

## **EMERGING CHALLENGES AND PROSPECTS OF FMCG PRODUCT DEVELOPMENT IN INDIA**

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### **ABSTRACT**

This article provides inputs for a clear understanding of the consumer mindset towards FMCG products. It focuses on some of the fundamental issues pertaining to the emerging challenges and prospects of marketing FMCG products (new product launch) in India. Emerging trends in sales and customer attraction which enable improvements in new products development (FMCG). Fundamental issues of the customer and their expectations involve around three magical questions 1. What more? 2. What next? 3. What else? When the marketers want to fulfill the customer requirements they come up with challenges which are new and unseen in yesteryears.

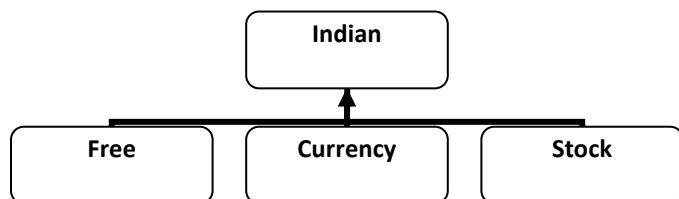
**KEY WORDS:** Emerging, Marketing, Strategy, Management pedagogy, FMCG.

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### **INTRODUCTION**

Emerging markets like India are different from developed markets. These markets are often characterised by specific local needs, limited purchasing power and high price sensitivity. (Prahalad and Lieberthal, 1998). Khanna and Palepu (1997) have suggested that in emerging economies, to make up for the absence of well-developed markets for labour and capital, firms may have to create their own infrastructure. Specifically, unlike established companies in developed markets, Indian companies are facing the challenge of structuring the new product development processes in an environment of limited design skills and experience. Few qualified vendors and inappropriate engineering resources. At the same time, they are constrained by limited financial and human resources, a lack of a market orientation, strong centralised control by business family heads, functional chimneys without deep functional expertise, and pressures to change on numerous fronts all at once to cope with the competitive environment (FMCG).

### **Formation of FMCG products in Indian Market**



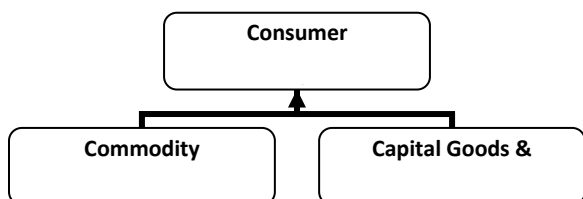
**Free Markets** - free markets are operational under the 'laissez-faire' conditions - where there is no government intervention. A free market may get distorted if there exists a monopolistic situation (seller controlling major portion of the supply) or a monopolistic situation (a buyer having power on majority of the demands). In case of these distortions, the government or business bodies make an entry to ensure that the free markets operate smoothly.

**Currency Markets** - Currency markets are among the largest traded markets in the globe, on a continual basis. Money flows are continuous around the globe - governments, banks, investors and consumers - all of them are involved in buying and selling currency round the clock. That is the velocity of money is huge with so many constantly changing hands.

**Stock Markets** - Stock markets seem to be the backbone of any economy - and of late they have become the most complex structure allowing investors the scope of buying and selling shares in multitude companies. Majority of the Indian stock markets are operating on an electronic network, with a physical location being maintained for buyers separately. This is the place where the parties involved can interact with each other directly.

### Types of Consumers in Indian Market

Indian Markets originated from the center of villages and towns, where there was a sale or barter of farm produce, FMCG product and other products. Later on these street markets went on to become consumer-oriented markets like the specialist markets, shopping centers, supermarkets.



**Commodity Markets** - In India, with high oil and food prices, the commodity markets have again gathered all the attention. The prices of the essential commodities steer the economy to a desired level.

**Capital Goods & Industrial Markets** - Indian capital goods markets help businesses to buy durable goods that can be used in industrial and manufacturing methods. There are usually wholesale trades that take place with bulk goods being transacted at very cheap prices

### Importance of Indian markets

Markets in India after the liberalization era have been leveraged to the extent that they are well protected by legal procedures and boasts of efficient administrators. The government has always been proactive in its strategies to make the future of Indian market lucrative and attractive. Indian market has witnessed outstanding growth over past few years. The liberal and transparent financial policies have steered the economy towards free flow of FMCG products and Indian Market has achieved a sound place in the international arena. The returns on investments in the India market have been substantially moderate from the entire FMCG product. Public Private

Partnership (PPP) is the new trend in the Indian marketplace, with red tape and bribes being shed off to quite an extent.

