FAST MOVING CONSUMER GOODS

www.ibef.org

FAST MOVING CONSUMER GOODS

WHY INDIA	3
INDIA COMPETITIVENESS AND COMPARISON WITH THE WORLD MARKETS	7
POLICY	9
TRENDS AND PLAYERS	12
MARKET OPPORTUNITIES FOR INVESTMENT	32
ANNEX: APEX CONTACTS AGENCIES	38

A report by PricewaterhouseCoopers for IBEF

Executive summary

The Indian FMCG sector is the fourth largest sector in the economy with a total market size in excess of US$ 13.1 billion. It has a strong MNC presence and is characterised by a well-established distribution network, intense competition between the organised and unorganised segments and low operational cost. Availability of key raw materials, cheaper labour costs and presence across the entire value chain gives India a competitive advantage.

The FMCG market is set to treble from US$ 11.6 billion in 2003 to US$ 33.4 billion in 2015. Penetration level as well as per capita consumption in most product categories like jams, toothpaste, skin care, hair wash etc in India is low indicating the untapped market potential. Burgeoning Indian population, particularly the middle class and the rural segments, presents an opportunity to makers of branded products to convert consumers to branded products. Growth is also likely to come from consumer 'upgrading' in the matured product categories. With 200 million people expected to shift to processed and packaged food by 2010, India needs around US$ 28 billion of investment in the food-processing industry.

WHY INDIA

Large domestic market

India is one of the largest emerging markets, with a population of over one billion. India is one of the largest economies in the world in terms of purchasing power and has a strong middle class base of 300 million.

Rural and urban potential

Rural-urban profile

	Urban	Rural
Population 2001-02 (mn household)	53	135
Population 2009-10 (mn household)	69	153
% Distribution (2001-02)	28	72
Market (Towns/Villages)	3,768	627,000
Universe of Outlets (mn)	1	3.3

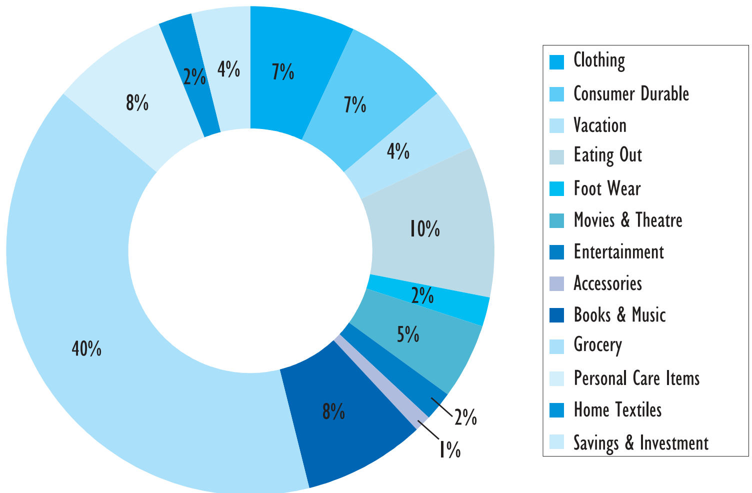
Source: Statistical Outline of India (2001-02), NCAER

Around 70 per cent of the total households in India (188 million) resides in the rural areas. The total number of rural households are expected to rise from 135 million in 2001-02 to 153 million in 2009-10. This presents the largest potential market in the world. The annual size of the rural FMCG market was estimated at around US$ 10.5 billion in 2001-02. With growing incomes at both the rural and the urban level, the market potential is expected to expand further.

India - a large consumer goods spender

An average Indian spends around 40 per cent of his income on grocery and 8 per cent on personal care products. The large share of fast moving consumer goods (FMCG) in total individual spending along with the large population base is another factor that makes India one of the largest FMCG markets.

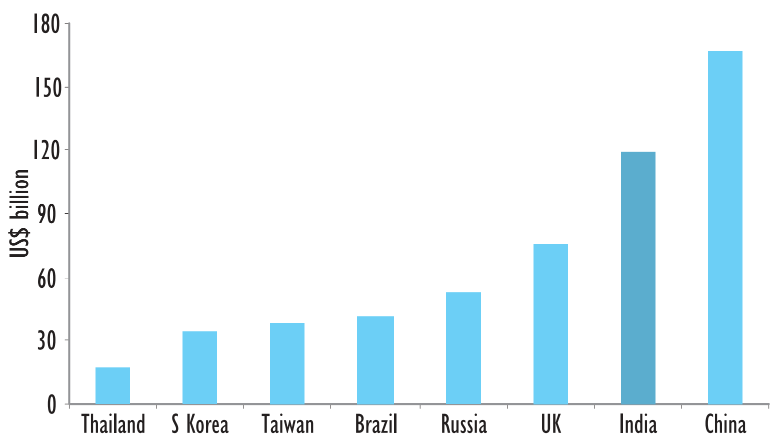
Consumption pie



Source: KSA Technopak Consumer Outlook 2004.

Even on an international scale, total consumer expenditure on food in India at US$ 120 billion is amongst the largest in the emerging markets, next only to China.

Consumer expenditure on food (US$ billion)



Source: Euro monitor.

Change in the Indian consumer profile

Consumer Profile

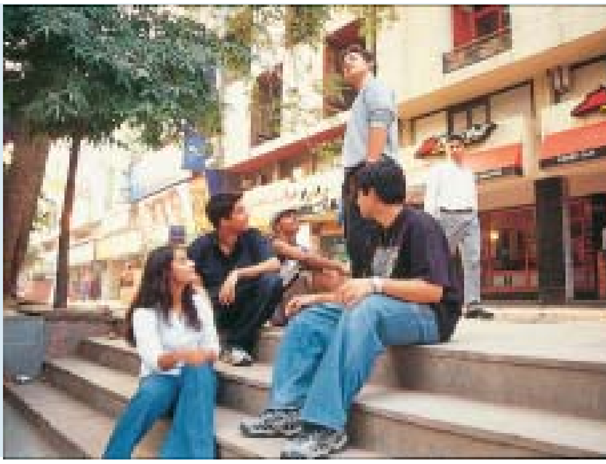
	1999	2001	2006
Population (millions)	846	1,012	1,087
Population < 25 years of age	480	546	565
Urbanisation (%)	26	28	31

Source: Statistical Outline of India (2002-03).

Rapid urbanisation, increased literacy and rising per capita income, have all caused rapid growth and change in demand patterns, leading to an explosion of new opportunities. Around 45 per cent of the population in India is below 20 years of age and the young population is set to rise further. Aspiration levels in this age group have been fuelled by greater media exposure, unleashing a latent demand with more money and a new mindset.

Demand-supply gap

Currently, only a small percentage of the raw materials in India are processed into value added products even as the demand for processed and convenience food is on the rise. This demand supply gap indicates an untapped opportunity in areas such as packaged form, convenience food and drinks, milk products etc. In the personal care segment, the low penetration rate in both the rural and urban areas indicates a market potential.



