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Resuming the Paused FMCG Sector in India

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***Abstract*: The country's behemoth fast-moving consumer goods (FMCG) market saw itself being crippled down to a bare minimum, as the entire world of consumers shrank to the size of one's apartments due to the COVID-19 pandemic. And as the pandemic clobbered sales of the retail and FMCG sector, a sector that was already battered by slowing consumption, it also is on its way of leaving disrupting effects on supply chains and consumer behaviors. The situation still remains highly volatile with the trajectory of the virus undetermined. But, as the lockdown eases and sale of goods and services initiate, the sector seems to fight back in order to stay alive in the environment.**

***Keywords*: COVID-19, FMCG, Indian market, Retail sector.**

1. Introduction

Products with a quick turnover, having relatively low cost and are quickly replaced are termed as Fast Moving Consumer Goods (F.M.C.G.). Examples of F.M.C.G. widely includes a range of consumer products that are frequently purchased, such as shaving products and detergents, toiletries, soap, cosmetics, tooth cleaning products, as well as other non-durables such as cosmetics and cleaning products.

FMCG sector stands as the 4th largest sector in the Indian economy with Personal Care and Households amounting to over 50% of FMCG sales in India. Changing lifestyles with easier access and growing awareness has been the key growth drivers for the sector. The urban segment (accounts for a revenue share of around 55%) is India's largest contributor to the total revenue generated by the FMCG industry. The FMCG market has, however, grown at a faster pace in rural India compared to urban India in the last few years. Semi-urban and rural segments are increasing rapidly and FMCG goods constitute 50% of total rural expenditure. [1]

The Indian retail sector was forecasted to cross US$ 1.1 trillion by 2020 from US$ 840 billion in 2017, with modern trade projected to rise at 20% - 25% per year, which was likely to raise FMCG companies' revenues. FMCG sector revenues in FY18 reached Rs. 3.4 lakh crore (US$ 52.75 billion), and were estimated to reach US$ 103.7 billion in 2020. Between July-September 2018, the sector experienced value-added growth of 16.5%; supported by moderate inflation, increased private consumption, and rural income.

Rising rural consumption was a major driver of the FMCG market and contributed around 36% to total FMCG expenditure. The urban segment of FMCG experienced an 8% growth rate, while the rural segment expanded at 5% in the quarter ended in September 2019. FMCG's rural segment revenues were projected to grow to 11-12 % by 2020.

Owing to the involvement of multinationals, domestic companies, and an unorganized market, the industry is highly competitive. Unorganized players selling unbranded and unpackaged products capture a big portion of the market. More than 50% of FMCG companies' overall sales were generated of goods worth from Rs. 10 or fewer. [2]

FMCG companies play a crucial role in our daily lives. From medicines to stationaries to daily use items etc. FMCG companies have highly influenced the Indian market and were set to grow further. [3] The FMCG industry has witnessed some major players but disruption by new players also altered the Indian market scenarios. The top Indian FMCG companies include names like ITC Ltd., Dabur, Britannia, Hindustan Unilever, and New Entrant Patanjali.

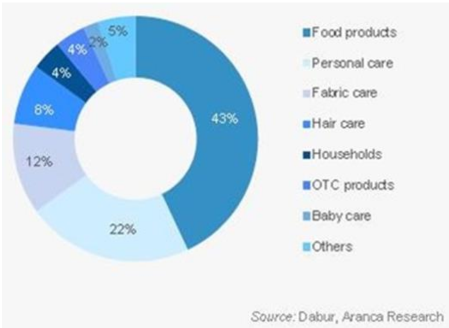

Fig. 1. Market breakup of Indian FMCG Sector

Yet all the numbers were shaken up, at the wake of COVID-19 pandemic, and as the pandemic ravaged health systems and economies across the globe, the inevitable lockdown and its accompanying preventive measures in India have gravely impacted the FMCG industry. Indian retailers suffered a significant 71% drop in demand, with no orders received by 95% outlets around the initial period of lockdown. [4]

2. Research Methodology

The study has been done mainly on the basis of secondary data and information available from books and published works and reports.

3. The Arrival of Pandemic

The global COVID-19 pandemic eternally changed our experiences as consumers, workers, residents, and people; as a result, our attitudes and behaviors were found shifting. Once we get over the initial threat of virus, a great deal would have changed in the way we think and behave and that will largely affect the way we outline, interact, form, and drive the experiences that people need and want.

