

Roadmap for Indian FMCG Industry in the New Milieu

Ms. Solmaz Husain, (Research scholar) School of management, Gautam Buddha University,
Gautam Budh Nagar, Uttar Pradesh, India

Dr. Ombir Singh, (Assistant Professor) School of management, Gautam Buddha University,
Gautam Budh Nagar, Uttar Pradesh, India

Abstract-

A key component of the Indian economy is the FMCG industry. Over the past fifty or so years, the Fast-Moving Consumer Goods (FMCG) industry in India has started to take shape. Every area of human life has been impacted by this industry. The organized sector and the unorganized sector have long separated the Indian FMCG market. The FMCG business in the developed countries is dominated by a small number of multinational companies, but India's sector, which is of Rs. 460 billion, is still quite fragmented, with around half of sales being contributed to unbranded, unpackaged, home-made goods. The fast-moving consumer goods (FMCG) sector is a highly competitive industry, where companies are constantly looking for ways to increase sales and market share. In recent years, digital marketing strategies have emerged as a powerful tool for FMCG companies to reach and engage with consumers. With an exponentially increasing number of people making purchase-related decisions online, the demand to increase sales numbers through digital marketing is at an all-time high. The relevance and advantages of digital marketing for the fast-moving consumer goods or FMCG industry are visible already. A growing number of consumers prefer to shop for FMCG products on digital platforms and from the convenience of their home rather than visit a physical store. This massive behavior shift among consumers has forced an industry, which generated reliable growth using standard marketing techniques for over half a century, to revisit its marketing strategy. A holistic FMCG growth strategy forms the critical element of product sales, compelling customers to buy products in the current market scenario. In this paper an attempt has been made to discuss the various strategies for the growth of FMCG industry in India specially in the era of artificial intelligence, sustainability and governance. Strategies regarding Artificial intelligent, digital India industrial structure and generation Z are elaborately discussed.

Keywords- holistic, fragmented, marketing strategies, artificial intelligence, sustainability, consumerism

Introduction-

Fast-Moving Consumer Goods (FMCG) or Consumer Packaged Goods (CPG) are products that are sold quickly and at relatively low cost. Though the profit margin made on FMCG products is relatively small (more so for retailers than the producers/suppliers), they are generally sold in large quantities; thus, the cumulative profit on such products can be substantial. FMCG is probably the most classic case of low margin and high-volume business. The Indian FMCG sector is the fourth largest sector in the economy with an estimated size of Rs.1, 300 billion. The sector has seen tremendous average annual growth of about 11% per annum over the last decade. In India, the scenario is quite different in comparison to developed nations where the market is dominated by few large players, whereas FMCG market in India is highly competitive and a significant part of the market includes unorganized players selling unbranded and unpackaged products. Approximately 12-13 million retail stores exist across India, the large percentage of which around 9 million are Kirana stores. India FMCG sector comprises of few significant Characteristics like well connected distribution network, high level of competition between the organized and unorganized FMCG players, and low operational cost. In India, FMCG companies have privilege of having easy availability of raw materials, cheaper labor costs and presence across the entire value chain gives India a competitive advantage. (FMCG) industry is vital to the country's economic health. This sector touches every aspect of human life. Indian FMCG market has been divided for a long time between the organized sector and the unorganized sector. Its core segments include household care, personal care, and food and beverages. The industry's substantial growth, particularly in tier II and III cities, can be attributed to improvements in living standards and increased disposable income among residents. India's FMCG industry has been instrumental in driving economic progress, with a focus on household and personal care products. As we enter 2024, the sector is experiencing significant transformations influenced by shifting consumer behaviors, technological advancements, and global trends. The FMCG market in India has demonstrated remarkable expansion, mirroring the

country's evolving socio-economic landscape. According to Statista, the market was valued at \$120 billion in 2022, a threefold increase from 2012. Future projections are even more optimistic, with estimates predicting growth to exceed \$615 billion by 2027.

This impressive growth can be attributed to rising income levels, changing lifestyles, increased awareness, and improved accessibility. The future of India's FMCG industry holds promise, characterized by sustainability, digital innovation, and inclusive growth. As consumer preferences continue to evolve, FMCG companies must remain adaptable, adjusting their strategies to meet the dynamic demands of the market.