FMCG Category and products

Category	Products
Household Care	Fabric wash (laundry soaps and synthetic detergents); household cleaners (dish/utensil cleaners, floor cleaners, toilet cleaners, air fresheners, insecticides and mosquito repellents, metal polish and furniture polish).
Food and Beverages	Health beverages; soft drinks; staples/cereals; bakery products (biscuits, bread, cakes); snack food; chocolates; ice cream; tea; coffee; soft drinks; processed fruits, vegetables; dairy products; bottled water; branded flour; branded rice; branded sugar; juices etc.
Personal Care	Oral care, hair care, skin care, personal wash (soaps); cosmetics and toiletries; deodorants; perfumes; feminine hygiene; paper products.

INDIA COMPETITIVENESS AND COMPARISON WITH THE WORLD MARKETS

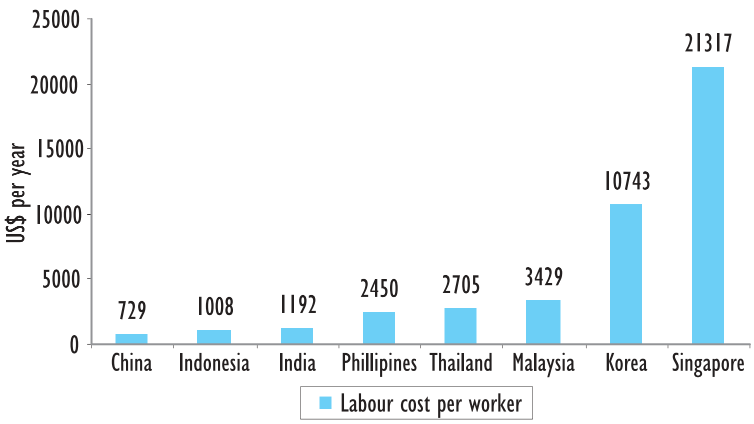
Materials availability

India has a diverse agro-climatic condition due to which there exists a wide-ranging and large raw material base suitable for food processing industries. India is the largest producer of livestock, milk, sugarcane, coconut, spices and cashew and is the second largest producer of rice, wheat and fruits & vegetables.

India also has an ample supply of caustic soda and soda ash, the raw materials in the production of soaps and detergents - India produced 1.6 million tonnes of caustic soda in 2003-04. Tata Chemicals, one of the largest producers of synthetic soda ash in the world is located in India. The availability of these raw materials gives India the locational advantage.

Cost competitiveness

Labour cost comparison



Source: DIPP.

Apart from the advantage in terms of ample raw material availability, existence of low-cost labour force also works in favour of India. Labour cost in India is amongst the lowest in Asian countries. Easy raw material availability and low labour costs have resulted in a lower cost of production. Many multi-nationals have set up large low cost production bases in India to outsource for domestic as well as export markets.

Leveraging the cost advantage

Global major, Unilever, sources a major portion of its product requirements from its Indian subsidiary, HLL. In 2003-04, Unilever outsourced around US$ 218 million of home and personal care along with food products to leverage on the cost arbitrage opportunities with the West.

To take another case, Procter & Gamble (P&G) outsourced the manufacture of Vicks Vaporub to contract manufacturers in Hyderabad, India. This enables P&G to continue exporting Vicks Vaporub to Australia, Japan and other Asian countries, but at more competitive rates, whilst maintaining its high quality and cost efficiency.

Presence across value chain

Indian firms also have a presence across the entire value chain of the FMCG industry from supply of raw material to final processed and packaged goods, both in the personal care products and in the food processing sector. For instance, Indian firm Amul's product portfolio includes supply of milk as well as the supply of processed dairy products like cheese and butter. This makes the firms located in India more cost competitive.

POLICY

India has enacted policies aimed at attaining international competitiveness through lifting of the quantitative restrictions, reduced excise duties, automatic foreign investment and food laws resulting in an environment that fosters growth. 100 per cent export oriented units can be set up by government approval and use of foreign brand names is now freely permitted.

FDI Policy

Automatic investment approval (including foreign technology agreements within specified norms), up to 100 per cent foreign equity or 100 per cent for NRI and Overseas Corporate Bodies (OCBs) investment, is allowed for most of the food processing sector except malted food, alcoholic beverages and those reserved for small scale industries (SSI). 24 per cent foreign equity is permitted in the small-scale sector. Temporary approvals for imports for test marketing can also be obtained from the Director General of Foreign Trade. The evolution of a more liberal FDI policy environment in India is clearly supported by the successful operation of some of the global majors like PepsiCo in India.

PepsiCo's India experience

After a not so successful attempt to enter the Indian market in 1985, Pepsi re-entered in 1988 with a joint venture of PepsiCo, Punjab government-owned Punjab Agro Industrial Corporation (PAIC) and Voltas India Limited. By 1994, Pepsi took advantage of the liberalised policies and took control of Pepsi Foods by making an offer to both Voltas and PAIC to buy their equity. The Indian government gave concessions to the company, Pepsi was allowed to increase its turnover of beverages component to beyond 25 per cent and was no longer restricted by its commitment to export 50 per cent of its turnover. The government approved more than US$ 400 million worth of

investment of which over US$ 330 million has already been invested. The government also allowed PepsiCo to set up a new company in India called PepsiCo India Holdings Pvt Ltd, a wholly owned subsidiary of PepsiCo International, which is engaged in beverage manufacturing, bottling and exports activities as Pepsi Foods Ltd.

Since then, the company has bought over bottlers in different parts of India along with Dukes, a popular soft-drink brand in western India to consolidate its market share. This was followed by an introduction of Tropicana juice in the New Delhi and Bangalore markets in 1999.

Currently, soft drink concentrate, snack foods and vegetable and food processing are the key products of the company. Pepsi considers India, along with China, as one of the two largest and fastest growing businesses outside North America. Pepsi has 19 company owned factories while their Indian bottling partners own 21. The company has set up 8 greenfield sites in backward regions of different states. PepsiCo intends to expand its operations and is planning an investment of approximately US$ 150 million in the next two-three years.

Removal of Quantitative Restrictions and Reservation Policy

The Indian government has abolished licensing for almost all food and agro-processing industries except for some items like alcohol, cane sugar, hydrogenated animal fats and oils etc., and items reserved for the exclusive manufacture in the small scale industry (SSI) sector. Quantitative restrictions were removed in 2001 and Union Budget 2004-05 further identified 85 items that would be taken out of the reserved list. This has resulted in a boom in the FMCG market through market expansion and greater product opportunities.

Central and state initiatives

Various states governments like Himachal Pradesh, Uttaranchal and Jammu & Kashmir have encouraged companies to set up manufacturing facilities in their regions through a package of fiscal incentives. Jammu and Kashmir offers incentives such as allotment of land at concessional rates, 100 per cent subsidy on project reports and 30 per cent capital investment subsidy on fixed capital investment upto US$ 63,000. The Himachal Pradesh government offers sales tax and power concessions, capital subsidies and other incentives for setting up a plant in its tax free zones. Five-year tax holiday for new food processing units in fruits and vegetable processing have also been extended in the Union Budget 2004-05.