The answers to a lot of questions popping up in these adverse times will be exposed in the manner in which individuals and firms respond, and find imaginative ways to rise above it. This crisis is radically changing the dynamics, in terms of how and what consumer's purchase, which is causing enormous structural, changes across the retail and FMCG sectors.

COVID-19 is pushing organizations to quickly work in new manners, and frameworks flexibility is being tried as at no other time. As organizations shuffle a scope of new frameworks needs and challenges— business coherence dangers, unexpected changes in volume, on-going dynamic, workforce efficiency, and security risks—leaders must act rapidly to address prompt frameworks' versatility issues and establish a framework for what's to come.

Only when enough people become immune to the disease to blunt transmission, either through a vaccine or direct exposure, can COVID-19's threat to lives and livelihoods solve absolutely. Before then, governments wishing to revive their economies must have public-health programs powerful enough to identify and respond to cases.

Due to the immense pressure from the pandemic crisis, business process functions across most industries are severely disrupted. For many multinationals, it is necessary to reassess and restructure complex and business-critical services that are handled by global operations. Organizations need to respond rapidly to maintain stability and de-risk their activities in order to support their company now and in the future. [5]

India, once the quickest developing significant economy, was at that point seeing its slowest pace of financial development in 10 years before the flare-up of the novel coronavirus, which has made a further hit to the economy and, thus, to individuals' capacity to secure positions.

In the initial two months, of the first quarter of 2020, India's fast-moving consumer goods (FMCG) industry saw signs of recovery, as there were distinct numbers of recovery in January and February with the industry clocking a 7.5% growth before the COVID-19 pandemic impact led to a steep fall in the growth rate, and while the slowdown was witnessed across FMCG categories, it was more pronounced in non-food categories.

4. The Sectors Adjusting to the "New Normal"

Countries experiencing COVID-19 have adopted various approaches to slowing the virus's spread. Some have extensively tested, performed contact tracing, limited travel and large gatherings, encouraged physical distance and quarantined citizens. Others have implemented full lockdowns in cities with high infection rates and partial lockdowns in other regions, with strict infection prevention protocols in place. [6]

Once new protection protocols are in place, a geographic lens could be overlaid to determine how quickly the lockdown could be lifted. Red, yellow, and green areas may be allocated on the basis of unambiguous requirements, with specific guidelines for commercial development, entrance, and departure. Area classification could be frequently updated as the situation evolves. The concept of a "zone" would need to be granular (such as a ward, colony, and building cluster) in order to encourage as much commercial activity as possible when addressing contamination in the most precise way. Because there is a very real chance that the virus will persist throughout the year, this micro-targeting approach could help to decelerate its spread while keeping livelihoods going.

The COVID-19 pandemic has adversely impacted both developed and emerging countries' economies like India. The three-week lockdown announced earlier in March has caused disruption across industries, including consumer goods and retail, resulting in the short cycle between announcement and implementation.

To "flatten the curve" of the novel coronavirus (COVID-19) several businesses around the world are now preparing and checking their escape plans from living constraints imposed. With no blueprint in mind, each country carves out its own course to "a new normal," complete with regulations, health-safety policy, and modified customer habits, trying to revive the economy and holding the epidemic under control.

This is certainly a dark time for the world as a whole. The outbreak of the Coronavirus has without doubt disturbed the Indian economy. That said, there are hidden opportunities for brands to capitalize on to keep them in good shape amid the pandemic. It is the best time for brands to win customer confidence but they have to take some steps in the right direction.

First of all, all brands must inculcate customer-focused into their business model. The companies take complete care in ensuring proper sanitation and disease protection at their brick-and-mortar outlets. FMCG companies should influence customers in order to focus on digital shopping over physical shopping. Furthermore, it is critical to winning customer's faith in this stormy phase and brands need to go extra measures for that. [7]

Lack of manpower and disrupted production has been the biggest challenge for retailers and FMCG brands so far. During this difficult lockdown period, the government had announced the supply of all sorts of essential products catering to people's unprecedented demands. In any uncertainty, even retailers were ready to stock up on the extra commodities to ensure a regular supply of articles.

Following the lockdown declaration on March 24, the FMCG industry's immediate challenge was to adapt to elevated demand for critical goods as a consequence of emergency sales, exacerbated by disrupted supply chains and contradictory preventive steps. This, despite the 'essential' nature of many products and service providers. Nearly a month later, COVID has impacted the FMCG sector around the supply chain, and companies now need to adapt and explore alternate methods of purchasing raw materials, allowing streamlined manufacturing and delivery, and satisfying market expectations, as the road to normalcy remains unclear.