Best FMCG products to sell:

FMCG goods include both perishable goods which have relatively low shelf period nonperishable goods which have a relatively high shelf period. It also includes personal care products low-cost electronic gadgets and beverages. Listed below are the FMCG examples.

Perishable Goods

- Milk, butter, curd, and other dairy products
- Bakery products such as cakes and cookies
- Packed foods
- Fruits and vegetables
- Dry fruits like cashews and almonds
- Frozen food products

These goods are generally sold in bakeries, supermarkets, and other retail outlets.

Household items

- It includes cleaning lotions, laundry detergent, paper products, dishwashing detergents, washing powder, floor cleaning detergents, toilet fresheners, and so on.

Personal care products

- They are personal hygiene and grooming products such as soap, shampoo, toothpaste, and cosmetics. These goods are relatively sold in supermarkets, pharmacies, and other retail outlets.

Beverages

- It includes a brewery, soft drinks, bottled water, etc.

Electronic gadgets

- Electronic gadgets which are less expensive but have very high demand in the market such as mobile phones, headsets, batteries, etc.

FMCG Marketing

FMCG is considered “fast-moving” because these goods have a short shelf life: either because of high consumer demand or because the product deteriorates rapidly. This includes categories such as food and beverages, cleaning products, cosmetics, and personal care, as well as over-the-counter drugs. Nearly everyone worldwide uses FMCG products every day. Importantly, they form the largest segment of consumer goods.

For many decades, the FMCG industry has enjoyed considerable success and is seen as an efficient market through mass brands. This success owed much to a widely used five-point value-creation model. FMCG companies did the following:

- They perfected product innovation and mass-market brand building.
- They successfully formed relationships with other mass retailers and grocers that provide access to consumers.
- They penetrated developing markets ahead of time and actively cultivated their categories as consumers became richer.
- They designed their operating models for cost reduction and consistent execution.

- They implemented mergers and acquisitions to consolidate markets and create a basis for organic growth post acquisition.

But the five strategic pillars that fueled the FMCG industry's success have lost considerable steam and now face tremendous pressure as consumer behaviors shift and the channel landscape changes.

Millennial and baby boomers differ fundamentally. So, yesterday's marketing standards make mass brands and mass channels ill-suited to them. Digital-device penetration is revolutionizing how brands learn about and engage with consumers and vice versa.

To survive and win in the coming decades, FMCG companies need to reduce their reliance on offline mass channels, embrace technology-driven trends, and capitalize on millennial preferences and digital marketing to grow quickly. Going forward, they will need to adopt a "now, new, next" approach. Further, FMCG brands will need to treat e-commerce as part of their core business and maximize their success in the e-marketplace.

Trends

The FMCG industry in India has been battling inflation to protect growth and margins in last few years, new trends are emerging on the horizon with the potential to shape the consumer products industry for years to come. FMCG companies need to prepare themselves for the road ahead.

1. Generative AI ushers a new era

Generative AI is a subset of artificial intelligence that helps create new outputs, such as images, text, music, or code, based on the data and patterns the large language models (LLMs) are trained on.

Generative AI can help FMCG brands in several ways including better efficiency, boost in creativity, and effective targeting.

- **Improved efficiency:** FMCG companies can use generative AI to create faster and more accurate content than human writers, saving time and resources.

- **Enhanced creativity:** Generative AI uses large language models trained on vast amounts of data, making the technology highly effective in identifying trends, patterns, and insights, which can inspire new and innovative ideas.
- **Personalization and targeting:** FMCG brands can now create highly personalized and targeted messages, ensuring effective targeting and improve consumer engagement.

Some of the leading FMCG companies utilizing generative AI technology include Unilever, and Nestle, implementing innovative strategies to enhance their products and services. Unilever employs its own generative AI technology. This tool generates product descriptions for retailers' websites and digital commerce platforms, streamlining content creation processes.

On the other hand, Nestle uses generative AI to validate new product ideas and compile comprehensive market research reports. Their proprietary AI platform, fueled by a vast dataset on food consumption, provides insights into popular restaurant items and home cooking preferences, derived from billions of real-life moments.