Wide-ranging fiscal policy changes have been introduced progressively. Excise and import duty rates have been reduced substantially. Many processed food items are totally exempt from excise duty. Customs duties have been substantially reduced on plant and equipment, as well as on raw materials and intermediates, especially for export production. Capital goods are also freely importable, including second hand ones in the food-processing sector.

Food laws

Consumer protection against adulterated food has been brought to the fore by "The Prevention of Food Adulteration Act (PFA), 1954", which applies to domestic and imported food commodities, encompassing food colour and preservatives, pesticide residues, packaging, labelling and regulation of sales.

TRENDS AND PLAYERS

The structure

The Indian FMCG sector is the fourth largest sector in the economy and creates employment for three million people in downstream activities. Within the FMCG sector, the Indian food processing industry represented 6.3 per cent of GDP and accounted for 13 per cent of the country's exports in 2003-04.

A distinct feature of the FMCG industry is the presence of most global players through their subsidiaries (HLL, P&G, Nestle), which ensures new product launches in the Indian market from the parent's portfolio.

Critical operating rules in Indian FMCG sector

- Heavy launch costs on new products on launch advertisements, free samples and product promotions.
- Majority of the product classes require very low investment in fixed assets
- Existence of contract manufacturing
- Marketing assumes a significant place in the brand building process
- Extensive distribution networks and logistics are key to achieving a high level of penetration in both the urban and rural markets
- Factors like low entry barriers in terms of low capital investment, fiscal incentives from government and low brand awareness in rural areas have led to the mushrooming of the unorganised sector
- Providing good price points is the key to success

Penetration and per capita consumption

Rural - urban penetration (2002)

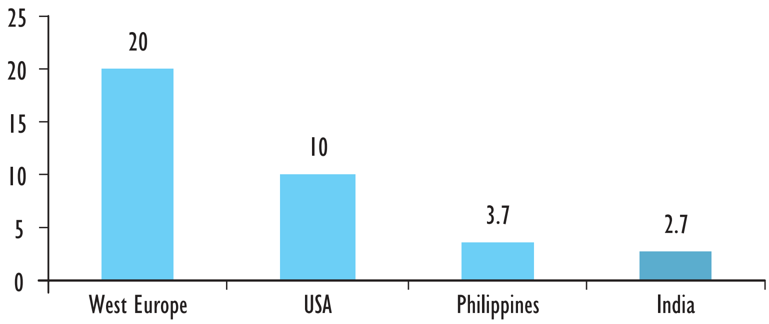
Category	Market Size (US$ million)	Urban Penetration (%)	Rural Penetration (%)	Total Penetration (%)
High Penetration categories >50%: Drive upgradation and consumption				
Fabric Wash	1210	89.6	82.9	84.9
Personal Wash	938	97.9	90.7	92.8
Packet Tea	635	91.2	82.2	84.9
Low penetration categories: Drive penetration				
Toothpaste	409	69.8	32.3	43.5
Skin	312	36.6	19.8	24.7
Hair Wash	230	40.1	16.3	23.3
Talcum Powder	148	66	36.8	45.1
Branded Atta	107	44	30.2	34.3
Dish Wash	102	54.6	11.5	24.4
Instant Coffee	55	-	-	-
R&G Coffee	30	-	-	-
Ketchups	25	12.5	0.7	4.2
Deodorants	19	-	-	-
Jams	13	-	-	-

Source: HLL, Indian Readership Survey.

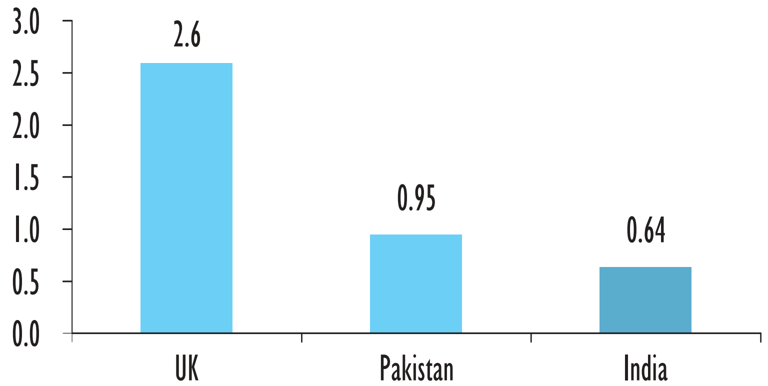
Penetration level in most product categories like jams, toothpaste, skin care, hair wash etc in India is low. The contrast is particularly striking between the rural and urban segments - the average consumption by rural households is much lower than their urban counterparts. Low penetration indicates the existence of unsaturated markets, which are likely to expand as the income levels rise. This provides an excellent opportunity for the industry players in the form of a vastly untapped market.

Moreover, per capita consumption in most of the FMCG categories (including the high penetration categories) in India is low as compared to both the developed markets and other emerging economies. A rise in per capita consumption, with improvement in incomes and affordability and change in tastes and preferences, is further expected to boost FMCG demand. Growth is also likely to come from consumer "upgrading", especially in the matured product categories.

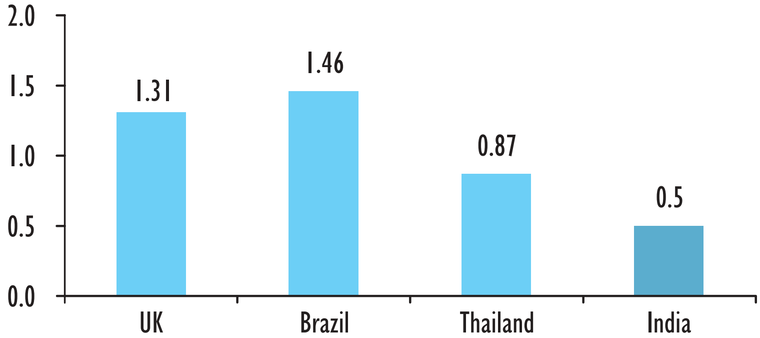
Detergent per capita consumption (in kg) (2001)



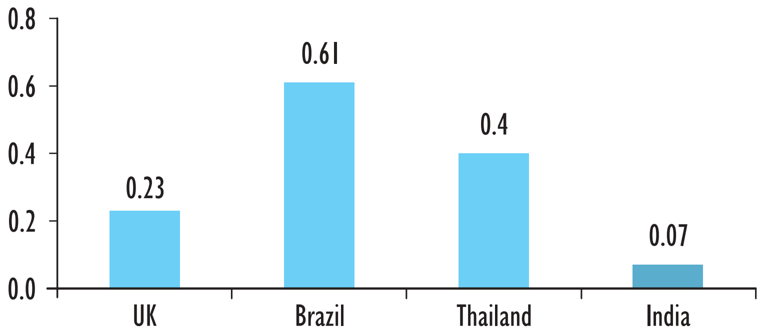
Tea per capita consumption (in kg) (2001)



