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A FAVOURABLE COMBINATION OF FACTORS

The coming year brings hope of sales growth for FMCG companies for more than one reason

BY RS AGARWAL

The economic slowdown is far from over. Volatility still exists. Nevertheless, urban demand is looking up and rural demand is expected to follow. In fact, things look brighter for 2016 for more reasons than one.

There is a growing feeling among many stakeholders in the FMCG sector that the dark clouds around sales growth, of the last few years, are clearing. A steady recovery over the next few years, beginning 2016, is expected. It may be a wrong notion at this point of time to expect the sector's growth rate to touch 2010 levels, but the numbers will improve significantly, for sure.

The primary factors expected to drive a spurt in sales are stronger GDP growth and rise in employment. An increase in the rate of availability through distribution expansion is also expected to support sales growth. On top of all these, very recently, the Seventh Pay Commission has recommended an average 23.55 percent hike in salaries and pensions, which could see an additional $15 billion in the hands of consumers, starting 2016. This could give a very good fillip to consumer spending across sectors such as automobiles, consumer durables and non-durables.

A number of steps taken by the government, such as the Jan Dhan Yojana and the direct transfer of subsidies, are also expected to start bearing fruit. The cumulative effect of lower oil and commodity prices are expected to contribute to significant structural changes in the economy. Inflation is under control and purchasing power should build up. Implementation of GST is also expected to have a wide-ranging positive impact.

Income distribution acts as a crucial barometer for FMCG firms in emerging markets by allowing firms to assess when household incomes reach levels at which discretionary spending takes off. As more households move into middle-class income brackets, aspirational consumers switch purchases from basic food items to FMCG items, as well as labour-saving devices such as washing machines and white goods.

Consumer goods companies, particularly FMCG companies, are upbeat as well. Till some years ago, there were FMCG companies that had been struggling in the already saturated urban markets. It was during those times that wiser FMCG companies began to understand that their marketing wisdom often keeps underestimating the importance of affordability in India's rural areas. Rural India is estimated to account for more than 700 million consumers or 70 percent of the Indian population and 50 percent of the total FMCG market. This market has immense potential, enticing FMCG companies to take different steps to capture it. Who can deny that the FMCG sector is a cornerstone of the Indian economy, touching every aspect of human life?

At this point, it is pertinent to mention that unlike most other developed and developing economies where the FMCG market is dominated by a couple of global brands, the FMCG market in India is fragmented with roughly half the market being dominated by unbranded, unpackaged, home-made products. This, in turn, throws up a huge opportunity for marketers of branded products to convert consumers to buy their products. The FMCG sector, which we see today in the country, has been taking shape over the past five decades. And

I think the key to success for an FMCG company in 2016 will be the width of its distribution network and the successful use of that distribution network to tap into consumers using unpackaged unbranded goods.

I have no doubt that companies that have started shifting their focus to rural markets afresh have started tasting success. Simultaneously, along with exploring rural markets, FMCG companies have also started exploring smaller cities across the country. And that certainly is the right move because the real market lies there.

While talking about various facets of the already-changed and still-changing approach and outlook of companies, we must not forget that consumer profiles, tastes, temperaments and aspirations have undergone interesting changes as well. And it's an ongoing process. Consumers are increasingly becoming conscious about health and hygiene. There is also a willingness to move to evolved products and brands because of changing lifestyles, rising disposable incomes and so on. For instance, consumers are switching from economy to premium products, exemplified by a sharp increase in the sales of packaged water and water purifiers. Findings from a recent survey by AC Nielsen show that about 71 percent of Indians take note of the labels of packaged goods containing nutritional information compared to two years ago when only 59 percent of respondents read labels.

The study identified eight factors that play a direct role in influencing FMCG sales. These factors have been classified into two broad categories: Factors that marketers can control and those they cannot. Interestingly, marketers can directly influence more than half of the drivers of sales. Given the Indian FMCG consumer's preference for traditional trade outlets and the challenge for marketers in actually reaching the consumer, it's understandable that availability is the biggest driver of FMCG sales. This is followed by employment rates

AJAY VERMA / REUTERS

The key to success for FMCG companies will be the width of their distribution network and the ability to win consumers of unbranded goods

that generate income, and then proliferation of sachets (low volume packs), which have a low outlay and are easy on the wallet. Sachet packs also play a strong role in recruiting new buyers and in inducing trials.

FMCG growth had been slowing for some time till a couple of years ago, sliding by 8.1 percent between 2010 and 2013. In a clear indication that sales drivers have played a part in this decline, a slowdown was seen in the rate of distribution expansion and the rate of sachet launches during the same period. Admittedly, weakening macroeconomic variables also contributed to the overall FMCG slowdown.

It is true that the last three years have been challenging for India's FMCG industry. Sales had been affected by a weak economy and high inflation. Consumer confidence, which has a strong correlation with FMCG sales, had also dipped in this period. In more recent months, however, confidence is rebounding and the sector appears to be showing signs of a sustained recovery..

If Nielsen's predictions are anything to go by, India's FMCG industry is expected to grow from $37 billion in 2013 to $49 billion in 2016. The industry grew 7 percent in 2014, and is expected to finish 2015 with a growth of 10 percent and grow nearly 12 percent in 2016.

By some other studies, the overall FMCG market in India is expected to grow at a CAGR of 14.7 percent, to touch $110.4 billion by 2020, with the rural FMCG market anticipated to increase at a CAGR of 17.7 percent to reach $100 billion by 2025. Food products form the leading segment, accounting for 43 percent of the overall market. Personal care (22 percent) and fabric care (12 percent) come next in terms of market share.

Distribution growth, innovations around sachet

More households could become middle class in 2016 giving a fillip to sales of devices like washing machines and white goods

confidence score remained intact at 131, said Nielsen.

Following Flipkart's Big Billion Day sale this festive season, brick-and-mortar companies are also stretching out promotional plans by involving loyalty programmes, giving discounts, payments by EMIs and cash-back offers to fight ecommerce festive sales. The extension of ecommerce to small cities in 2016 is expected to have its own impact.

There are more factors than one that support consumers' confidence. The inflation levels are low

INDIA'S FMCG INDUSTRY IS EXPECTED TO GROW TO $49 BILLION IN 2016, FROM $37 BILLION IN 2013, ACCORDING TO A STUDY BY NIELSEN

offerings, employment rates and index of industrial production (IIP) have been, and will continue to be, key influencers of FMCG sales in India. In terms of magnitude, India's FMCG industry is massive. In 2013, 8.4 million outlets served 1.26 billion people and accounted for $37 billion in sales.

At this point, let us take a look at what the latest Nielsen global consumer confidence index suggests. Significantly, India continued to lead the global consumer confidence index in the third quarter of this financial year with 131 points, the same as the previous quarter. It is followed by the United States (119 points), the Philippines (117 points) and Indonesia (116 points). Although more than 54 percent of respondents said India's economy is still in slowdown zone, its consumer

now and there is more money in the hands of the customer, though the income levels have not increased much nor has hiring picked up. The economy has grown and things are better than last year.

Despite subdued rural demand and the vagaries of the monsoon, some FMCG companies find it encouraging to witness an improvement in consumer confidence displayed by the market.

These FMCG companies only hope that the momentum is sustained and the same is reflected in sales in the coming months.

Growing awareness, easier access, changing lifestyles and last, but not the least, government investment leading to private investment, will be the key growth drivers for the consumer market, going forward.

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