While the use of Generative AI is still in its early stages in the Indian FMCG industry, it is only a matter of time before it becomes extensively integrated across all areas of their business.

2. Digitalization

While digitization was an ongoing process before the Covid crisis, it has accelerated the digital transformation multifold: the internet user base has gone from 384 million in 2017 to 759 million in 2023 and is projected to rise to 900 million in 2025. In addition, 53% of users access the internet via smartphones, along with a surge in social media usage (448M in 2021, +21% from 2020). More recently, the growth in online users has primarily happened in the rural market: 53% of internet users come from rural India, indicating that rural India continues to drive the growth of the internet in the country. However, online shopping remains “heavily dominated” by the urban market, meaning the rural market is still largely underexploited.

Future indian customers will be connected than ever and will need to be reached digitally



500M

online Indian shoppers in
2030



67%

social media penetration in
2025



65%

of all transactions will be
made digitally in 2026,
compared to 40% today

Source: group M, Statista, kenvic research

Digital advertising is growing at 14.75% CAGR to reach Rs. 35,809 crores by 2023, representing 38% of the total advertising spend in India almost equal to that of TV at 40%. FMCG industry is the biggest contributor to the digital media industry contributing 42% share of the total digital spend. The market is further assessed to grow at a CAGR of 30.3% during 2024-2032.

For FMCG products, which are primarily convenience-based, customers often spend minimal time comparing different brands. Utilizing social media marketing proves advantageous for marketers in influencing customers' purchase decisions within a shorter timeframe. The compact nature of advertisements on social media, in contrast to traditional media, facilitates quicker and more direct consumer engagement, aligning well with the swift decision-making process characteristic of FMCG purchases.

Digital commerce has become an integral part of the customer's decision journey as the consumers formed a habit of buying online during the COVID lockdowns. Digital commerce will further grow with projected increase in digital shoppers to 500 million by 2030, up from 312 million in 2023.

According to a new study conducted by YouGov and ACI Worldwide digital payments continue to be the payment method of choice. The study shows that overall 41 per cent of consumers

choose digital payments as their preferred payment method, ahead of cash (26 per cent) and debit and credit card payments (23 per cent) while this number increases to 50 per cent in the 25-34 age group.

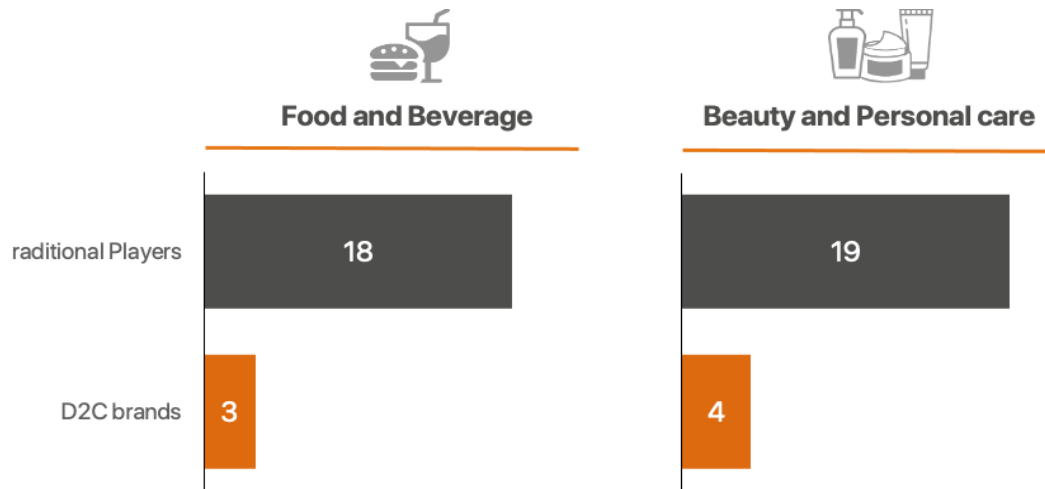
3. Rise of D2C brands

The traditional model of the FMCG industry in India required developing new brands, categories and products based on in-depth consumer research and taking them to market through a fragmented and unorganized distribution network. However, growth in digital technologies, millennial consumers changed behavior and a start-up culture have led to a new type of FMCG company- Direct to Consumer or D2C.

