SAMVAD

Igniting Thoughts of Tomorrow

FMCG SECTOR

WeChat

Mr. Prabodh Halde,
Head Technical Regulatory,
Marico Ltd.

FMCG Stocks

Featured

FMCG Sector SCM

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August 2013

S.P MANDALI'S weschool Welingkar Education

OUR VISION

"To nurture thought leaders and practitioners through inventive education"

CORE VALUES

Breakthrough Thinking and Breakthrough Execution

Result Oriented, Process Driven Work Ethic

We Link and Care

Passion

"The illiterate of this century will not be those who cannot read and write, but those who cannot learn, unlearn, and relearn." - Alvin Toffler

At WeSchool, we are deeply inspired by these words of this great American writer and futurist. Undoubtedly, being convinced of the need for a radical change in management education, we decided to tread the path that leads to corporate revolution.

Emerging unarticulated needs and realities need a new approach both in terms of thought as well as action. Cross disciplinary learning, discovering, scrutinizing, prototyping, learning to create and destroy-the mind's eye needs to be nurtured and differently so.

WeSchool has chosen the 'design thinking' approach towards management education. All our efforts and manifestations as a result stem from the integration of design thinking into management education. We dream to create an environment conducive to experiential learning.

Message from the Group Director

Prof. Dr. Uday Salunkhe,
Group Director

Dear Readers,

It gives me great pride to introduce Samvad issues every month. Our Samvad team's efforts seem to be paying off and our readers seem to be hooked onto our magazine. At WeSchool we try to acquire as much knowledge as we can and we try and share it with everyone. I sincerely hope that Samvad will reach new heights with the unmatched enthusiasm and talent of the entire Samvad Team.

Here at WeSchool, we believe in the concept of AAA: Acquire Apply and Assimilate. The knowledge that you have acquired over the last couple of months will be applied somewhere down the line. When you carry out a process repeatedly it becomes ingrained in you and eventually tends to come out effortlessly. This is when you have really assimilated all the knowledge that you have gathered.

At WeSchool, we aspire to be the best and to be unique, and we expect nothing but the extraordinary from all those who join our college. From the point of view of our magazine, we look forward to having more readers and having more contributions from our new readers.

Samvad is a platform to share and acquire knowledge and develop ourselves into integrative managers. It is our earnest desire to disseminate our knowledge and experience with not only WeSchool students, but also the society at large.

Prof. Dr. Uday Salunkhe,
Group Director

About Samvad

Prof. Dr. Uday Salunkhe introducing the first issue of Samvad

OUR VISION

"To facilitate exchange of ideas that inspire innovative thought culture"

MISSION

To Dialogue

To Deliberate

To Develop

To Differentiate

As the student magazine of WeSchool, Samvad is greatly inspired by the words of Alvin Toffler backed by a strong vision of facilitating exchange of ideas that inspire innovative thought culture. Samvad is a platform for the next generation leaders to bring forth their perspective on management to the world and gives the readers an opportunity to learn, unlearn and relearn on a continuous basis.

The team of Samvad is driven by a set of strong WeSchool values which enable us to create a dialogue leading to knowledge gaining and sharing, to deliberate on the information, to develop a sense of creativity and differentiate our minds with innovative thoughts of tomorrow; today.

Dear Readers,

Greetings from Team Samvad!

It gives me and the entire Samvad Team immense satisfaction to bring to you the latest issue of Samvad on the theme "FMCG Sector".

The FMCG Sector is one of the most sought after at the time of placements. The competition level between applicants rises to unprecedented levels as everyone wishes to work for the high paying FMCG companies like HUL, P&G, Nestle and so on. Therefore, on the eve of our executive placements, we bring to you an issue dedicated to the FMCG Sector.

To give you more insights on a career in this sector, we have Mr. Prabodh Halde (Currently Head, Technical Regulatory, Marico Ltd), a distinguished personality in the FMCG Sector. He has a diverse experience in the top companies like Coca-Cola, ACC and is also the Vice President of Association of Food Scientists and Technologies, India.

The most important aspect of an FMCG product is its distribution. With low brand loyalties, consumers buy products based on availability. Therefore, supply chain management becomes the key for success. The featured article is on the same topic and should be a valuable read.

We are thankful for all the wonderful comments, compliments and suggestions for improvisation by you all and we are striving for the best. We hope with this issue we provide you with different perspectives on this sector. We will be happy to hear if you personally wish to enter this sector or have a vision to bring about a disruptive change at the grassroots level. It's time we ignite our thoughts in to actions for a better tomorrow.

Hope you will like reading this issue. Feel free to give us your feedback.

Read Better to know Better...!!!

Best Regards,

Aniruddha Kulkarni

Editor

Samvad- Igniting thoughts of tomorrow

Acknowledgements

Team Samvad would like to extend its heartfelt thanks to certain key members of the WeSchool family for their special efforts towards the making of this magazine.

We deeply appreciate the constant motivation & encouragement that our beloved **Group Director Prof. Dr. Uday Salunkhe** has always given us. His vision & result orientation has been the driving force in creating brilliant leaders and making WeSchool a name to reckon with, not only in India but also globally. His focus on the core values of Passion, We Link & Care, Result Oriented Process Driven Work Ethic and Breakthrough Thinking has formed the foundation of all the activities that we undertake as students of this esteemed institute.

We deeply appreciate the help and support given to us by both **Prof. Amarkant Jain** and **Prof. Deepa Dixit**. Their insight and expertise is our driving force to ensure the sustainability of our magazine.

We appreciate **Prof. Indu Mehta** for her help in selecting the best Marketing articles. She is part of our core Marketing faculty at WeSchool.

The Finance articles were scrutinized by **Prof. Sapna Mallya** and we thank her for choosing the most relevant and informative articles.