### **FMCG Sector in India**

Fast Moving Consumer Goods (FMCG) can be defined as packed goods that are consumed or sold at regular and small intervals. The prices of the FMCG are relatively less and profits earned through such sales are more volume based. The organized FMCG retailing in India is a new concept and is fast catching up in urban and semi-urban India.

The FMCG Sector in India has witnessed a range of recent developments. Tax deductions on various items, rise in the penetration levels and per capita consumption are some of the major developments in FMCG. The FMCG Sector in India is the fourth largest sector in the Indian economy. As per the reports of the 2005-06 financial years, the market size of the sector was registered as USD 13.1 billion. The FMCG Sector in India involves a strict competition between the organized and unorganized sectors of consumer durables. India offers an abundance of raw materials (Some product categories such as jams, toothpaste, skin care products, hair care products, etc have experienced a low per capital consumption as per a report presented in 2006.), low-priced labor costs, and also has a presence across the entire value chain.

Approximately 200 million people are expected to become the consumers of processed and packaged foods by the year 2010. The major activities of the food-processing sector are permitted 100% foreign equity or 100% NRI and Overseas Corporate Bodies (OCB) investment to meet the rising demand of the consumers. In the year 2012 (Table.1), the recent developments in FMCG, it is assumed that the consumption of the FMCG products will have a satisfactorily growth with the rising income level of Indian populace in both the rural and urban areas. The market size of the Indian FMCG Sector is expected to reach USD 33.4 billion by the year 2015. The Indian government has declared several tax sops for the FMCG sector in India. It has emphasized on the infrastructural developments in the same. The consumption of health and personal care products in FMCG sector has increased in the recent past with rise in disposable income especially among the early stages group in India. A few of the FMCG product are:

- Toiletries
- Soaps and detergents
- Cleaning and disinfecting agents
- Cosmetics
- Non-durables
- Pharmaceuticals

Further, the packaged food products and drinks are also sold under the FMCG, since these items are consumed or bought at regular intervals. Furthermore, recently the electronic items like mobile phones, MP3 players, external hard drives, etc, which has less life owing to its technological development, has also been brought under the gamut of FMCG sector.

### Fast Moving Consumer Goods companies operating in India Table.1

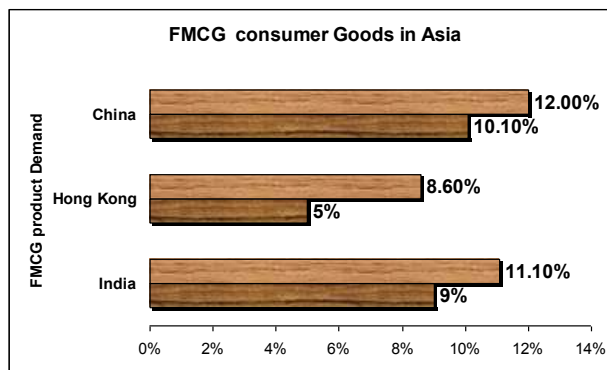
Companies		Electronics Brand in India	FMCG retail outlets operating in India
Britannia	ITC	LG	FoodWorld
Procter & Gamble	Heinz	Samsung	Subiksha
Coca-Cola	Reckitt Benckiser	Nokia	Landmark
PepsiCo	Nestle	Motorola	Health & Glow
Wilkinson	Unilever	Sony	Shahnaz Husain
Lakme	Tata Tea	Videocon	LG & Samsung
Amul	Marico	Panasonic	
Dabur		Phillips	
Kissan		Canon	
Parle			

Source: business.mapsofindia.com/automobile/top-automobile-companies.

### FMCG Consumer Goods in Asia (Table.2)

Asia's rising affluence will drive the growth for FMCG firms over the next several years. In 2011 (Table.2 ), aggregate demand for consumer goods in Asia has remained strong, and demand for soaps and cleansers is forecast to have grown more strongly than previously expected in India, Hong Kong and China, at 11.1%,8.6% and 12% respectively, against earlier forecasts of 9%,5% and 10.1%. India's rapidly-growing middle class, with annual household incomes of US\$3,000-5,000 is becoming increasingly brand-conscious and aware of the importance of personal grooming.