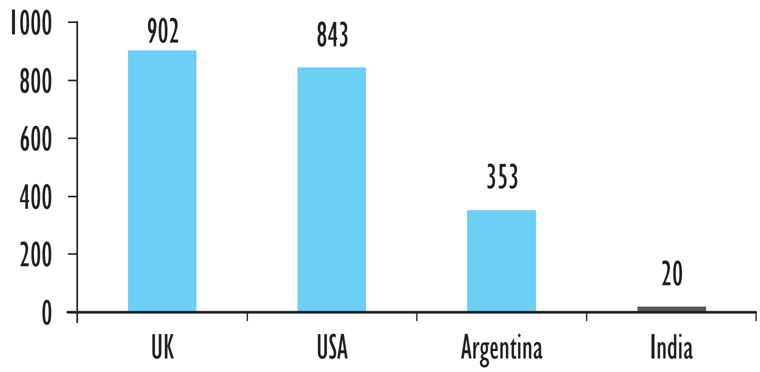
Personal wash per capita consumption (in kg) (2001)



Toothpaste per capita consumption (in kg) (2001)

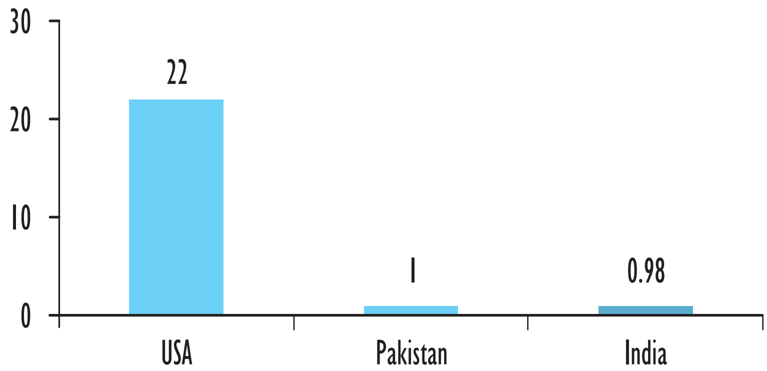


Skin care products per capita consumption (in Rs) (2001)

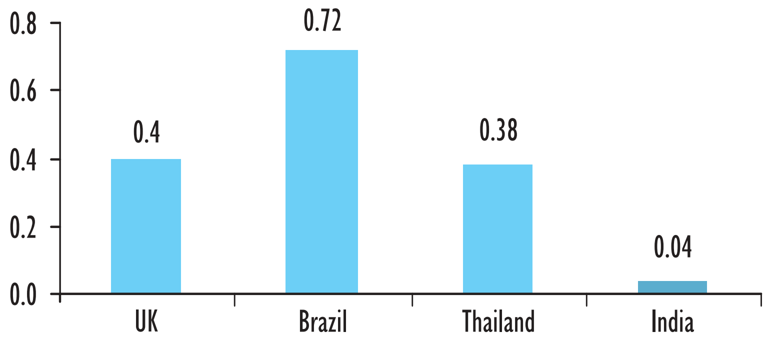


US$ 1=Rs 47.2

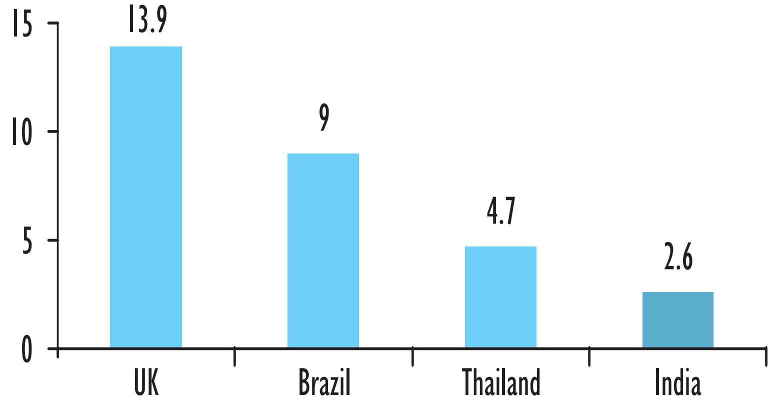
Ice cream per capita consumption (in litre) (2001)



Shampoo per capita consumption (in kg) (2001)

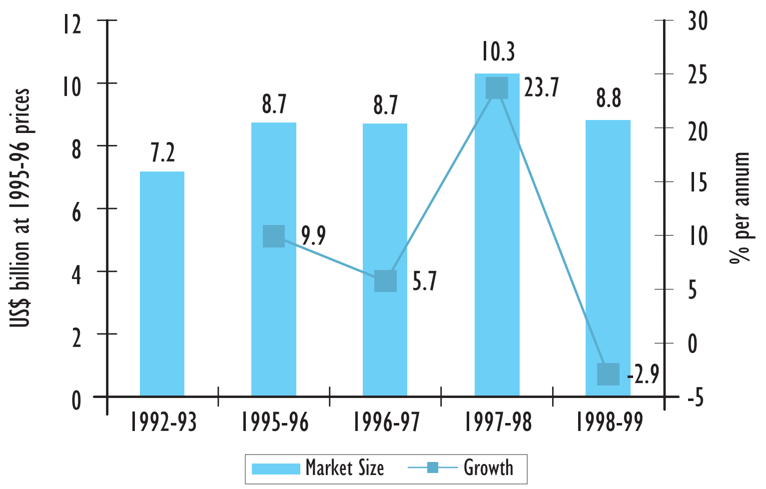


Fabric wash per capita consumption (in kg) (2001)

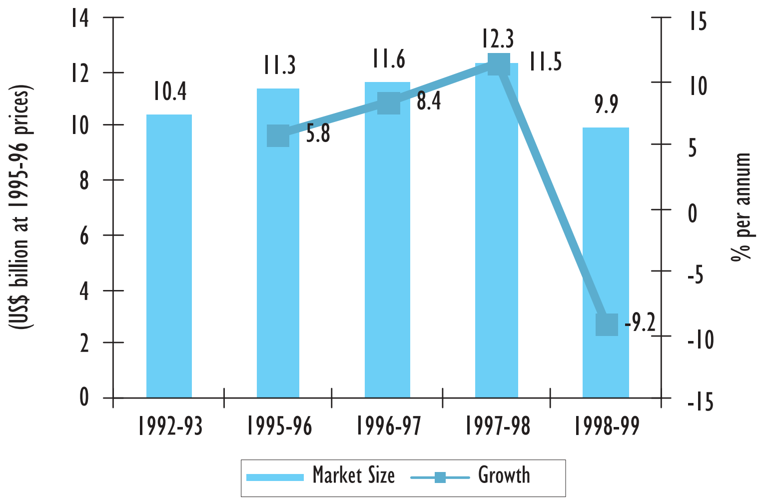


The rural urban break-up

Indian FMCG market - urban



Indian FMCG market - rural



Source: Indian Market Demographic Report, NCAER.