We appreciate the efforts of **Prof. Swapna Pradhan** for selecting the most interesting articles in General Management domain.

We would like to thank **Ms. Yashodhara Katkar**, General Manager - Liaison, WeSchool and her PR team for helping us to reach out to our readers. Also, we thank **Ms. Prachi Shah** and her team for helping us out in the PR activities of Samvad

Having such an eminent personality in the interview section was possible with the help of **Ms. Siddhi Shah**, a student of our Business Design Course. We thank her for the support.

We are indebted to **Prof. Jalpa Thakker** for all her help and guidance in the making of Samvad. Her insight and suggestions have been of tremendous benefit to us. The Samvad Team would truly be incomplete without her.

Contents

An Interview with Mr. Prabodh Halde

By: Team Samvad

(Mr. Prabodh Halde is currently Head of Technical Regulatory of Marico Ltd.

He has more than 18 years of Industrial experience in the area of Quality and Food Safety. He has worked for Coca-Cola and ACC Ltd in the past. He is a Food technologist with double Post graduation in Marketing Management and Personal Management. He is lead auditor for ISO 9001/14001/OSHAS 18001/ISO 22000. Mr. Halde is the Vice president of AFST CFTRI Mysore, Executive committee member of Solvent Extractor's Association India, Expert Panel member FICCI Codex & Food Processing committee member. He has participated in India delegation to CODEX meeting two times at China & Malaysia- 2012/13. He has published many articles in scientific journals and news letter. He is an approved trainer from FSSAI and FDA Maharashtra, FDA Gujarat, FDA Goa, FDA Kerala & FDA MP. He has trained more than 1600 Food safety officers so far. He has delivered more than 100 seminars/lectures at different conferences all across India & abroad on food processing/Quality and Food Safety. He is also visiting faculty for M.Tech course at UDCT Mumbai, Board of Management member on BHM SNDT Mumbai. Syllabus committee member of UDCT, Pondicherry university and CFT MAU Parbhani. His area of expertise is food safety and Food regulations. He has received various awards includes 2 times best employee awards at Coca-Cola and five times Value awards at Marico ltd. He is also active member of UDAAN foundation an NGO working for underprivileged section of the society. He has Published total 4 books and his recent book Prabodhika was inaugurated by Shri Prithviraj Chavan, Hon. Chief Minister of Maharashtra on 4th March 2013.)

1) Please share with us your journey in the FMCG sector.

I have total 18 yrs experience in FMCG Company. My first job was in Bakenmans (6 months) then to ACC Ltd (3 yrs) and then moved to Coke (8 yrs) and now with Marico ltd. (7 yrs) I have seen culture of privately owned company, Multinational company and Indian multinational company. Every culture is different and it has given me a different perspective of professional life.

2) What are the major challenges you faced in your career and how did you deal with them?

Challenges are part of the career and every day there are challenges and one has to face these. When I was in ACC ltd (1995-97) we were in Agro business which was not the core strength of the company and the biggest challenge was to make management understand about the Agro business. For example, the ACC management which is a cement company would never under stand that the moisture loss in Agri commodity could be 10 % in storage. In a Cement company, even 0.5% loss matters. So it was very difficult for me to convince the management on small small things. In Coke, the challenge was to implement stringent quality norms in India when no one was aware about the same. I was fortunate to implement Quality/System certificates first time in India viz ISO 9001 /ISO 18001/ISO 14001 etc. I was responsible for Quality implementation in one region and training and awareness was a big issue then in the plant. In India, we have habit of 'Chalta hai' and this cannot be tolerated in quality systems. Now in Marico, the challenges are different which are more form external environment since the regulations are changing and one has to cope- up with new things.

3) Give us an overview of the current food industry in India.

The Indian food industry is projected to grow by US$ 100 billion to US$ 300 billion by 2015, according to a report by a leading industry body and Technopak. During the period, the share of processed food in terms of value is expected to increase from 43 per cent to 50 per cent.

Food processing industry is of enormous significance for India's development as it has linked economy, industry and agriculture in India, efficiently and effectively. The three pillars being together have synergised the development process and promoted the growth of the nation to a great extent.

There are 25,367 registered food processing units in the country whose total invested capital is Rs 84,094 crore (US$ 17.81 billion), as per a competitiveness report of the National Manufacturing Competitiveness Council. The food processing sector is presently growing at an average rate of 13.5 per cent per annum. The Vision Document 2015 envisages increasing the value addition from 20 per cent to 35 per cent by 2015.

Food processing industry is one of the largest industries operating in India and is divided into several segments.

Food Industry Segments

The Food Processing Industry operates across various segments that include:

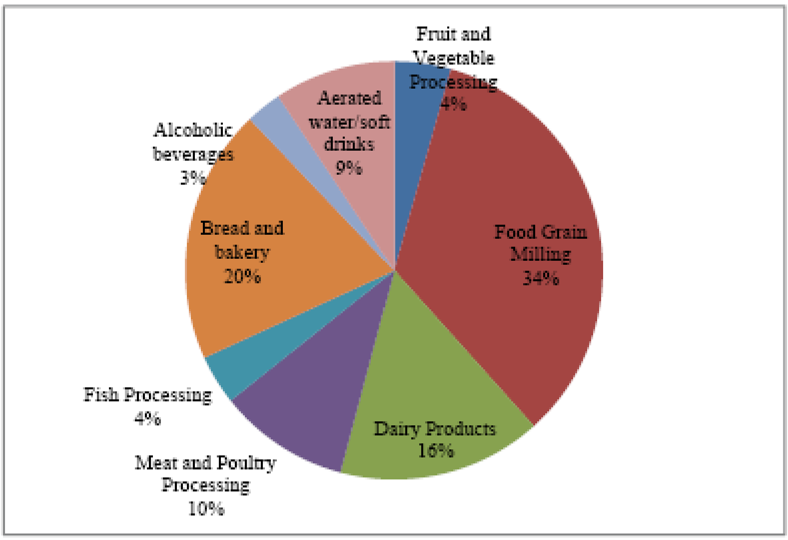
- Fruits & vegetables
- Meat & poultry
- Dairy
- Marine products, grains and consumer foods (that includes packaged food, beverages and packaged drinking water)