The market for cosmetics, toiletries other personal care items is concentrated, with a few well-known brands dominating sales of shampoos, conditioners, make-up, fragrances and personal hygiene products. Growth in demand for most of these products is expected to be rapid in 2011-15, leaving scope for new companies to inroads into the current market leader's dominance men's grooming products, such as skin lightening creams, deodorants, facials cleansers and so on is an area that is showing steady growth.



and

hair

make

and

## 2012 Out Look for the Retail and Consumer Product Sector in Asia

India often throws up surprising sales strategy successes. For example Amway, an American direct sales retailer, has become one of India's largest consumer goods companies since the government allowed it to start selling its products door-to-door, However, the markets will get tougher as consumer tastes evolve rapidly based on rising incomes, more companies enter the fray and established market leader step up their game, for example Nestle has been in India for almost a century. Now it is moving to keep pace with the market. Five years (Table.3) ago it under took" Project Epicure" under which it made 1,500 visits to Indian homes, rich and poor, to see how people cook and eat. On 30 July 2011, it reported a 20 % increase in total sales to Rs 17.63 billion (US\$ \$394- million) and a 9 % rise in its net profit for the second Quarter to Rs 2.14 billion (US\$ 47.8 - million). It is planning to invest US\$ 450- million to double its capacity. Emerging as future growth markets based on the rise of the young, urban, increasingly affluent Indian consumer.

### 2012 Out Look for the Retail and Consumer Product Sector in Asia (Table.3)

Territory	2008	2009	2010	2011	2012	2013	2014	2015
Asia & Australasia	4.3	6.5	5.2	5.9	7.0	5.9	5.8	5.3
China	13.3	18.6	3.2	12.0	12.7	9.7	9.3	7.3
Hong Kong	3.9	7.0	8.7	8.6	6.8	3.7	3.4	3.0
<b>India</b>	<b>10.2</b>	<b>16.6</b>	<b>14.1</b>	<b>11.1</b>	<b>9.9</b>	<b>10.5</b>	<b>9.8</b>	<b>9.8</b>
Japan	-0.8	0.6	3.5	-0.6	2.4	1.5	1.4	1.0
Taiwan	-0.8	2.0	5.0	5.5	5.4	4.1	4.8	4.7
Source : Economist intelligence unit								
Figures for 2011 onwards are forecasts. Prior years are actual or estimates								

It is developing products suited for the Indian market and even express product development in India to both Asian and Eastern European countries. The real anticipates that almost 70 % of its launches in India in 2011-12 will be if products that are locally developed, including skincare product for men

### Consumer Class in FMCG Sector in India

Consumers play a crucial role in the Indian FMCG sector as the price band of each FMCG product is fixed depending largely on the consumer class which the particular company is targeting. A number of variants are offered by each brand in the FMCG sector. For example, the personal care, home care, bakery products, dairy products, processed foods are more consumed by the urban classes whereas the personal care items and fabric care are consumed more by the rural population. Some of the FMCG companies like Nestle India, Cadbury, Procter & Gamble (P&G) and Smith Kline Beecham offer high-priced branded products as these companies target the elite and upper middle class consumers. These high-priced branded products do not have

high sales in the rural regions as much as it does in the urban section of India. Processed food manufacturers gain more profit in the urban areas as the urban population has a higher preference for ready-to-eat meals. The consumption of personal care items is high in the rural regions. High literacy rates and an increase in the per capita income of the inhabitants led to a rise in the consumption of the FMCG products in the country.

### **Indian Market Conditions of FMCG product GDP**

The Gross Domestic Product popularly known as GDP of an economy requires contribution from major industries to be healthy. India is largely an agrarian economy; so agriculture makes the major contribution to the GDP. Role of major industries in India GDP is important as based on this only the total GDP is calculated. In terms of US Dollar exchange rate India's economy is the twelfth largest. Despite witnessing a slowdown, due to the global recession, India's economy has huge potential of expansion.

### **The Challenge - New Product Development (FMCG)**

In this age of accelerating commoditisation, companies are increasingly gambling on the success of innovative /new products, yet companies continue to release new products the same way they always have.

