitan regions, the rural sector is expanding quickly. The fast-moving consumer goods sector in India is growing more quickly in rural areas than in urban ones. Rural areas make up roughly 45% of India's market for fast-moving consumer goods, where more than 65% of the population resides. This represents the mostly untapped market in India's rural areas.

### **Online Market for FMCG**

Statista (2022) Eight billion dollars were projected to be the size of the online FMCG market in the e-commerce industry in 2022. India has one of the world's e-commerce markets with the strongest rate of growth. Online shopping became a more viable substitute for offline FMCG purchases in March 2020, when India declared its first ever statewide lockdown due to the corona virus outbreak. The Indian direct-to-consumer (D2C) an online industry for fast-moving consumer goods (FMCG) was estimated to be worth about six billion dollars in 2020. By 2025, it is expected that the D2C internet market for fast-moving consumer goods will be worth over 21 billion US dollars.

### **Expansion of Online Commerce**

The use of internet sales across several segments has significantly altered the Indian market for fast-moving consumer goods (FMCG) during the past 20 years. In 2021, the value of internet retail sales was around 68 billion USD. The three main industries driving internet sales were healthcare, oral hygiene, and shampoos. However, throughout the lockdown period, there was significant growth, particularly with internet grocery buying. The Indian direct-to-consumer (D2C) online industry for fast-moving consumer goods (FMCG) was estimated to be worth about six billion dollars in 2020. In 2025, the D2C online FMCG market is projected to reach a value of around 21 billion US dollars.

### **FMCG Industry Trends in the Future**

India's dynamic consumer goods market has undergone tremendous shift during the past several years. The online FMCG market's future is interwoven with several concepts. One such suggestion would be to use drones to deliver products to online shoppers; it would significantly affect the industry. Customers are now also choosing to buy greener goods. The fast-moving consumer goods sector is evolving toward employing environmentally friendly or sustainable model practices. FMCG firms including Hindustan Unilever, Dabur, Nestle, and Marico. In order to establish a carbon-neutral corporation within the next two decades, India is seeking to embrace the use of electric mobility delivery technologies.

### **Sectors of the FMCG Industry**

Personal care-products such as toilet paper, sanitary supplies, makeup, deodorants, and skin care are all included in the category of personal care.

- **Domestic/Household Care:** metal polish, furniture polish, floor/toilet cleansers, dish/utensil cleaners, fabric wash, insecticides, and mosquito repellents, laundry soaps and synthetic detergents are examples of domestic or household care.
- **Packaged Food and Beverages:** soft drinks, health drinks, branded juices, staples/cereals, bottled water, snack foods, bakery goods (biscuits, bread, and cakes) chocolates, coffee, ice cream and tea, are just a few examples of the products that fall under this category.

### **Historical Background**

In India, changes like privatization and economic liberalization were put into place. The number of multinational corporations (MNCs) and regional players has significantly increased as a result of the removal of trade barriers & allowing foreign trade into the Indian economy. With the advent of globalization, every sector of the Indian economy saw an evolutionary transition.

