

# FMCG (Fast Moving Consumer Goods) An Overview

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## ABSTRACT

The Purpose of this study is to understand the Dynamics of FMCG Industry, to discuss its Distinguishing features and elaborate its Key Success Factors. FMCG are popularly named as Consumer packaged goods. These goods are named as 'Fast Moving' quite simply because these items are those which a consumer buys to accomplish his daily needs. Typical purchasing of these products takes place at grocery stores, super markets, hypermarkets etc. The FMCG Industry is based on the pillars of building powerful brands and achieving a high level of distribution.

**Keywords:** FMCG, Customer, Products, Distribution, Super Markets.

## 1. INTRODUCTION

### 1.1 What is FMCG?

Fast Moving Consumer Goods (FMCGs) are defined as products which are sold quickly at relatively low costs. These are mainly non-durable consumer goods which are required extremely frequently and in some cases almost daily by a consumer. This sector covers a wide range of products such as detergents, toiletries, food products, tooth paste, shampoos, beverages, milk etc.

### 1.2 Some of the Major FMCG Companies in India are:

\*ITC

\*Hindustan Unilver

\*Nestle India

\*Godrej Consumer products Ltd

\*Dabur India Ltd

### 1.3 FMCG products have following characteristics:

1. Individual products are of small value. However all FMCG products put together form a significant part of an individual's monthly budget. For example a consumer biscuits, tooth paste, shampoos, food products etc in a month. Each of these individual items are not very expensive ,however the total cost of all these products account for about 97% of a consumer's monthly budget.
2. A Consumer tends to purchase FMCG products extremely frequently and whenever the products are required by him. The reason for this is that most of the products are perishable and non-durable and hence a consumer buys them as and when the need arises.
3. A consumer does not spend too much time in making his/her decision when it comes to buying a FMCG product.
4. Advertising and suggestions of friends and neighbours usually play a major role for trial of new FMCG products.
5. FMCG products come in wide range and often cater to necessities, comfort and luxury items. Since FMCG products cover such a wide range, they often cater to the entire population. Hence price and income elasticity of demand varies across products and consumer.

At present the FMCG Industry in India is worth US\$13.1 Billion and it is the fourth largest sector in the Indian Economy. This sector generates 5% of the total factory employment in the country and is creating employment of 3 million people, especially in small towns and rural India. Despite all this, the penetration levels as well as per capita consumption in most product categories are very low, indicating the untapped market potential.

## **2. DISTINGUISHING FEATURES OF THE FMCG INDUSTRY**

### **1. Low Capital Intensity**

Most of the product categories that come under the FMCG sector do not require a major investment in plant, machinery and other fixed assets. Since the investment in plants is not very high, it is highly unlikely that there would be any product shortage due to lack of capacity. Also, the business has low working capital intensity as bulk of sales from manufacturing take place on a cash basis.

### **2. High Initial Launch Cost**

Even though the FMCG is a low capital intensive sector, new products requires a large front ended investment in product development, market research, test making and launch. The biggest challenge in launching any FMCG product is creating its awareness amongst consumers. Hence enormous initial expenditure is spent on its advertisements, free samples and product promotions. The launch costs in some cases as as high as 50-100% of the revenue in the first year as compared to a mere 5-12% for the existing brands.

### **3. Technology**

The basic technology for manufacturing is easily available and is also fairly stable. Modifications and changes in technology rarely change the basic process. Despite all this, global FMCG players pay huge amounts on research and development (R&D) due to their ability to spread cost over the wider base of their global operations.

### **4. Marketing Drive**

Marketing of products plays one of the most important roles in the FMCG sector. This is because most FMCG companies have to reach out to the masses and compete with several other players at the same time. Most of these players are offering the same goods or products and hence the perceived differences are greater than the real differences in the market.

### **5. Market Research**

The purchase decision of any consumer is mostly influenced by the consumer's perception about the brand. Other factors such as changing fashions, change in income, change in lifestyle also plays a major role in the purchase decision. However FMCG products are rarely differentiated on technical or functional basis. Hence market research and test marketing becomes inevitable. As a result, due to increasing competition, companies are spending enormous amount of money on product launches.