As far as the economic scenario is concerned India is surely on a roll. The last twenty years have really proved extremely beneficial for India. The country now stands only after Brazil as far as GDP ranking is concerned. India has replaced Russia and grabbed the second position in the global forefront mostly due to the strategic planning and huge amount of expenditures on education in India. India is expected to cross the 8 percent mark and move to 9 percent GDP growth rate. India is the second largest populated country in the world sheltering over one billion people. Although India has not had a striking 10 percent year over year economic growth as its neighbor China it has still managed to grow at a nominal rate. India's GDP growth has been slow but careful. According to trade pundits India will take the third position as far as GDP growth in concerned by 2020 replacing Germany, the UK, and Japan. Only United States and China will be ahead of it. All the important sectors in India have shown positive signs of growth from the last five years. Let us have a close look at the sector wise growth rate in India from the period 2010 to 2011. Indian exports increased by 26.8 per cent (y-o-y) and touched US\$ 18.9 billion in November 2010(The period April 2010 to November 2010 exports in the country grew by 26.7 per cent to US\$ 140.3 billion. On the other hand imports increased to US\$ 222 billion.). This rapid growth in the exports from India urged the Indian Government to conclude that the total shipments in 2010-11 might go up to US\$ 215 billion. FMCG companies have been wary of taking up product prices on account of this inflation. In the fourth quarter of the 2011-12 financial years, for instance, while volume growth was 09 to 15 per cent for most FMCG companies, price-led growth was five to 10 per cent only. The trend was no different for the first three quarters of the 2011-12 year, with price-led growth in the region of five to 10 per cent, as companies focused on volumes. Analysts say a good rainfall this year will be critical in keeping this volume-sales momentum going.

Coca-cola, a leading soft drink manufacturer, wishes to invest a huge amount of money (\$5 billion) to improve their manufacturing units and distribution channels in India (which is an increase of \$3 billion over its previous commitment in India) as they see a high potential growth in the soft drink industry in the next few years and would like to become the most preferred soft drink in India.

### **Consumers magnetism for FMCG**

They build and maintain great relationships, consistently influence (in a good way) the people around them, consistently make people feel better about themselves--they're the kind of people everyone wants to be around...and wants to be they.

1. Compensate awareness way more than consumer talk.
2. Don't practice selective hearing.
3. Position their stuff away.
4. Provide before they receive--and often consumer never receive.
5. Don't act self-important...
6. Comprehend other people are more important.
7. Stand out the spotlight on others.
8. Decide consumer words.
9. Don't discuss the failings of others...
10. Voluntarily admit consumer failings.

### **Increase in Sales Efficiency & Effectiveness of FMCG.**

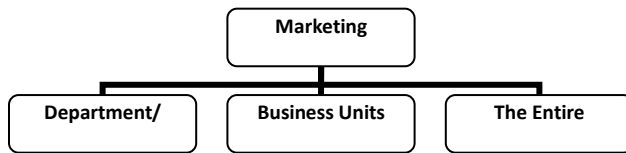
As a marketing executive, under pressure to improve results, justify budget make a good strategy and deal with an ever-increasing array of competitors. Strategic approach uses proven process management methods to help create sustainable, manageable and continuously improvable results of FMCG product.

### **Important strategic factors**

- Design or improve the sales process for better results
- Move the Sales Management into the 21st century
- Create more effective sales compensation plans
- Develop or tweak your channel strategy
- Add an effective inside sales approach to the existing sales toolkit (or improve the best / select tools)
- Objectively evaluate appropriate CRM/MSA tools to meet the needs of the sales process
- Make sales people better presenters
- Train sales people
- Take Sales Operations function to the next level

### Improving marketing proven process

Initiative is driven by accountability, ROI, Six Sigma, Lean Thinking or any other process management method; marketers understand how to successfully apply these practices to marketing and sales. Even more, marketers know how to help you integrate them into a global marketing/sales process in FMCG products.



The majority **FMCG** product launches go

through a four-step process:

1. FMCG product launch press, customers and sales people are all enthusiastic.
2. Initial sales expected but they don't materialize.
3. Disillusionment sets in; faith in the product begins to wane.
4. Inexplicably, at the eleventh hour, sales begin to improve.

This process contains a common theme. Most product launch events, with their associated collateral materials, focus exclusively on product capabilities. They explain how this product is different and better; they dwell on each new bell and whistle. The launch is designed to sound exciting, and some very smart people put long hours into preparing a great product pitch.