There has been tremendous growth of D2C brands in India. With a valuation of approximately USD 12 billion in 2022, the Indian D2C market is anticipated to surpass USD 60 billion by 2027, fueled by a projected 40% CAGR. they have also built a strong brand connect with their core consumer base to help retain existing customers while making moves to attract new ones. D2C brands have reached INR100 Crore revenue in 3-4 years compared to 18+ years taken by the traditional players.

D2C brands scale rapidly compared to the traditional FMCG player.

Years taken to reach INR 100 crores revenue in India



Source: - kenvic analysis and research, Avendus

The D2C brands have become both a challenge and an opportunity for traditional FMCG companies. While the rapid growth of D2C brands fuelled through new digital capabilities poses a challenge to the existing brands, it also opens up opportunities to acquire these brands, boosting the capabilities of traditional brands, as reflected in the number of acquisitions made in this space.

For example, Marico has built a portfolio of three D2C brands which are now INR 500 Crore business. On the other hand, the D2C brands are now looking to grow beyond their online presence going in direct competition with the traditional FMCG companies.

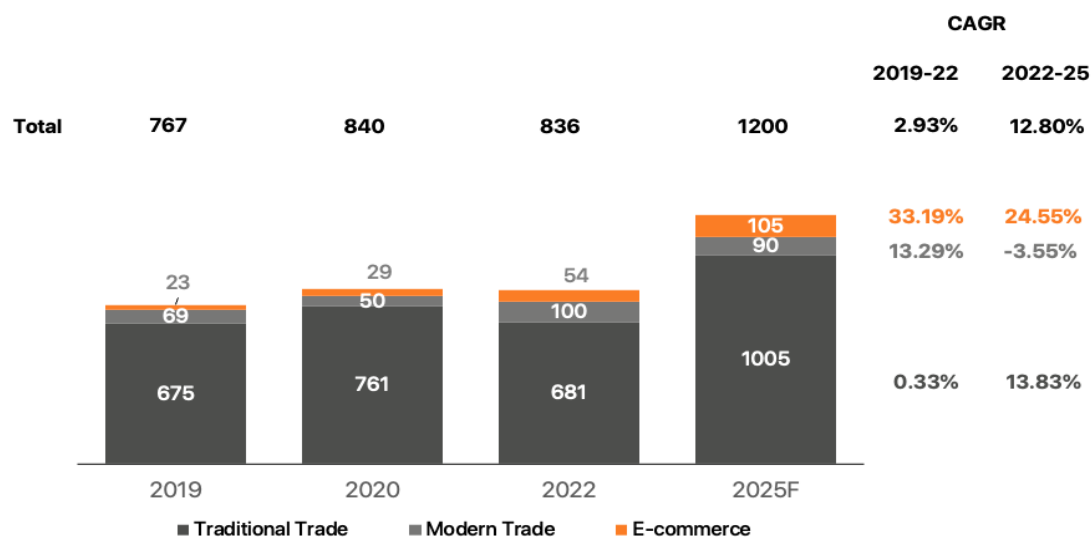
4. E-commerce, the new shopping mall

Three years ago, amid the pandemic, consumer behavior and preferred channels shifted significantly. E-commerce emerged not as a passing trend but a permanent fixture within the FMCG landscape post-covid..The Indian e-commerce market is projected to outpace modern

trade by the fiscal year 2025. Forecasts suggest significant growth, with expectations for the e-commerce market to surge from \$29 billion in FY20 to \$100-105 billion by FY25, while modern trade, currently at \$50 billion, may grow to \$85-90 billion during the same period.

E-commerce channels will reach \$105 billion and surpass the modern trade of by 2025

Market size of retail industry in billion dollars



Source: kenvic analysis and resource

According to a recent Nielsen report, eCommerce is anticipated to represent 11% of FMCG sales by 2030, an eightfold increase from the current level. Significantly, direct ordering and e-commerce platforms have fueled substantial sales growth for FMCG companies, such as Hindustan Unilever and Tata Consumer, where digital sales accounted for a substantial portion of their revenue. Finally, the social commerce channel will see robust growth in the coming years, recording a CAGR of 62.4% during 2022-2028: as the number of internet and social media users' surges. Social media will likely become a vital shopping platform as they allow for more customized offers and target-specific ads, thanks to the high volume of user data collected by social media apps.