Most Indian FMCG companies focus on urban markets for value and rural markets for volumes. The total market has expanded from US$ 17.6 billion in 1992-93 to US$ 22 billion in 1998-99 at current prices. Rural demand constituted around 52.5 per cent of the total demand in 1998-99. Hence, rural marketing has become a critical factor in boosting bottomlines. As a result, most companies' have offered low price products in convenient packaging. These contribute the majority of the sales volume. In comparison, the urban elite consumes a proportionately higher value of FMCGs, but not volume.

Rural markets: small is beautiful

By the early nineties FMCG marketers had figured out two things

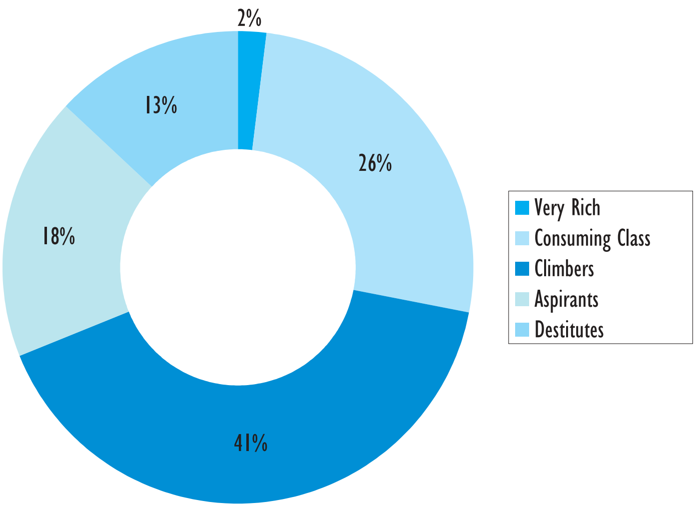
- Rural markets are vital for survival since the urban markets were getting saturated
- Rural markets are extremely price-sensitive

Thus, a number of companies followed the strategy of launching a wide range of package sizes and prices to suit the purchasing preferences of India's varied consumer segments. Hindustan Lever, a subsidiary of Unilever, coined the term nano-marketing in the early nineties, when it introduced its products in small sachets. Small sachets were introduced in almost all the FMCG segments from oil, shampoo, and detergents to beverages.

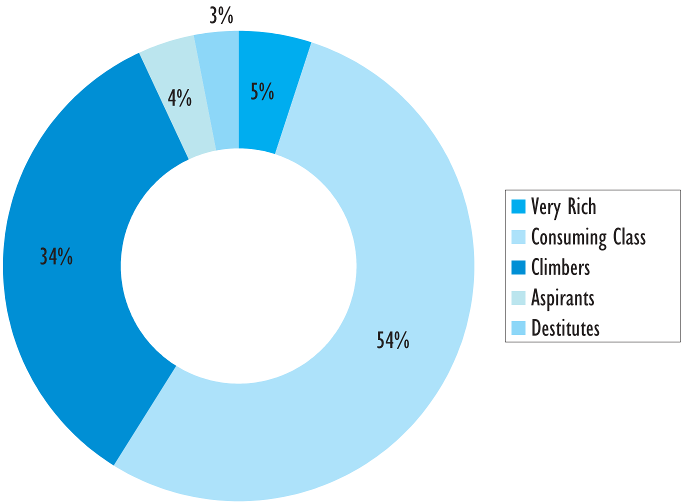
Cola major, Coke, brought down the average price of its products from around twenty cents to ten cents, thereby bridging the gap between soft drinks and other local options like tea, butter milk or lemon juice. It also doubled the number of outlets in rural areas from 80,000 during 2001 to 160,000 the next year, thereby almost doubling its market penetration from 13 per cent to 25 per cent. This along with greater marketing, led to the rural market accounting for 80 per cent of new Coke drinkers and 30 per cent of its total volumes. The rural market for colas grew at 37 per cent in 2002, against a 24 per cent growth in urban areas. The per capita consumption in rural areas also doubled during 2000-02.

Consumer-class boom

Household income distribution - 2003



Household income distribution - 2015

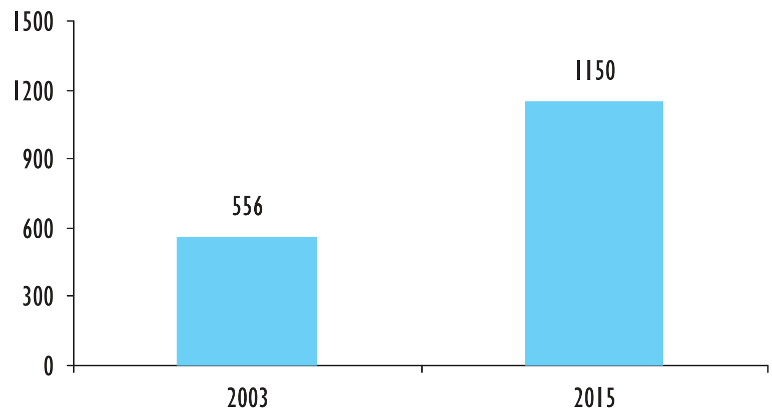


Source: HLL, NCAER.

Demand for FMCG products is set to boom by almost 60 per cent by 2007 and more than 100 per cent by 2015. This will be driven by the rise in share of middle class (defined as the climbers and consuming class) from 67 per cent in 2003 to 88 per cent in 2015. The boom in various consumer categories, further, indicates a latent demand for various product segments. For example, the upper end of very rich and a part of the consuming class indicate a small but rapidly growing segment for branded products. The middle segment, on the other hand, indicates a large market for the mass end products.

The BRICs report indicates that India's per capita disposable income, currently at US$ 556 per annum, will rise to US$ 1150 by 2015 - another FMCG demand driver. Spurt in the industrial and services sector growth is also likely to boost the urban consumption demand.

Rise in Indian disposable income (US$/annum)



Source: Euro monitor, BRICs Report (Goldman Sachs).

Identifying the segments in FMCG

A brief description of the Indian FMCG industry is given in the table below.