The sales force is impressed, and that impacts the way they interact with customers. How the product was communicated to them serves as their model when they communicate with their customers it makes them product-centered instead of customer-centered. But even product-obsessed salespeople become less enthusiastic when sales don't happen. Finally, when everyone is beginning to lose faith, the sales force stops focusing on the product, starts focusing on the customer, and sales begin to improve.

### Inconveniences of FMCG Products Launch

1. Fast Growth
2. Customer expectations not satisfied.
3. New item exists in product mix.
4. Unknown/new category and consumer education
5. Revolutionary product with no market.

### Prospects of FMCG

**Market research** -Market research is the key. Without the necessary information, it becomes difficult to understand the requirements of the customers. It provides critical information and direction. It identifies market needs and wants, product features, pricing, decision makers, distribution channels, motivation to buy. They're all critical to the decision process.

**Timing** - Are elements of the process coordinated? Is production on the same time schedule as the promotion? Will the product be ready when you announce it? Set a time frame for the rollout, and stick to it. Many products need to be timed to critical points in the business cycle. Miss it,



and invite failure. There are marketing tales galore about companies making new product announcements and then having to re-announce when the product lags behind in manufacturing. The result is loss of credibility, loss of sales, and another failure.

**Capacity** – If the new product or service is successful, do you have the personnel and manufacturing capacity to cope with the success? Extended lead times for new products can be just as deadly as bad timing.

**Testing** - Test market the new product. Be sure it has the features the customer wants. Be sure the customer will pay the price being asked. Be sure the distributor and sales organization are comfortable selling it. You may need to test your advertising and promotion as well.

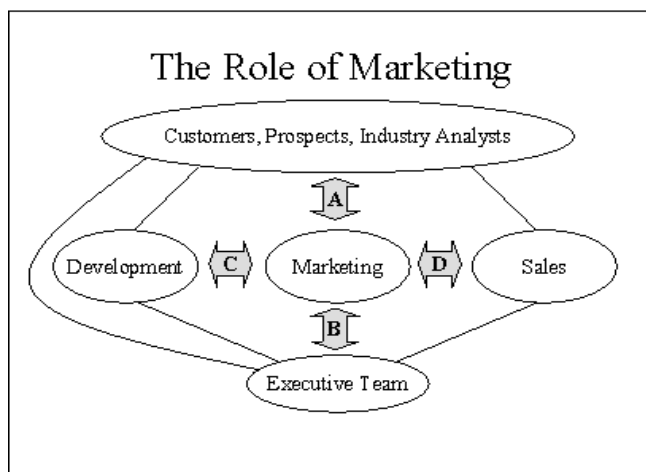
**Distribution** – Who’s / Which’s going to sell the product? Can you use the same distribution channels you currently use? Can you use the same independent representatives or sales force? Is there sufficient sales potential in the new product to convince a distributor, retailer, or agent to take on the new line? There are significant up-front selling costs involved in introducing new products. Everyone in the channel wants some assurance that the investment of time and money will be recovered.

**Training** - The sales organization involved in the marketing/selling, inside employees, and distribution channels will need to be trained about the new product. If the product is sufficiently complex, face-to-face training needs to be provided. Or perhaps some type of multimedia program will do the job. If the product is not that complex, literature may work. Again, timing is critical. Train before the product hits the shelves, not after.

**Promotion** - The promotional program to support the introduction: advertising, trade shows, promotional literature, technical literature, samples, incentives, Web site, seminars, public relations. Time it all with production, inventory, shipments, and training. The new product will simply sit in the warehouse without the right support materials. Research, timing, and planning can all help increase the probability of success.

### Marketing business process in FMCG

**1. Issue Identification and Assessment**-Identify and assess the company's current marketing efforts. Company Rate with our survey and target problem areas by understanding challenges, issues and strategies. The first issue in this series identifies the FMCG product in India and allows assess the company’s current.



**2. The Role of market relationship in FMCG product** - Marketing is the "man in the middle"--mediating between Customers, Prospects, Sales, Development, and the Executive Team. As such, Marketing is pulled in multiple directions. Marketing is the critical

intersection between Development, Sales, Customers, and the Executive Team.

**A-Marketing** touches Customers, Prospects, and industry thought leaders via press releases, magazine articles, briefings, brochures, trade shows, customer councils, advisory boards, and lead generation programs.