5. Changed structure in new ethos

The FMCG industry is going through a structural change with the entry of the new type of players and consolidation by the incumbent players. In particular, three types of players are emerging: Mavericks - companies with a completely non-traditional background, scalers- those to spread their wings beyond their private labels and acquirers, looking to consolidate their position further.

6. Era of Millennials and Gen Z

As Gen Z and Millennials account for a growing part of the population estimated to comprise 50% of India's population by 2030, their consumption habits and preferences are becoming mainstream. Among them is a liking for quick deliveries and convenience, an increasing digital savviness and a desire for healthier products.

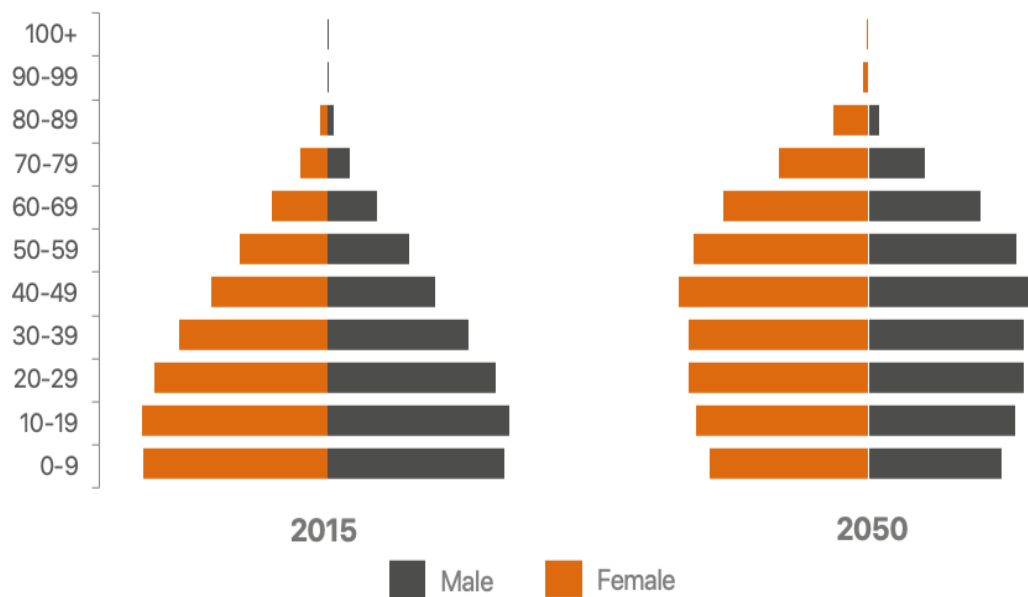
The requirement for quick deliveries is especially true for the convenience of having the product delivered at home or available at your doorstep; after having experienced these new channels during the pandemic, the consumers are more likely to use them than post-pandemic. Especially for groceries, 42 per cent of shoppers across all age groups, say that delivery and fulfilment are the most important service attributes. Millennials and Gen Z are also far more challenging to reach through old-fashioned marketing campaigns: 84% of Millennials don't trust traditional advertising; they are far more sensitive to experiences than hard sells. 61% of Gen Zs believe brands are better positioned than governments to solve social problems. They also prefer buying Indian products: 92% of Indians have reported purchasing local products over imported ones. In B2C, 81% of customers research online before buying non-routine items, while in B2B, 92% of purchasing decisions commence with an online digital search. Forty-four per cent of consumers are willing to pay a premium for grocery products that have sustainable packaging. This is more pronounced amongst Gen Z (64 per cent) and millennials (54 per cent) than older generations like boomers (30 per cent).

7. Older and wealthier Consumers

By the year 2050, India will have a notably larger mid-age population. They will likely have more purchasing power (being a family and not single households) and will buy according to their life-cycle stages: couples typically buy more durable goods, parents buy children or family-related products, and their expenses in-home care/ personal care increase towards family-sized packs; finally, when children leave the nest, the revenue of the parents stabilize, and they can spend more on luxury/health related items.

India's population pyramid will shift to middle -aged (30-49 years) adults with a 28% share of the demographic group in 2050.