Product wise production (2004)

Segment	Unit	Size	Key Players	Share of market leader (%)
Household care				62
Fabric wash market	Mn tonnes	50	HLL, P&G, Nirma, SPIC	38
Laundry soaps/bars	US$ mn	1102		
Detergent cakes	Mn tonnes	15		
Washing powder	Mn tonnes	26		
Dish wash	US$ mn	93	HLL	59
Personal care				58
Soap & Toiletries	Mn tonnes	60	HLL, Nirma, Godrej	
Personal wash market	US$ mn	989	HLL, Nirma, Godrej	
Oral care	US$ mn	537	Colgate Palmolive, HLL	40
Skin care & cosmetics	US$ mn	274	HLL, Dabur, P&G	58
Hair care	US$ mn	831	Marico, HLL, CavinKare, Procter & Gamble, Dabur, Godrej	54
Feminine hygiene	US$ mn	44	Procter & Gamble, Johnson and Johnson	
Food and Beverages				
Bakery products	Mn tonnes	30	Britannia, Parle, ITC	
Tea	000 tonnes	870	HLL, Tata Tea	31
Coffee	000 tonnes	20	Nestle, HLL, Tata Tea	49*
Mineral water	Mn crates	65	Parle Bisleri, Parle Agro, Coca Cola, Pepsi	
Soft Drink	Mn crates	284	Coca Cola, Pepsi	
Branded atta	000 tonnes	750	Pillsbury, HLL, Agro Tech, Nature Fresh, ITC	15
Health beverages	000 tonnes	120	SmithKline Beecham, Cadbury, Nestle, Amul	
Milk and Dairy products	US$ mn	653	Amul, Britannia, Nestle	
Chocolates	US$ mn	174	Cadbury's, Nestle	
Culinary products	US$ mn	326	HLL, Nestle	78
Edible oil	Mn tonnes	13	Ruchi Soya, Marico, ITC Agrotech	28

Note: *R&G

Source: ORG Marg, AC Nielson, FICCI, India Stat and HLL.

Household care

The size of the fabric wash market is estimated to be US$ 1 billion, household cleaners to be US$ 239 million and the production of synthetic detergents at 2.6 million tonnes. The demand for detergents has been growing at an annual growth rate of 10 to 11 per cent during the past five years. The urban market prefers washing powder and detergents to bars on account of convenience of usage, increased purchasing power, aggressive advertising and increased penetration of washing machines. The regional and small-unorganised players account for a major share of the total detergent market in volumes.

Personal care

The size of the personal wash products is estimated at US$ 989 million; hair care products at US$ 831 million and oral care products at US$ 537 million. While the overall personal wash market is growing at one per cent, the premium and middle-end soaps are growing at a rate of 10 per cent. The leading players in this market are HLL, Nirma, Godrej Soaps and Reckitt & Colman. The oral care market, especially toothpastes, remains under penetrated in India (with penetration level below 45 per cent) due to lack of hygiene awareness among rural markets. The industry is very competitive both for organised and smaller regional players.

The Indian skin care and cosmetics market is valued at US$ 274 million and dominated by HLL, Colgate Palmolive, Gillette India and Godrej Soaps. This segment has witnessed the entry of a number of international brands, like Oriflame, Avon and Aviance leading to increased competition. The coconut oil market accounts for 72 per cent share in the hair oil market. In the branded coconut hair oil market, Marico (with Parachute) and Dabur are the leading players. The market for branded coconut oil is valued at approximately US$ 174 million.

Food and Beverages

Food

According to the Ministry of Food Processing, the size of the Indian food processing industry is around US$ 65.6 billion including US$ 20.6 billion of value added products. Of this, the health beverage industry is valued at US$ 230 billion; bread and biscuits at US$ 1.7 billion; chocolates at US$ 73 million and ice creams at US$ 188 million.

The size of the semi-processed/ready to eat food segment is over US$ 1.1 billion. Large biscuits & confectionery units, soya-processing units and starch/glucose/sorbitol producing units have also come up, catering to domestic and international markets. The three largest consumed categories of packaged foods are packed tea, biscuits and soft drinks.

Beverages

The Indian beverage industry faces over supply in segments like coffee and tea. However, more than half of this is available in unpacked or loose form. Indian hot beverage market is a tea dominant market. Consumers in different parts of the country have heterogeneous tastes. Dust tea is popular in southern India, while loose tea in preferred in western India. The urban-rural split of the tea market was 51:49 in 2000. Coffee is consumed largely in the southern states. The size of the total packaged coffee market is 19,600 tonnes or US$ 87 million. The urban rural split in the coffee market was 61:39 in 2000 as against 59:41 in 1995.

The total soft drink (carbonated beverages and juices) market is estimated at 284 million crates a year or US$ 1 billion. The market is highly seasonal in nature with consumption varying from 25 million crates per month during peak season to 15 million during off-season. The market is predominantly urban with 25 per cent contribution from rural areas. Coca cola and Pepsi dominate the Indian soft drinks market.

Mineral water market in India is a 65 million crates (US$ 50 million) industry. On an average, the monthly consumption is estimated at 4.9 million crates, which increases to 5.2 million during peak season.

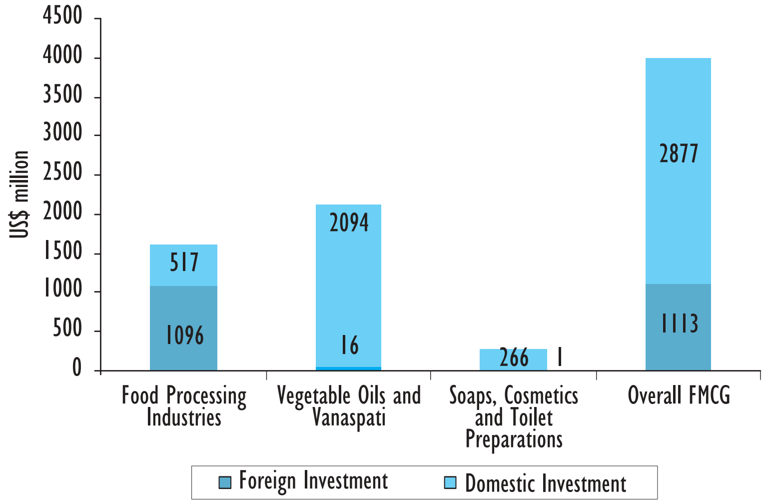
Exports

India is one of the world's largest producers for a number of FMCG products but its exports are a very small proportion of the overall production. Total exports of food processing industry was US$ 2.9 billion in 2001-02 and marine products accounted for 40 per cent of the total exports. Though the Indian companies are going global, they are focusing more on the overseas markets like Bangladesh, Pakistan, Nepal, Middle East and the CIS countries because of the similar lifestyle and consumption habits between these countries and India. HLL, Godrej Consumer, Marico, Dabur and Vicco laboratories are amongst the top exporting companies.

Investment in the FMCG sector

The FMCG sector accounts for around 3 per cent of the total FDI inflow and roughly 7.3 per cent of the total sectoral investment. The food-processing sector attracts the highest FDI, while the vegetable oils and vanaspati sector accounts for the highest domestic investment in the FMCG sector.

Investments in the FMCG sector (August 1991-April 2004)



Source: SIA Newsletter, DIPP.

Domestic players

Britannia India Ltd (BIL)

Britannia India Ltd was incorporated in 1918 as Britannia Biscuit Co Ltd and currently the Groupe Danone (GD) of France (a global major in the food processing business) and the Nusli Wadia Group hold a 45.3 per cent equity stake in BIL through AIBH Ltd (a 50:50 joint venture). BIL is a dominant player in the Indian biscuit industry, with major brands such as Tiger glucose, Mariegold, Fifty-Fifty, Good Day, Pure Magic, Bourbon etc.