Value addition of food products is expected to increase from 8 per cent to 35 per cent by 2025. Fruit & vegetable processing is also expected to increase from the current level of 4.5% per cent to 25 per cent of total production by 2025, as per the CCI report. Dairy sector – that holds highest share in processed food market – holds large potential to be exploited. The food processing industries in India has attracted foreign direct investment (FDI) worth US$ 1,273.96 million from April 2000 to June 2011, according to the data provided by Department of Industrial Policy and Promotion (DIPP).

Indian Food Processing Industry: Structure and Composition

Food processing is a large sector that covers activities such as agriculture, horticulture, plantation, animal husbandry and fisheries. It also includes other industries that use agriculture inputs for manufacturing of edible products. The Ministry of Food Processing, Government of India has defined the following segments within the Food Processing industry.

Figure 4: Major Segments in the Food Processing Industry



Source: Annual Survey of Industry (ASI), MOFPI and IMaCS analysis;

4) What does the Association of Food Scientists & Technologists, India exactly do?

I am elected the Vice President of The Association of Food Scientists and Technologists (India) (AFST). AFST established in 1957, is one of the largest professional and educational organizations, with around 4000 members - food scientists and technologists, across the globe. The major objective of AFST(I) is to stimulate and advance knowledgebase on various aspects of Food Science and Technology by organizing National and International Conferences and bringing out technical publications including prestigious journals-Journal of Food Science and Technology (JFST) and Indian Food Industry (IFI). The association recognizes talent and excellence in the profession of Food Science and Technology by conferring various Awards and Fellowship. We have over 25 chapters all across country. The main objective of AFST(I) is to strive for the advancement of all aspects of science and technology relating to the production, processing and distribution of food.

5) Being from the food industry, please give your comments on the current Food Security Bill passed by the government.

The current Food Security Bill is good for weaker section of society but need to see the implementation since such bills are only good on paper and misused during its implementation. Also it will tax heavily on economy. We need wait for its implementation to understand exact impact.

6) Considering food comes under the basic needs of humans, how does an FMCG company balance profits with social responsibility?

Food is the basic need and still 80% of food industry comes under unorganized sector. In India there are very few big food companies. We got separate food processing ministry in late 1990 and then growth of FMCG has started in true sense. Like any other FMCG company, Food industry also balances it's profits with social responsibility. There is no such difference in Food and Non food FMCG.

7) How does an MBA student prepare himself in the two years of his course if he plans to have a career in the FMCG sector?

I consider MBA is a culture and you are trained to manage complex problem in un-certain environment. Speed is a heart of FMCG Company and one has to cope- up with that. As a student if you want to be part of FMCG, one should prepared mentally. Focus on current affairs, keep watch on trends and join the right sector. During these two years you should spend more time on consumer behaviour, consumer insights and industry trends. Balance your theory and practical. Give more important on project works. The future is bright if you have right blend of skills and attitude.

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WHAT IS FMCG?

(Source: http://www.about-fmcg.com/What-is-FMCG)

Also known as the Consumer Packaged Goods or CPG Industry, this multi-million dollar sector is made up of a huge range of famous brand names – the kind that we use every single day. These fast moving consumer goods are the essential items we purchase when we go shopping and use in our everyday lives. They're the household items you pick up when you're buying groceries or visit your local chemist or pharmacy. FMCG goods are referred to as 'fast moving', quite simply, because they're the quickest items to leave the supermarket shelves. They also tend to be the high volume, low cost items.

Cleaning and laundry products, over the counter medicines, personal care items and food stuffs make up a large bulk of the goods in the FMCG arena, but it doesn't end there. Paper products, pharmaceuticals, consumer electronics, plastic goods, printing and stationery, alcoholic drinks, tobacco and cigarettes can all be considered fast moving consumer goods too.

The top FMCG companies are characterised by their ability to produce the items that are in highest demand by consumers and, at the same time, develop loyalty and trust towards their brands.

Some of the leading FMCG companies in the world:-

Colgate-Palmolive

Famous brands: Colgate toothpaste; Palmolive soap and cleaning products; AJAX cleaning products.

Coca-Cola

Famous brands: Coca-Cola; Diet Coke; Fanta; Sprite

H. J. Heinz

Famous brands: Heinz Tomato Ketchup; Lea & Perrins; HP Sauce

Johnson & Johnson

Famous brands: Johnson's Baby; Neutrogena; Acuvue; Listerine oral care

Kimberly-Clark

Famous brands: Kleenex paper products; Kotex feminine care; Huggies baby products

L'Oréal

Famous brands: L'Oreal Paris, Garnier; Maybelline New York; Biotherm; Kiehl's

Nestlé

Famous brands: Nestel Pure Life, Nescafe; Nesquik; Kit Kat; Purina

Procter & Gamble

Famous brands: Ariel, Gillette; Pampers; Olay; Duracell; Pantene

Reckitt Benckiser

Famous brands: Dettol/Lysol, Air Wick, Veet; Vanish; Finish; French's Mustard; Durex

Unilever

Famous brands: Dove bodycare; Axe; Flora dairy products; Domestos; Cif; PG Tips

FMCG Supply Chain Management

By: Preetigandha Garad, PGDM (2012-2014), WeSchool

The heart of any FMCG industry is not their brand image, product portfolio but its efficient and effective supply chain.