## **3. SUCCESS FACTORS OF FMCG PRODUCTS**

### **1. Brand Equity**

Brand equity refers to the intangible asset in the form of brand names. The consumer's loyalty for a particular brand is due to the perception that the product has distinctively superior and consistent quality and also satisfies his/her specific needs. Further provides better value for money than other competing brands. In FMCG products, brand equities are relatively stronger as the consumer is reluctant to try unknown brands/unbranded products as most of these products are for personal use. It is often difficult to differentiate a product on technical or functional grounds and therefore little reason to switch from a known brand. A successful brand generates strong cash flows, which enables the owner of the brand to reinvest a part of in it form of aggressive advertisements/promotion to keep up the superiority of the brand. The worth of a brand is manifested in the consumer's insistence on a particular brand or willingness to pay a price premium for the preferred brand.

### **2. Distribution Network**

In FMCG sector, one of the most critical success factors is the ability to build, develop and maintain a robust distribution network. Availability near consumer is vital for wider penetration as most products are low units and are frequently purchased. Distribution network refers to the consumer buying points where products are available (almost always). It takes enormous time and effort to build a chain of stockists, retailers, dealers etc and establish their loyalties. There are entry barriers for a new entrant as a new product is typically slow moving and has lesser consumer demand. Therefore dealers/retailers are reluctant to allocate resources and time. Establishes players use their established network to inhibit new entrants. Thus the distribution factor is the most critical factor which at times even drives the brand equity factor.

### **3. Understanding Consumer Behaviour**

Producing what the consumer wants and customising it as per their needs has now become a critical success factor for the FMCG Industry in today's time where there are several competing brands producing the same product. So to outshine, understanding the Consumer behaviour towards a particular product has become very essential. Companies spend quite a huge amount on this research just to deliver the best to the customers and keep the success for its products going. The behaviour of customers keep changing with time thus regular monitoring of this behaviour is done by companies so as they don't lose out on their existing loyal customers but even gain new potential customers by producing goods as per their needs and requirement

### **4. IMPORTANCE OF SUPER MARKETS IN FMCG INDUSTRY**

Grocery Stores, Super Markets are the face from where the customer actually buys his necessity products. In today's fast moving time customers does not want to spend much time hopping from one shop to another just to buy the basic items, thus with the concept of Super Markets the customer is given with all the choices and all products under one roof which minimises his shopping time and gives variety options at the same time. Some Big names in these markets are: BIG BAZZAR, EASY DAY, RELIANCE FRESH, FOOD BAZZAR, SPENCER'S, SAFAL.

#### **4.1 These Markets have following distinguishing features:**

- High quality, Variety Products under one roof
- FMCG ranging from food, milk products, bakeries, toiletries, stationary etc all are available under one roof
- Special discounts are also offered on selected products on the basis of day, time. For example after 7 pm some stores offer some selective discount on milk and bakery products.
- Big Brands are associated with these super markets which establish confidence in customer's mind easily. For example Reliance fresh is an undertaking of Reliance Industries, Safal shops are opened by Mother Dairy which instantly reflect quality in the products offered by them
- In metro city's like Delhi-Mumbai-Chennai-Kolkata etc these markets have overtaken the small grocery stores
- Customer Care and Staff help is kept as prime concern in supermarkets to deliver best to the customer
- The Retail Market of FMCG products has seen a new breeze with opening of these markets as it fastens the distribution process and delivers products to customers at much faster pace.

### **CONCLUSION**

FMCG products are necessity products which a consumer purchases within a short interval of time. The companies producing these products needs to establish a strong distribution network so as to deliver the products to the customers on time along with building a strong brand equity for its products as competition in this industry is growing at a very fast pace. With Super Markets like Big Bazaar, Easy Day, Reliance Fresh which keep all these necessity products under one roof are giving tough competition to local grocery stores.