Age wise population pyramid of India



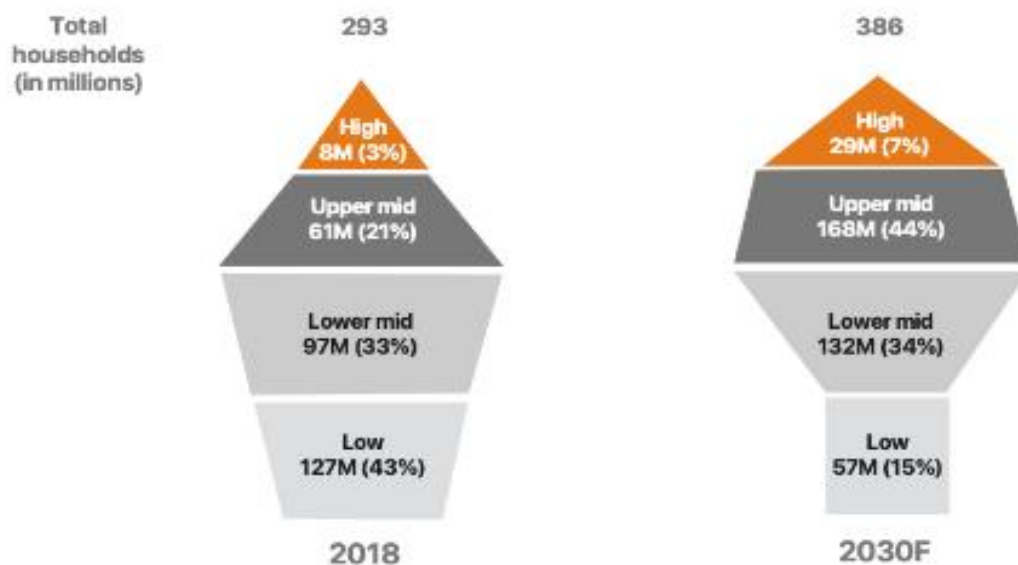
Source:kanvic analysis and research, populationpyramid.net

Furthermore, the wealth pyramid will change considerably in the coming years, thanks to India's GDP growth. The growth will primarily be concentrated in the top and middle-

income consumers, with the number of lower-income consumers decreasing rapidly. As a result, economy products will give way to mass-premium, while the luxury market will gradually increase.

A large middle class will emerge by 2030 with upper middle- and high-income households crossing 50 percent mark.

Progress of annual household income of India



**note: low income: <\$4,000, lower- mid: \$4,000-8,500, upper -mid: \$8,500-40,000, High income: >\$40,000 basis income per household.*

Source; kanvicanalysis and research, world economic forum

Half of this new wealth will be spent on buying better or new products, while the other half will be spent on buying more of the existing products.

As consumers enter a higher income class, they spend 2-2.5x more on essential categories (F&B, apparel, personal care, transport and housing). Wealthier consumers also spend a higher

proportion of their income on discretionary products; for the FMCG market, it will mean higher spending on premium personal care products, better food options (both organic/healthy foods as well as time-saving, such as ready-to-cook or ready-to-eat).

Blueprint for Growth in FMCG Sector

FMCG strategies are focused on selling a very high volume at a very low-profit margin. This way they sell all the stock before it becomes obsolete. Another FMCG strategies is to increase the demand for FMCG. Expanding the extensive distribution network is also a proven FMCG strategies used by marketers



Listed below are the strategies for FMCG which a marketing company typically uses to increase sales and their market share.

Innovative Products:

- Introducing innovative products is one of the best FMCG strategies a seller can use. This will take care of changing consumer preferences and needs.

Market Expansion:

- Entering a new market or expanding distribution to a new geographical area is another FMCG strategy every seller should try.

Mergers and acquisitions:

- Expanding the market is time-consuming and challenging. To overcome this, many marketing companies buy small business outlets that are relatively popular in a particular area. Through them, they can sell their FMCG products without wasting time on the market expansion. Mergers seem the best strategies for FMCG sellers.

Discounts:

- Expiry dates are very important for FMCG products, particularly for perishable goods. To sell them before expiry, companies offer huge discounts as FMCG strategies before it becomes obsolete.