Fast-Moving Consumer Goods (FMCG) or Consumer Packaged Goods (CPG) are products that are sold quickly and at relatively low cost. As the frequency of purchase and re purchase is higher the success of FMCG industry lies in their efficient supply chain management.

Image source: www.google.com/images

What is a supply chain?

Supply Chain (SC) consists of all parties involved, directly or indirectly, in fulfilling a customer request. Supply chain is a collection of business units (suppliers, distributors, etc) that interact with one another to transform raw materials into finished goods and distributed the finished goods to the customers.

Supply Chain is dynamic and involves the constant flow of information, product / material, and funds.

FMCGs refers to those retail goods that are generally replaced or fully used up over a short period of days, weeks, or months, and within one year. FMCG have a short shelf life, either as a result of high consumer demand or because the product deteriorates rapidly, managing this rapid turnaround is both an art and science.

Importance of supply chain in FMCG

Revenue structure in typical FMCG firm is given aside. Supply chain contributes around 20% revenue of a FMCG company. So cost saving on this 20% directly contributes to the profit of the company.

Suppose the cost of supply chain is reduces by 10 %(i.e. 18% contribution) then profit gets increased by 20% (i.e. 12% contribution).Cost saving on supply chain activity directly contributes to the profit.

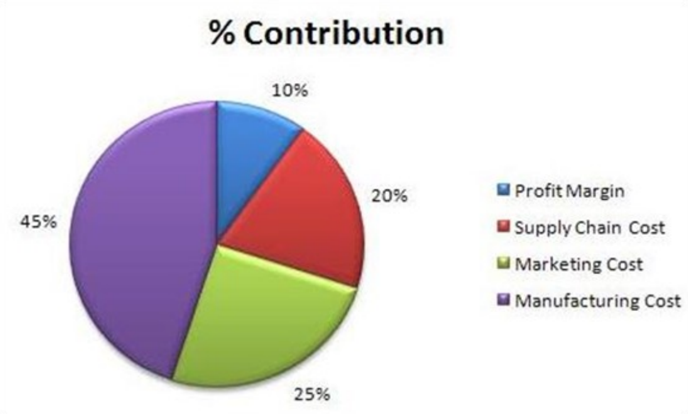

Image source: IITB SCM Research Report

Importance of supply chain in economy

Around 12% of Indian GNP and 10.5% of USA GNP is contributed by SCM activities, which high lights its huge share in global market activities.

	INDIA	USA
Total Logistic Costs as % of GNP	12%	10.50%
GNP (2010)	$ 3.64T	$12.27T
Total Logistic Costs	$ 436.8B	$ 1288.35B

Image source: http://wikipedia.org/wiki/logistics

Central Idea of Supply Chain in FMCG

Supply Chain teams oversee the entire product journey; from raw material to the delivery of the finished product to the customer. An advanced global supply chain is highly valued by FMCG businesses because it's this that drives gross margin expansion and improves cash management.

Players in FMCG Supply Chain

- Customers
- Retailers
- Distributors / Warehouses
- Manufacturers
- Tier I Suppliers
- Tier II Suppliers

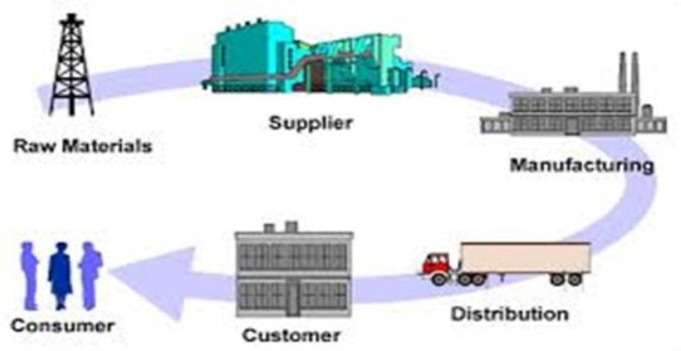

Image source: https://www.google.co.in

Countermeasures to the FMCG SCM problems:

1. Avoid multiple demand forecast updates. Companies can make demand data from downstream available upstream. Or they can bypass the downstream site by selling directly to the consumer. Also, they can improve operational efficiency to reduce highly variable demand and long resupply lead times.
2. Break order batches. Companies can use electronic data interchange to reduce the cost of placing orders and place orders more frequently. And they can ship assortments of products in a truckload to counter high transportation costs or use third-party logistics companies to handle shipping.
3. Stabilize prices. Manufacturers can reduce the frequency and level of wholesale price discounting to prevent customers from stockpiling. They can also use activity-based costing systems so they can recognize when companies are buying in bulk.
4. Eliminate gaming in shortage situations. In shortages, suppliers can allocate product based on past sales records, rather than on orders, so customers don't exaggerate their orders. They can also eliminate their generous return policies, so retailers are less likely to cancel orders.

Traditional SCM	vs.	Integrated SCM
Independent inventory management poli-		Joint reduction of channel in-
Minimization of firm		Channel-wide
Short-term focus		Long term perspective
Corporate philosophy not relevant		Information sharing to plan & monitor
Each to their own success or failure		Compatible corporate philosophy
Independent actions &		Sharing of risks / Channel leadership & compatible information systems

So, implementing the best practices of SCM in this VUCA world is the critical need of Time!