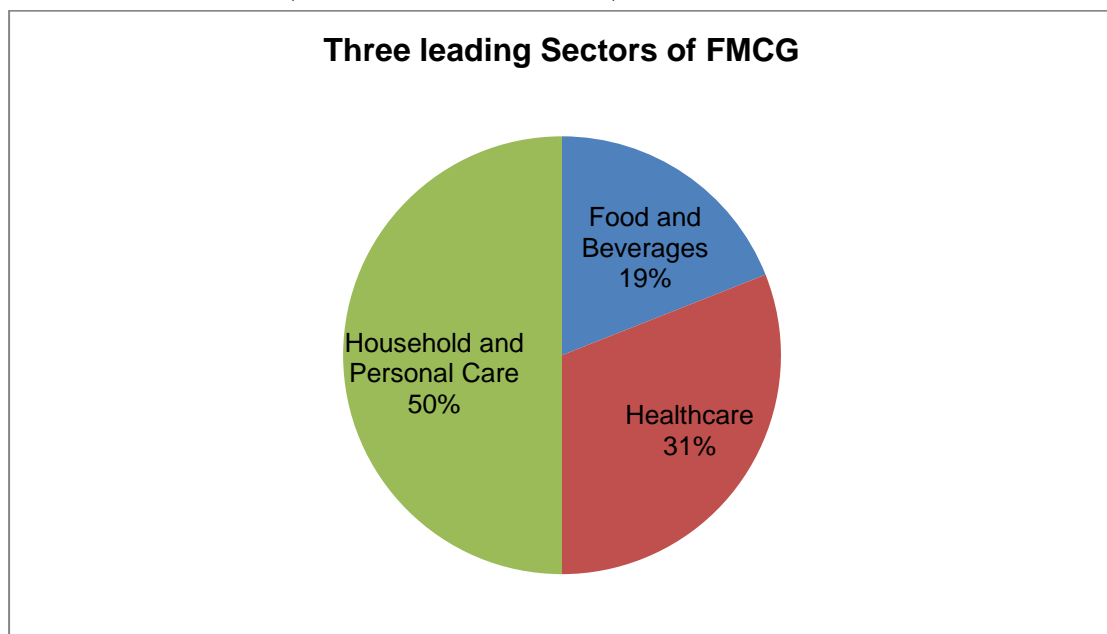
Agriculture, manufacturing, and distribution are all now major sources of raw materials. On a larger scale, it also had an impact on consumer micro-level characteristics like occupation, income, education and demographic profiles. A shift in the way society and culture view people, new beliefs, values, and traditions, as well as new work opportunities and considerably greater exposure. For practically any company, the customer is of the utmost importance having a billion plus people with a wide range of diversity and heterogeneity for a multitude of international and local players who are interested in the enormous untapped potential regions to target a certain group of potential customers and win the majority of the market, marketers are using their own gimmicks.

Nambiar et al. (1999) assumed that trade liberalisation "encourages economic activity and, as a result, raises production and employment" in one of the early studies.

Panagariya (2004) painted a far more optimistic image, asserting that significant policy improvements allowed for higher growth in the 1990s than in the 1980s. The key policy measures credited with accelerating growth include the opening to foreign direct investment, the reduction of industrial licensing, and the liberalization of foreign commerce.

**Analysis & Discussion on Current Scenario**

FMCG's are India's 4th largest economic output sector. The healthcare sector, the household and personal care sector, which together account for 50% of the industry, and the food and beverage segment, which accounts for 31% of the sector's share and contributes for 19% of the sector. The urban sector produced around 45% of the revenue, while the rural sector produced about 55%. The market's main driver will be the rise in rural consumption. By 2025, the processed food market in India is expected to have increased from US\$ 263 billion in 2019–20 to US\$ 470 billion.



**Figure 1**

The Indian FMCG industry increased by 16% in CY21, reaching a nine year high inspite massive lockdowns. Consumer demand and value growth from higher product prices, particularly for needs, were the main drivers of this expansion. During 2015 to 20 the total expenditure climbed at a CAGR of 5.2%. According to Fitch Solutions, the economic effects of the pandemic will drive actual household consumption to rise in the year 2021 by 9.1% YoY after dropping >9.3% in 2020. According to CRISIL Ratings, Profitability in the FMCG sector would increase from 5-6% in FY21 to 10-12% in FY22.

Volume expansion, a pickup in customer preferences for luxury spending, price increases throughout all types of products to counteract the impact of rising raw material costs, and margin expansions are all contributing to the business. In Q3 2021, the domestic FMCG market expanded 12.6% over the same quarter in the previous year.

At a CAGR of 28.99%, the online grocery market in India is projected to generate by 2026, selling more than Rs. 1,310.93 billion (\$17.12 billion). Recently, the government has supported and made good investments in the FMCG sector. From April 2000 to March 2022, the sector saw excellent FDI inflows of \$20.11 billion. The departments of consumer affairs and food and public distribution, respectively, have received money of Rs. 1,725 crore (US\$ 222,19 million) and Rs. 215,960 crore (US\$ 27.82 billion). In order to promote Indian food product names on global markets, the government established the Production Linked Incentive Scheme for Food Processing Industry (PLISFPI) in FY 2021–2022, with a budget of Rs. 10,900 crore (US\$ 1.4 billion).