The company holds a 40 per cent market share in the overall organised biscuit market and has a capacity of 300,000 tonne per annum. Currently, the bakery product business accounts for 99.1 per cent of BIL's turnover. The company reported net sales of US$ 280 million in 2002-03. Britannia Industries Ltd (BIL) plans to increase its manufacturing capacity through outsourced contract manufacturing and a greenfield plant in Uttaranchal to expand its share in the domestic biscuit and confectionery market.

Dabur India Ltd

Established in 1884, Dabur India Ltd is the largest Indian FMCG and ayurvedic products company. The group comprises Dabur Finance, Dabur Nepal Pvt Ltd, Dabur Egypt Ltd, Dabur Overseas Ltd and Dabur International Ltd. The product portfolio of the company includes health care, food products, natural gums & allied chemicals, pharma, and veterinary products. Some of its leading brands are Dabur Amla, Dabur Chyawanprash, Vatika, Hajmola, Lal Dant Manjan, Pudin Hara and the Real range of fruit juices. The company reported net sales of US$ 218 million in 2003-04. Dabur has firmed up plans to restructure its sales and distribution structure and focus on its core businesses of fast-moving consumer good products and over-the-counter drugs. Under the restructured set-up, the company plans to increase direct coverage to gap outlets and gap towns where Dabur is not

present. A roadmap is also being prepared to rationalise the stockists' network in different regions between various products and divisions.

Indian Tobacco Corporation Ltd (ITCL)

Indian Tobacco Corporation Ltd is an associate of British American Tobacco with a 37 per cent stake. In 1910 the company's operations were restricted to trading in imported cigarettes.
The company changed its name to ITC Limited in the mid seventies when it diversified into other businesses. ITC is one of India's foremost private sector companies with a turnover of US$ 2.6 billion. While ITC is an outstanding market leader in its traditional businesses of cigarettes, hotels, paperboards, packaging and agri-exports, it is rapidly gaining market share even in its nascent businesses of branded apparel, greeting cards and packaged foods and confectionary. After the merger of ITC Hotels with ITC Ltd, the company will ramp up its growth plans by strengthening its alliance with Sheraton and through focus on international projects in Dubai and the Far East. ITC's subsidiary, International Travel House (ITH) also aims to launch new products and services
by way of boutiques that will provide complete travel services.

Marico

Marico is a leading Indian Group incorporated in 1990 and operating in consumer products, aesthetics services and global ayurvedic businesses. The company also markets food products and distributes third party products. Marico owns well-known brands such as Parachute, Saffola, Sweekar, Shanti Amla, Hair & Care, Revive, Mediker, Oil of Malabar and the Sil range of processed foods. It has six factories, and sub-contract facilities for production. In 2003-04, the company reported a turnover of US$ 200 million. The overseas sales franchise of Marico's branded FMCG products is one of the largest amongst Indian companies.
It is also the largest Indian FMCG company in Bangladesh.

The company plans to capture growth through constant realignment of portfolio along higher margin lines and focus on volume growth, consolidation of market shares, strengthening flagship brands and new product offerings (2-3 new product launches are expected in 2004-05). It also plans to expand its international business to Pakistan.

Nirma Limited

Nirma Ltd, promoted by Karsanbhai Patel, is a homegrown FMCG major with a presence in the detergent and soap markets. It was incorporated in 1980 as a private company and was listed in fiscal 1994. Associate companies' Nirma Detergents, Shiva Soaps and Detergents, Nirma Soaps and Detergents and Nilnita Chemicals were merged with Nirma in 1996-1997. The company has also set up a wholly owned subsidiary Nirma Consumer Care Ltd, which is the sole marketing licensee of the Nirma brand in India. Nirma also makes alfa olefin, fatty acid and glycerine. Nirma is one of the most successful brands in the rural markets with extremely low priced offerings. Nirma has plants located in Gujarat, Madhya Pradesh and Uttar Pradesh. Its new LAB plant is located in Baroda and the soda ash complex is located in Gujarat. Nirma has strong distributor strength of 400 and a retail reach of over 1 million outlets. The company reported gross sales of US$ 561 million in 2003-04. It plans to continue to target the mid and mass segments for future growth.

Foreign players

Cadbury India Ltd (CIL)

Cadbury Indian Ltd is a 93.5 per cent subsidiary of Cadbury Schweppes Plc, UK, a global major in the chocolate and sugar confectionery industry. CIL was set up as a trading concern in 1947 and subsequently began its operations with the small scale processing of imported chocolates and food drinks. CIL is currently the largest player in the chocolate industry in India with a 70 per cent market share. The company is also a key player in the malted foods, cocoa powder, drinking chocolate, malt extract food and sugar confectionery segment. The company had also entered the soft drinks market with brands like 'Canada Dry' and 'Crush', which were subsequently sold to Coca Cola in 1999. Established brands include Dairy Milk, Perk, Crackle, 5 Star, Éclairs, Gems, Fructus, Bournvita etc. The company reported net sales of US$ 160 million in 2003. The company plans to increase the number of retail outlets for future growth and market expansion.

Cargill

Cargill Inc is one of the world's leading agri-business companies with a strong presence in processing and merchandising, industrial production and financial services. Its products and geographic diversity (over 40 product lines with a direct presence in over 65 countries and business activities in about 130 countries) as well as its vast communication and transportation network help optimise commodity movements and provide competitive advantage. Cargill India was incorporated in April 1996 as a 100 per cent subsidiary of Cargill Inc of the US. It is engaged in trading in soyabean meals, wheat, edible oils, fertilisers and other agricultural commodities besides marketing branded packaged foods. It has also set up its own anchorage facilities at Rosy near Jamnagar in Gujarat for efficient handling of its import and export consignments.

Coca Cola

Coca-Cola started its India operations in 1993. The Coca-Cola system in India comprises 27 wholly company-owned bottling operations and another 17 franchisee-owned bottling operations. A network of 29 contract-packers also manufacture a range of products for the company. Leading Indian brands Thums Up, Limca, Maaza, Citra and Gold Spot exist in the Company's international family of brands along with Coca-Cola, Diet Coke, Kinley, Sprite and Fanta, plus the Schweppes product range. During the past decade, the Coca-Cola system has invested more than US$ 1 billion in India. In 2003, Coca-Cola India pledged to invest a further US$ 100 million in its operations.

Colgate-Palmolive India

Colgate Palmolive India is a 51 per cent subsidiary of Colgate Palmolive Company, USA. It is the market leader in the Indian oral care market, with a 51 per cent market share in the toothpaste segment, 48 per cent market share in the toothpowder market and a 30 per cent share in the toothbrush market. The company also has a presence in the premium toilet soap segment and in shaving products, which are sold under the Palmolive brand. Other well-known consumer brands include Charmis skin cream and Axion dish wash. The company reported sales of US$ 226 million in 2003-04. The company's strategy is to focus on growing volumes by improving penetration through aggressive campaigning and consumer promotions. The company plans to launch new products in oral and personal care segments and is prepared to continue spending on advertising and marketing to gain market share. Margin gains are being targeted through efficient supply chain management and bringing down cost of operations.