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Nestle's approach to Human Resources

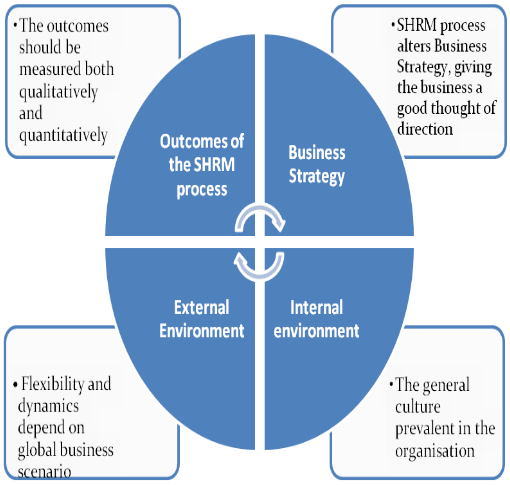
By: Anuja Sharma, PGDM (2013-2015), WeSchool

Image Source: www.jobstreet.com

Human resources holds the power to provide a company with a reasonable advantage over its competitors in the current fast-changing environment. Nestle, a Switzerland-based company, is one such leading FMCG company which has leveraged its human resources to make its way to the top of the charts. Ever since its inception in 1905, the company has been a symbol of commitment to the consumer that the product is safe and of high standard. The employees of Nestle have played a major role in the success of the organisation. Nestle is known for recruiting motivated and competent individuals, who respect the company's core values. The company offers equal opportunities for the growth of its people and protects their privacy and declares a zero-tolerance level for any form of discrimination or harassment.

Nestle follows Strategic Human Resource Management (SHRM), which is the linking of strategic goals with human resources. Managers use SHRM as a process to design the mechanisms of an HRM system so as to align them with the goals and objectives of the organisational architecture. The main objective of an SHRM is to improve the company's HRM system and thus increase its awareness, worth, and productivity to consumers.

Key Factors of SHRM Process



Stages of Strategic Human Resource Planning (SHRP)

1. Situational analysis/environmental scanning: HR planners identify possible sources of threats
2. Estimating demand for human resources: Estimating not only how many but also what kinds of employees will be needed by the organisation
3. Analyzing the supply of human resources
4. Developing action plans to fill gaps between HR supply and demand

Nestle's steps for SHRM

Job Design	• Nestle includes practices like Job Enrichment and Job Enlargement to motivate employees and to eradicate monotony from their job tasks. • This process is very detailed and based on strategic process.
Recruitment & Selection	• Recruitment for management levels takes place in the headquarters office and all others at the branch level. The existing employees are promoted to higher posts as per the requirements. • There are no lateral recruitments. Other sources of recruitment are campus placements and human resource consultancies.
Training & Development	• Nestle offers literacy training for workers to upgrade their essential literacy skills, especially for those who operate new. Employees are also sent overseas to study markets and consumer behaviour. • Local Training Programmes on topics ranging from technical, leadership, and communication to business economics.
Pay structure	• Nestle strives to provide fair remuneration. The remuneration levels in the company are above the average in industry. • The variable component of the salary is comparatively big to reward individual performance. • In case of higher management, the variable part is linked to individual and team target achievements.
Benefits	• Nestle provides following benefits to all its employees: Fixed number of personal and medical leaves per year; children education assistance scheme; provident fund; retirement gratuity scheme; group insurance and accidental insurance scheme; conveyance reimbursements; residential accommodation; and monthly health check-ups and free consultation for self and family.
Performance Management	• Formal assessment by Line Managers and HR once a year with feedback; provides room for contestation • HR department enlists specific Key Performance Indicators (KPIs). • One of the important KPIs is achievement following the Nestle management and leadership principles. • Remuneration structure and promotion criteria based on individual performance.
Rewards and Incentives	•'Passion to Win' awards- These quarterly awards reward those who over-achieve their targets. • 'Long-service Awards- To recognize employees who have been with the company for over 30 years. • 'Nestle Idea Award'- The company gives away these awards every quarter to recognize and award employees who come up with relevant and innovative ideas.
Maintenance : Welfare	• Employee turnover is less than 5%., which is very low for a company as big as Nestle. • Nestle follows an open culture and upward communication especially in case of grievance redressal. • Work/Life balance is given priority. Emphasis is laid on safety of employees • HR department holds 'Nestle Family' annual events attended by employees along with their families.

This model adopted by Nestle results in high performance, high involvement and high commitment within the company. Nestle has made a mark in the industry by successfully inculcating its business objective as well as core values in its employees' day-to-day activities beginning from recruitment to

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What Should be done with FMCG Stocks

By: Bhavik Mehta, MMS (2012-2014), SIMSREE

FMCG stands for Fast Moving Consumer Goods which are popularly called as consumer packaged goods. The goods in this category are meant for daily consumption and bought by consumers at regular intervals. The list of items include detergents, shampoos, toothpaste, packaged foodstuff, toilet soaps, etc. FMCG sector is the fourth largest sector in the economy with a total market size of more than US$ 13.1 billion.

FMCG sector benefited post liberalization as it welcomed a number of MNCs in India which resulted in an increase in sales in the sector. But it got hit between 2000 and 2004 because of the agricultural crisis and industrial slowdown. Another reason for the hit was that consumers had started spending more on consumer durables, mobiles, bikes, etc. So the share of FMCG in consumer's wallet decreased. But this sector is called as a defensive sector as it is not affected by the tough economic conditions. During recession and inflation, consumers will cut down expenses on premium and expensive goods but not on FMCG goods as they are required for daily consumption. The sector stood tall during the 2008 financial crisis as well as during the euro zone crisis and has continued to do well since then. As we can see that the Sensex has been highly volatile since 2008 but the FMCG index has been rising steadily since 2008.