Creative and innovative.

- Most FMCG companies are multinationals. They envisage creative and innovative strategies for FMCG making it more affordable and amplifying the demand in the market. They bring in FMCG products from other countries and give publicity through social media platforms. Examples of this are the foreign fruits that we are getting in supermarkets that are grown in other geographical areas.

Pricing:

- Implementing a dynamic pricing strategy that balances profitability with affordability to attract

price-sensitive consumers. Pricing decisions should be based on factors such as production costs, competitor pricing, and consumer willingness to pay.

Cost leadership:

- Reduced price is always a better tool to attract new markets particularly if it's perishable goods. Since the sellers handle bulk quantities of sale, it is an affordable FMCG strategies for many multinationals to expand their market share. Offering promotional pricing and discounts to stimulate sales and drive consumer engagement. Promotions can include discounts, coupons, rebates, and bundling offers, which can be targeted to specific customer segments or used to clear excess inventory.

Product diversification:

- To reduce the risk of loss, diversification becomes the best tool to employ. It reduces too much reliance on a single product or market. Entering a new market or introducing new products reduces their risk of loss and increases their customer base.

Distribution Channels:

- Partnering with retailers, wholesalers, and e-commerce platforms to expand market reach and enhance product visibility. Collaboration with channel partners is essential for gaining access to new markets, securing shelf space, and executing promotional campaigns.
- **Digital transformation.**

Adopting digital technologies is the key to success and good FMCG strategies. Today is the internet era and hence using digital technologies such as e-commerce, social media, data analytics, etc can drastically improve customers and brand identity.

- **Sustainability**

Sustainability will be an increasing concern with changing expectations of regulators, consumers and the employees. Global food and consumer goods production accounts for 60% of greenhouse gas (GHG) emissions, 80% of water usage, and 66% of tropical forest loss. The ban on single-use plastics is likely only to be the first step towards a more sustainable society, in which FMCG companies will have to make considerable efforts.

Conclusion

Even though the FMCG sector has a promising outlook for the future, challenges like high inflation rates remain a concern. Resilience needs to be the key factor in the manufacturing process, daily operations, retail and logistic channels, consumer insights and communication. Balancing short-term challenges with long-term opportunities presents a significant dilemma, particularly in the increasingly competitive FMCG market. The ability to foresee and adapt to future trends will ultimately determine a company's success. FMCG companies are leading the charge in technological innovation, leveraging advancements such as AI, big data, and digital marketing to maintain their competitive edge. Embracing sustainable practices, including the circular economy and data-driven supply chains, not only fosters innovation but also demonstrates environmental responsibility. A survey by Rakuten Insight in 2022 revealed that 69% of consumers are willing to pay more for sustainable products. The structure of the Indian retail market underwent a seismic shift with the advent of 4G, widespread smartphone penetration, and ubiquitous internet access. This facilitated rapid growth for brands, particularly through ecommerce platforms and online purchasing

The convergence of commercialism, consumerism, and coherence ultimately leads to contentment for both consumers and companies alike. This synergy underscores the importance of aligning business practices with consumer needs and values, fostering mutual satisfaction and sustained growth. FMCG players need to grow 'regional' in their thinking and move towards an increasingly decentralised operating model in India. As consumer preferences differ across regions and states, companies may follow a regional strategy in terms of product ingredients, positioning, marketing campaign, and channels. Overall, decentralisation or regionalisation will

become an increasingly important theme for FMCG players. As India continues to grow as a major global economic player, the FMCG industry will remain at the forefront, serving as a barometer of the nation's consumer sentiment and economic health. However, it remains imperative for companies to be agile and responsive to evolving market dynamics to make the most of this opportunity. The journey so far has been impressive, but the best could be yet to come for the Indian FMCG industry. Developing a robust FMCG business strategy is essential for CEOs and business decision-makers to drive success and innovation in the dynamic consumer goods market. By focusing on product innovation, pricing optimization, distribution excellence, marketing effectiveness, and customer experience enhancement, FMCG companies can position themselves for long-term growth and profitability. By staying agile, responsive, and consumer-centric, FMCG businesses can unlock new opportunities and thrive in an ever-changing business landscape.

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