**B-Drawing** on the information gathered both externally and internally, Marketing supports the Executive Team in developing business strategy by identifying market opportunities and generating and executing marketing strategies and plans that support attainment of business objectives.

**C-Marketing** works with Development to define requirements, plan products, and bring products to market. Marketing must assure the delivery of a reliable and "complete" product that includes documentation, training, and support. If relevant, marketing also addresses upgrade, migration and "end-of-life" planning.

**D-Marketing** trains the sales force on new products, manages the HQ visits of customers, prospects, and industry analysts, performs Win/Loss analyses, and gathers input on customer and prospect requirements.

**3. The Classic Dilemma** - Marketing has an obligation and need to support both Development and Sales. Creative thinking is required to assure that the needs of all parties are met.

**4. The Selling Process** - Identifying and understanding FMCG product target customer and documenting the selling process are critical success factors. Proceeding without this information is like taking a long road trip without having a map.

**5. Product Planning** - Defining a new offering and getting it out the door is an exciting and challenging balancing act.

**6. Growth and Change** - The company grows the market changes, and the challenged to turn the resulting process breakdowns into breakthroughs.

**7. Marketing ROI** - The marketing programs are not aimed at identifying and addressing the true needs of customers and prospects in a manner that produces measurable results.

**8. Summary of Challenges and Strategies** - The most common (and critical) challenges in FMCG product marketing--and proposed strategies to address them. The key is to be pragmatic and remain focused on identifying and addressing the true needs of customers and prospects .The fast moving consumer goods (FMCG) market grew in double digit in Q3 FY12. However growth was slightly lower compared to Q2. Despite a dull macro-economic environment almost all the FMCG companies posted a decent volume growth. The competitive scenario continues to remain high in the sector. Majority of the companies are taking calibrated price hikes to manage the top line and volume growth. The FMCG companies are persisting with innovations and product launches across segments, to maintain his volume growth, value growth, boost its margin and maintain market share. Most of the companies are keen on launching premium variants of its

products at higher price. The sector will get good growth momentum, if the Finance minister increase the income tax slab, focus more on rural development and implant GST.

### **Industry Expectations**

- To continue with the specific excise duty structure for cigarettes at current level of taxation. Amend the existing excise slab of filter cigarettes of not exceeding 60 mm to a slab of length not exceeding 65 mm with a levy of excise duty of Rs 200 per 1000 cigarettes. Increase surveillance and stricter implementation of anti-smuggling measures
- No change in excise duty which current stands at 10%.
- Reduce excise duty from 10% to 5% on packing materials used by the food processing industry.
- Reduce excise duty from 10% to 5% on packaged drinking water and processed food having excise duty of 10%.
- To include iced tea under section 4A of the Central Excise Act for the purpose of valuation with abatement.
- Reduce customs duty from 10% to 7.5% on titanium dioxide (Titanium dioxide is the vital pigment used in paints)
- Reduce the customs duty from 12.5% - 20% to 10% on industrial oils with FFA of 20% or more when imported for manufacture of soaps, industrial fatty acids and fatty alcohols.
- Reduce customs duty from 15% to 10% on palm fatty acid distillate (PFAD), industrial mono-carboxylic fatty acids and fatty alcohols.
- To increase focus on the rural development.
- To continue thrust and higher allocations to social and developmental programs—especially MGNREGA.
- To increase in tax slabs for personal income tax
- To clear timeline for GST implementation
- Implementation of DTC.

### **Analysts/market expectations**

- There is expectation of 12-15% rise in excise duties on cigarettes.
- A rise in excise duty of 200 bps
- To increase income tax slabs
- Reduction on expenditures on rural programmes

### **Conclusion**

The emerging trends in new product launch (FMCG), has seen a wide range of innovations in India, even though we have drawbacks. This article highlights the different types of problems faced, the possible solutions and how GDP affects the growth of this industry. A clear understanding of the various processes involved, will enable the industry to cash-in on the prevailing trends in changing consumer moods and interests. It is worth while to note that it is possible for FMCG Industries to bring about changes in their strategies in creating consumer preferences by suitably modifying interest pattern and preferences from their primitive mind set to modern ways of living. It is highly appreciable to note that the recent trend in FMCG

industries and markets shifting their focus from urban to rural settings make new strategies, promotional polices and new pedagogy capturing this new launcher market segment in India.

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