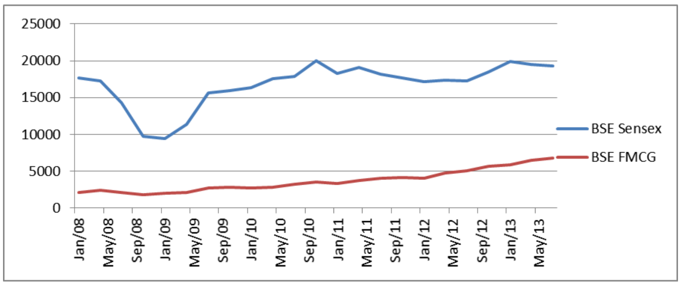

Image Source: www.bse.com

The valuations of FMCG stocks are at sky high but the rising prices and slowing growth indicate that the party time is over for these stocks.

Over the last one year the sector has gained 33.8% compared to the Sensex's gain of 11.9%. The key factor responsible for the outperformance of FMCG stocks is the external environment. As the economic growth had slowed to a decade low and there are still no signs of revival, investors were attracted to defensive sectors like FMCG as they didn't find any other sectors worth investing in.

Also there are factors which are generic to the sector. One, the sales growth of FMCG companies has been far more than that of India Inc in the past 1 year. Two, FMCG companies don't require working capital finance as they buy from suppliers on credit and sell to distributors for cash. Thus, these companies are cash rich and carry low debt.

Also parent companies buying stake at higher valuations has resulted in hefty premium for the entire universe of FMCG stocks. Hindustan Unilever Limited (HUL) is one of the companies in which its parent Unilever Plc increased its stake to 67% from 52% through buyback of shares worth Rs. 19,180 crore. GSK Consumer Healthcare is another company whose stock received a boost from generous pricing of open offer.

All these factors led to the sky high valuations of FMCG stocks. Hindustan Unilever's PE has increased from 33 times to 40 times within a space of 1 year. GSK Consumer Healthcare's PE has increased from 28 times to 42 times within a space of 1 year. P&G Hygiene's PE has increased from 40 times to 50 times in last 1 year. The BSE FMCG index is trading at a PE of 38 times in contrast to PE of 17 times of Sensex and Nifty.

The growth prospects of FMCG companies is diminishing. Rising prices and slowing growth are making Indian consumers check their spending on products such as soaps, shampoos, packaged groceries, and food items. The consumer inflation has stayed more than 9% in the past 1 year. According to market researcher Nielsen's data, sales growth of FMCG companies in the June quarter was lower than both in the previous quarter and in the year earlier period. FMCG sales grew 11% in value terms in June quarter as compared to 14% growth in March quarter and 17% growth in June quarter last year.

Consumers are scaling back purchases of cosmetics and packaged food segments which are not that essential as soaps and detergents. The companies have confirmed that there is a slowdown in demand. The sales growth of the personal products segment of HUL dropped to 2% in June 2013 quarter from 12% in December 2012 quarter. Agro Tech Foods sales growth was just 8% in the June 2013 quarter. The volume growth has also come down for all the companies. The volume growth of Marico dropped to 8% in June quarter as compared to above 14% growth in previous quarters. HUL's volume growth was only 4% in the June quarter.

According to data, the growth in the overall food segment was 17% in year ended June as compared to 18% in the year ended March. The growth in the overall non food segment was 13% in year ended June as compared to 15% in year ended March.

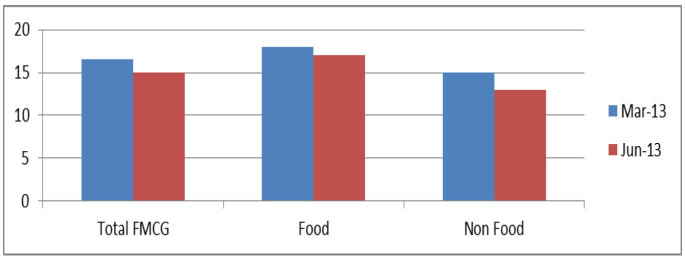

Image source: www.economictimes.indiatimes.com

The fundamentals of the FMCG sector are deteriorating. The gross margin and operating margin had been improving over the past 1 year because of a decrease in input prices. Raw materials such as palm oil and acids, wheat, and barley were available at a cheaper price.

	March 2013	June 2013
Food:		
Food Products	17	14
Hot Beverages	12	10
Non Food:		
General Personal Care	16	13
Laundry	18	15
Hair Care	14	11
Women Personal Care	12	10
Household Care	22	19
Men Grooming	11	6

Image source: www.economictimes.indiatimes.com

But with the rupee depreciating, prices of imported materials like palm oil is on the rise. Prices of other input materials such as tea, safflower oil, and milk are also rising. During high input costs scenarios in 2011, companies reduced their advertising and promotion spending to maintain their operating margins. But in today's scenario where competition is so intense, reducing advertising and promotion spending is not possible. So the gross margins and operating margins will be impacted negatively in the coming quarters. The sales of the FMCG companies will moderate in the coming quarters because of a curb in spending by the consumers due to rising prices. This will also impact the margins of the companies.

So it's the right time for investors to book profits in the stocks they hold as there is very less probability of any upside potential in the FMCG stocks and the stocks will start correcting in the coming quarters.

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Fast Moving Consumer Goods

By: Vivek Telang and Jayashree Surpam,

MMS (2012-2014), Chetana Institute of Management

Fast Moving Consumer Goods (FMCG) goods are all consumable items (other than groceries/pulses) that one needs to buy at regular intervals. These are items which are used daily, and so have a quick rate of consumption, and a high return. FMCG can broadly be categorized into three segments which are:

1.Household items as soaps, detergents, household accessories, etc,

2.Personal care items as shampoos, toothpaste, shaving products, etc and finally

3. Food and Beverages as snacks, processed foods, tea, coffee, edible oils, soft drinks etc .

Overview

The FMCG sector in India is at present, the fourth largest sector with a total market size in excess of USD 13 billion as of 2012. This sector is expected to grow to a USD 33 billion industry by 2015 and to a whooping USD 100 billion by the year 2025. This sector is characterized by strong MNC presence and a well established distribution network. In India the easy availability of raw materials as well as cheap labour makes it an ideal destination for this sector.