FMCG players are also naturally incentivized to push products in high volume and fast moving urban centers – so finding the balance between micro-markets would be crucial. The lockdown though has - forced companies to innovate, with large FMCG players collaborating with mobility and food delivery apps for doorstep delivery, setting up call centers for order taking, and piloting Online to Offline models. Online delivery platforms have capitalized on the opportunity and are seen witnessing massive growth in the number and size of orders – both from existing and new customers. [8] Kirana stores too have seen resurgence, though frequent stock outs are affecting available choices for customers. An essential element which acts as lubricant is the supply chain mechanism. Governments like Maharashtra are stepping in to streamline supply chains for essential products, enabling stable and regular supplies to all districts. Discretionary products are likely to continue to face headwinds given economic uncertainty and may require demand generation through additional investments in promotions and digital marketing.

5. Way Ahead

Big developments which are expected to take place in the FMCG sector because of COVID19 are,

- Growth driven by rural consumption - Reverse migration, a good monsoon, and increased government spending through MNREGA and other public projects are likely to make rural India more demandful. During the quarters preceding the pandemic, rural consumption had been a laggard. According to a World Bank report, 40 million internal migrants have been impacted by the nationwide lockdown. Now, such a large migration from urban to rural areas could well tilt consumer growth in favor of the nation [9].
- A rise in e-commerce demand - Most FMCG companies have managed quick tie-ups with delivery companies like Dunzo, Zomato, Big Basket, Dominos, Swiggy to assure that their commodities reach online customers. Industries expect this market to increase past pre-COVID rates because the shutdown caused consumers to become addicted to internet shopping and the ease of home delivery food. Ullas Kamath, Jyothy Labs' joint managing director, expects the industry's share of e-commerce revenue to grow from 2-3% ahead of COVID to 4-5% after COVID.
- Brand value and depth of delivery to be the determinants of recent forays - Nearly every FMCG corporation introduced its products in the grooming categories of hand wash and a sanitizer, taking the potential provided by COVID, adding to the confusion of those areas which were otherwise low and niche. However, brand equity, the size of the SKUs, the distribution strength of the company, and the competition from private labels are likely to determine the fate of brands that will stick around on a longer-term basis and those that will not. Washing vegetables is another category emerging to see more players entering it.
- Resurrected focus on cost control - With topline growth under constraint during the lockdown, companies are likely to be keener on enhancing profitability. Cost control is a major tool for companies to improve their margins. Tighter credit terms, judicious advertising, and effective use of digital marketing will help companies rein in costs. For instance, HUL's investor presentation for the March quarter listed laser focus on receivables, dynamic inventory management, unlocking cash from surplus assets, optimizing CAPEX, and restructuring spends as measures towards controlling costs.

Most countries edging forward are looking towards their comeback plan, wherein the market successfully manages the virus and re-opens the economy as soon as the conditions look safe and secure.

However, regardless of hard the market was impacted if there possess challenges handling the virus post lockdown, and the primary industries stimulating growth will pursue a longer recovery time. Consumer behavior will recalibrate, drastically increasing the gap between consumers and realms which remain shielded from the harshness of the economic impact and the ones who are not.

6. Conclusion

Consumption patterns have evolved rapidly in the last five to ten years. The consumer trades to experience the new or what he does not have. He's looking for products with better value, quality, and functionality. What he 'needs' is fast getting replaced with what he 'wants'. [10]

The situation around COVID-19 and market setups is still dynamic and uncertain and it is far from easy to evaluate or quantify the impact at this point of time. A huge amount of it will depend on the stabilization of the overall scenario arising from the COVID-19 pandemic.

Going forward, FMCG companies could be seen investing in technologies with embedded analytic capabilities to enable and develop integrated problem solving and marketing plans could reflect more direct, consumer-centric communication built on brand-trust and customer safety.

The coming normal will look different from any in the years prior to the coronavirus, the pandemic that changed everything.

It is said that adversity is the mother of all inventions. This crisis, thus, has warranted industries across the board to evolve by way of ramping up cross-functional coordination, shortening innovation cycles and fostering quicker and more agile decision-making [11].

This global health crisis has shown that the demand for consumer products, especially personal care and hygiene segments, is likely to persist in the medium term as well. Hence, concerted and swift responses are critical for the survival of this fast-moving sector. As the world looks inwards, it is time for companies to start adopting hyper-local approaches and promote indigenous manufacturing with greater localization in order to establish robust and resilient supply chains in this post-globalized era, well in line with the Make in India initiative of the government.

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