As of February 2021, 29 of the projects for the Mega Food Park were operational, 15 were in the execution stage, and 2 had obtained preliminary permission. With the pandemic easing out, the FMCG sector's future prospects appear to be on track. Rural consumption has increased as a result of rising incomes and stronger aspirations. Demand for branded items is increasing in rural India. The unorganized market's share of the FMCG business declines, the organised sector is anticipated to expand.

#### **Government Actions**

The government has taken the following notable measures to support the FMCG business in India:

- The Department of Consumer Affairs has received Rupees 1,725 crore (US Dollar 222.19 million) from the Union Budget 2022–23, whereas the Department of Food and Public Distribution has received Rupees 215,960 crore (US Dollar 27.82 billion). The government endorsed the Production Linked Incentive Scheme for Food Processing Industry (PLISFPI), that includes a cost of Rupees 10,900 crore (US Dollar 1.4 billion). Production-linked incentive (PLI) scheme of the government, which has a Dollar 1.42 billion investment, gives companies a considerable opportunity to boost exports. The government has allowed 100% of FDI in the cash and carry sector and 51% of FDI in multi-brand retail. The government has created a new Consumer Protection Bill to make sure that customers receive justice in a way that is easy, quick, accessible, affordable, and timely. The FMCG industry has profited from the Goods and Services Tax (GST), which substituted the prior rate of 23-24% with an 18% rate. This happens because many FMCG products, such as soap, toothpaste, and hair oil, now fall under this rate. Additionally, the GST rates for food and sanitizing supplies have been lowered to 0-5% and 12-18%, respectively. Given that all big companies are expanding their operations into more warehouses and logistics, GST is anticipated to turn FMCG logistics into a modern and effective model.

#### **FMCG Presents Opportunities for MSMEs**

- Despite the variety of products the FMCG sector creates, which include foods, beverages, household, healthcare, and cosmetics items, the sector presents enormous commercial opportunities for MSMEs in India. For small business owners with limited financial means, the food processing sector is the greatest option because it requires a relatively low initial investment. FMCG companies that deal with food can gain from a number of government initiatives, such as the Pradhan Mantri Kisan SAMPADA Yojana and the Production-linked Incentive Scheme. Entrepreneurs can locate their processing plants in one of the government-designated agro-processing clusters.
- In the FMCG industry, opportunities for small and medium-sized businesses are growing as a result of the expansion of online retail. Due to the development of the internet retail and e-commerce, FMCG companies can now market and sell their goods all over the nation without spending a lot of money on promotional activities. Due to India's lower production costs compared to many western nations, Indian MSMEs have a significant export market opportunity.

#### **Limitations of the Study**

The study only uses secondary data; it would be more comprehensive if it also included primary data.

#### **Conclusion**

In accordance with research, urban India has significantly aided the growth of the FMCG industry there. Urban consumers in notably have changed their shopping patterns away from essential goods and more towards luxury items. However, India's fast-moving consumer goods industry is expanding more rapidly in rural than in urban areas. The main factors influencing market expansion in the rural area have been rising awareness, easy accessibility, and shifting preferences. The increase in rural purchasing will be the market's main factor. The FMCG sector is expanding in part thanks to the e-commerce industry. Some of the major growth catalysts for the consumer market are government policies and regulatory frameworks, such as privatization and liberalization policies, easing of license regulations, and the permission of 100% single-brand retail and 51% multi-brand foreign direct investment (FDI). The government's agenda places a high premium on the growth of the micro, small, and medium-sized enterprise (SME) sector. MSMEs have a fantastic chance in the FMCG industry because it needs very little capital and can become well-known with the aid of internet companies without spending a tone on advertising.

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