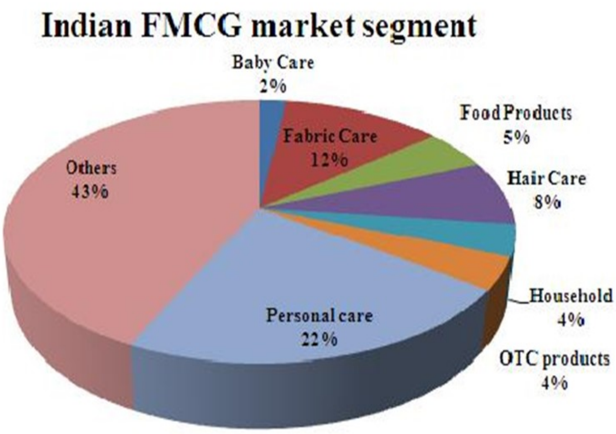

Image Source: http://www.google.com/images

A look at some factors that will drive growth in this sector:

•Increasing rate of urbanization, expected to see major growth in coming years.

•Rise in disposable incomes, resulting in premium brands having faster growth and deeper penetration.

•Innovative and stronger channels of distribution to the rural segment, leading to deeper penetration into this segment.

•Increase in rural non-agricultural income and benefits from government welfare programmes.

Some of the challenges this sector is likely to face are:

•Increasing rate of inflation, which is likely to lead to higher cost of raw materials.

•Steadily rising fuel costs, leading to increased distribution costs.

•The present slow-down in the economy may lower demand of FMCG products, particularly in the premium sector, leading to reduced volumes.

•The declining value of rupee against other currencies may reduce margins of many companies, as Marico, Godrej Consumer Products, Colgate, Dabur, etc who import raw materials.

Acquisitions

While the slow and mature profile of western markets is unlikely to be appealing, Indian companies are likely to continue to focus on high growth markets such as South-East Asia, Africa, Latin America.

Indian FMCG companies have been active in overseas acquisitions with the likes of Godrej and Wipro taking the lead. While Godrej had made a series of acquisitions in the past three years in Indonesia, Africa and Argentina, Wipro Ltd acquired Singapore based LD Waxon, which sells skincare and healthcare products, in December 2012. Wellness and beauty company VLCC acquired Malaysia's Wyann International in November, 2012.

FMCG companies focusing on rural India

Encouraged by growth in sales from rural India in the second quarter, fast moving consumer goods (FMCG) companies are devising ways to tap this segment over the next few quarters. They plan new marketing strategies and extending their distribution reach, by increasing the number of stockists and even participating in rural markets and melas. The FMCG sector in India is the fourth largest in the economy, with a market size of over Rs 110,000 crore (around $22 billion) and is estimated to grow to over Rs 185,000 crore (around $37 billion) by 2014. A recent study by the Rural Marketing Association of India (RMAI), confirms that rural income levels are on the rise, driven largely by continuous growth in agriculture for four continuous years.

Though rural markets are growing from a smaller base, the numbers can be stark in some categories. Mass products like soaps, hair oil and biscuits have good sales, and almost all companies are now relooking their strategy, according to the analyst with Angel Broking.

For Marico, 25 per cent of its sales come from rural India. Emami, on the other hand, prefers to promote products through channel-level incentives in smaller towns, including wall paintings, door-to-door activities, in-shop promotions, activities in rural markets, fairs and festivals, kheti mela, mobile traders or shops on wheels, and video vans.

Godrej Consumer Products (GCPL) has seen rural sales grow by 40 per cent in the past six months, double of that in urban areas. They have project 'Dharti' for rural India and cover close to 17,000 villages. They intend covering 50,000 villages soon. This also means that the 4,000 sub-stockists they have in rural areas in India would be more than doubled, creating more employment opportunities.

Hindustan Unilever (HUL) and ITC, too, have robust rural initiatives such as Project Shakti and e-choupals, respectively. HUL has the highest sales mix coming from rural India. Its key category, soaps and detergents, is facing intense competitive pressure in rural markets.

Conclusion

This sector will continue to see growth as it depends on an ever-increasing internal market for consumption, and demand for these goods remains more or less constant, irrespective of recession or inflation. Hence this sector will grow, though it may not be a smooth growth path, due to the present world-wide economic slowdown, rising inflation and fall of the rupee.

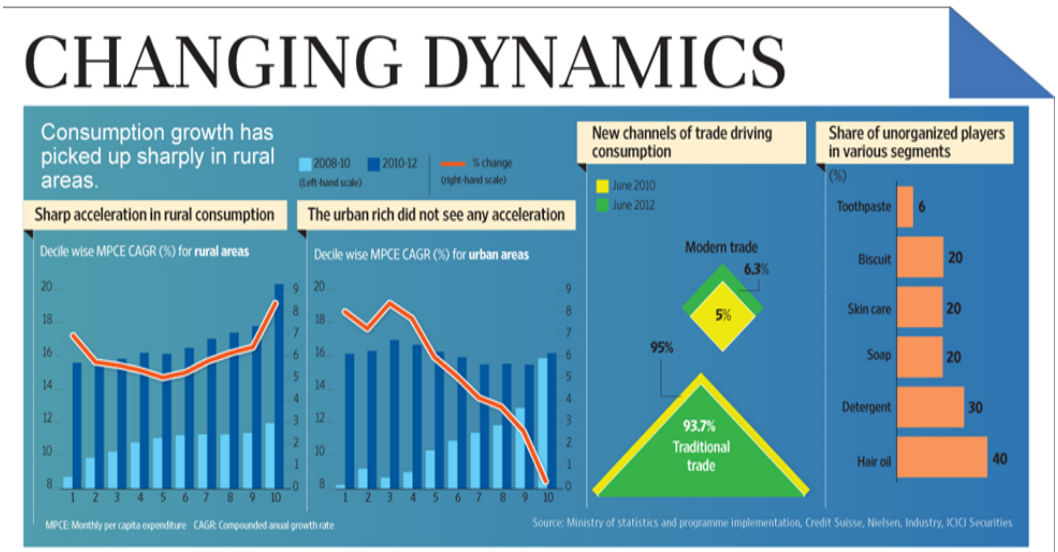

Image Source: http://www.google.com/images

Global Retail Environment & India: A Present Scenario

By: Rahul Sharma, MBA (2013-2015), IIFT Kolkata

Source: ciiblog.wordpress.com

According to the 2013 report of Global Retail Development Index (GRDI), an annual study published by management consultancy firm A.T. Kearney, that ranks top 30 developing nations for retail expansion opportunities, emerging economies remain the major source of growth in the backdrop of a developed world that is still facing anaemic growth throughout the world. The A. T. Kearney GRDI score is generated after considering the following factors: Market Attractiveness, Country Risk, Market Saturation and Time pressure. The findings put Brazil at the top with an index score of 69.5 for third straight year. Chile (67.1) and Uruguay (66.5) occupy the second and third spots, followed by countries from central Asia, Latin America, South Asia and South-east Asia. India has fallen to 14th position in the list with a score of 55, its worst position ever since the inception of the ranking in 2002 for reasons like high operating costs, increasingly deteriorating market fundamentals, political issues, domestic resistance etc.

The study reveals that, while the emerging economies like Brazil, where economic and political environment are stable, are seeing increased in vestor and consumer confidence, the sentiment is not same in other bigger markets like India and to some extent China. This has led to a cautious approach by retailers in these markets and they have resorted to investing in nearby smaller markets like Mongolia, Armenia, Georgia, Uruguay etc. that can be used as prototypes, for developing strategies to build upon, for a larger scale expansion in major emerging economies led by BRICS, where growing and existing middle income groups present immense potential for growth.

Investment in retail sector-Indian experiences

FDI in retail, in emerging economies has largely

Source: http://www.mbaskool.com

resulted in increased productivity in host countries as well as adoption of 'best practices' by the concerned retail domain. There have been other positive spill over effects for suppliers as well; however, these effects have not been that significant for the buyers at large. Also, the economies that are more open to trade and having underdeveloped financial systems have gained more as compared to others. The effects are also related to the fact that how distant the investors are present from the market. It is not always true that the more relaxed FDI norms have resulted in higher reach by the international retailers as well.

Source: http://blog.packsize.com/

Being home to one of the youngest population in the world and having one of the fastest growing markets, India has been a hotspot of attention for international retailers. Strong fundamentals of economy, despite inflationary pressures, and an increasingly brand conscious young population holds much promise to investors. The government, high on deficits, also expects FDI to improve the country's finances and stimulate job creation in organized sector. It has prompted the government to increase the FDI cap to 100% and 51% in single brand and multibrand retail respectively.

However, factors like

- suspicion among the political class and general population
- a labyrinth of investment norms, including 30% mandatory local sourcing
- lack of adequate infrastructure

have not moved much on the ground. It is due to the effects of these factors that India dropped from its No. 5 ranking in 2012 to the 14th position in 2013. India scored the following to reach it's index score of 55:

Market Attractiveness - 36.8%

Country Risk - 59.4%

Market Saturation - 63.3%

Time Pressure - 60.6%

While opportunities & threats abound in the Indian retail industry, it's a challenging yet rewarding road ahead.

Source http://www.theguardian.com/

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Call for Articles

We invite articles for the September 2013 Issue of Samvad.

The Theme for the next month: September 2013 - "**Best in Business**"

The articles can be from Finance, Marketing, Human Resources, Operations or General Management domains.

Submission Guidelines:

- Word limit: 1000 words or a maximum of 4 pages with relevant images.
- Cover page should include your name, institute name, course details & contact no.
- The references for the images used in the article should be mentioned clearly and explicitly below the images.
- Send in your article in .doc or .docx format, Font size: 12, Font: Constantia, Line spacing: 1.05' to **samvad.we@gmail.com. Deadline for submission of articles : 30th September, 2013**
- Please name your file as: <YourName>_<title>_<section name e.g. Marketing/Finance>
- Subject line: <YourName>_<Course>_<Year>_<Institute Name>
- Ensure that there is no plagiarism and all references are clearly mentioned.
- Like our Fb pg: Samvad.WeSchool.Student.Magazine.

Samvad Blog

As said by Ann Morough Lindburg, "Good communication is as stimulating as black coffee and just as hard to sleep after." Samvad, which means 'to converse' in Hindi, is exactly the motive of our team Samvad. Our readers and writers are of utmost importance to us at Samvad. We don't like to interact with you only once when the issue is released. So, we thought, what next? Then came the idea of a blog - the ideal platform for meaningful discussion on a more regular basis. Hence, we present to you 'The Samvad Blog'. The Samvad Blog, as the name suggests is a blog dedicated to sharing of information, insights and opinions that allow exchange of some valuable ideas by stimulating your intellectual senses. It will include some interesting reads on management gurus, book reviews, and relevant articles among many other varieties of food for thought.

http://samvadwe.blogspot.in/

Don't forget to comment with your opinions. Always have a healthy debate we say! As progression lies not in agreement, but debate!

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