H J Heinz Co

A US$ 8.4 billion American foods major, H J Heinz Co comprises 4,000 strong brand buffet in infant food, sauces and condiments. The company was the first to commence manufacturing and bottling of tomato ketchup in 1876. In India, Heinz has a presence through its 100 per cent subsidiary Heinz India Pvt Ltd. Heinz acquired the consumer products division of pharmaceutical major Glaxo in 1994. Heinz's product range in India consists of Complan milk beverage, health drink Glucon-D, infant food Farex and Nycil prickly heat powder, besides the Heinz ketchup range.

Hindustan Lever Ltd (HLL)

Hindustan Lever Ltd is a 51 per cent owned subsidiary of the Anglo-Dutch giant Unilever, which has been expanding the scope of its operations in India since 1888. It is the country's biggest consumer goods company with net sales of US$ 2.4 billion in 2003. HLL is amongst the top five exporters of the country and also the biggest exporter of tea and castor oil. The product portfolio of the company includes household and personal care products like soaps, detergents, shampoos, skin care products, colour cosmetics, deodorants and fragrances. It is also the market leader in tea, processed coffee, branded wheat flour, tomato products, ice cream, jams and squashes. HLL enjoys a formidable distribution network covering over 3,400 distributors and 16 million outlets. In the future, the company plans to concentrate on its herbal health care portfolio (Ayush) and confectionary business (Max). Its strategy to grow includes focussing on the power brands' growth through consumer relevant information, cross category extensions, leveraging channel opportunities and increased focus on rural growth.

Nestle India Ltd (NIL)

Nestle India Ltd a 59.8 per cent subsidiary of Nestle SA, Switzerland, is a leading manufacturer of food products in India. Its products include soluble coffee, coffee blends and teas, condensed milk, noodles (81 per cent market share), infant milk powders (75 per cent market share) and cereals (80 per cent market share). Nestle has also established its presence in chocolates, confectioneries and other processed foods. Soluble beverages and milk products are the major contributors to Nestle's total sales. Some of Nestle's popular brands are Nescafe, Milkmaid, Maggi and Cerelac. The company has entered the chilled dairy segment with the launch of Nestle Dahi and Nestle Butter. Nestle has also made a foray in non-carbonated cold beverages segment through placement of Nestea iced tea and Nescafe Frappe vending machines. Exports contribute to 23 per cent of its turnover and the company reported net sales of US$ 440 million in 2003.

PepsiCo

PepsiCo is a world leader in convenient foods and beverages, with revenues of about US$ 27 billion. PepsiCo brands are available in nearly 200 markets across the world. The company has an extremely positive outlook for India. "Outside North America two of our largest and fastest growing businesses are in India and China, which include more than a third of the world's population" (Pepsico's annual report). PepsiCo entered India in 1989 and is concentrating on three focus areas - soft drink concentrate, snack foods and vegetable and food processing. PepsiCo's success is the result of superior products, high standards of performance and distinctive competitive strategies.

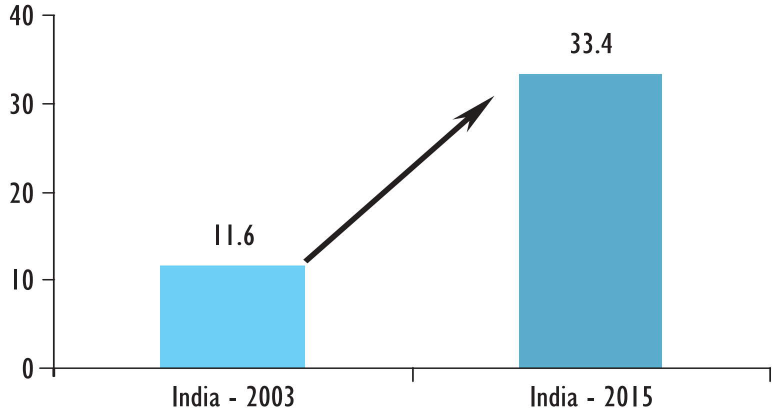
Procter & Gamble Hygiene and Health Care Limited

Richardson Hindustan Limited (RHL), manufacturer of the Vicks range of products, was rechristened 'Procter & Gamble India' in October 1985, following its affiliation to the 'Procter & Gamble Company', USA. Procter & Gamble Hygiene and Health Care Limited (PGHHCL) acquired its current name in 1998, reflecting the two key segments of its business. P&G, USA has a 65 per cent stake in PGHHCL. The parent also has a 100 per cent subsidiary, Procter & Gamble Home Products (PGHP). The overall portfolio of the company includes healthcare; feminine-care; hair care and fabric care businesses. PGHH operates in just two business segments - Vicks range of cough & cold remedies and Whisper range of feminine hygiene. The detergent and shampoo business has been relocated globally to Vietnam. The company imports and markets most of the products from South East Asian countries and China, while manufacturing, marketing and export of Vicks and sanitary napkins has been retained in India. The company reported sales of US$ 91 million in 2002-03. The parent company has announced its plan to explore further external collaborations in India to meet its global innovation and knowledge needs.

MARKET OPPORTUNITIES FOR INVESTMENT

Measuring the opportunity: Domestic FMCG market to treble

FMCG Market Size (US$ billion)



Source: HH Panel data

According to estimates based on China's current per capita consumption, the Indian FMCG market is set to treble from US$ 11.6 billion in 2003 to US$ 33.4 billion in 2015. The dominance of Indian markets by unbranded products, change in eating habits and the increased affordability of the growing Indian population presents an opportunity to makers of branded products, who can convert consumers to branded products.

The investment potential in rural markets

The Indian rural market with its vast size and demand base offers a huge opportunity for investment. Rural India has a large consuming class with 41 per cent of India's middle-class and 58 per cent of the total disposable income. With population in the rural areas set to rise to 153 million households by 2009-10 and with higher saturation in the urban markets, future growth in the FMCG sector will come from increased rural and small town penetration. Technological advances such as the internet and e-commerce will aid in better logistics and distribution in these areas. Already Indian corporates such as HLL and ITC have identified the opportunity and have initiated projects such as 'Project Shakti' and 'e-Choupal' to first, expand rural income, and then, to penetrate this market.

Boosting rural income - novel experiments by Indian corporates

PROJECT SHAKTI

FMCG giant Hindustan Lever initiated 'Project Shakti' to spur growth and increase the penetration of its products in rural India while changing lives and boosting incomes. Through a combination of micro-credit and training in enterprise management, women from self-help groups turned direct-to-home distributors of a range of HLL products and helped the company test hitherto unexplored rural hinterlands. The project was piloted in Nalgonda district in Andhra Pradesh (AP) in 2001, it has since been scaled up and extended to over 5,000 villages in 52 districts in AP, Karnataka, Gujarat, Chattisgarh, Orissa and Madhya Pradesh with around 1,000 women entrepreneurs in its fold. The vision is to create about 11,000 Shakti entrepreneurs covering 100,000 villages and 100 million rural consumers by 2010.

For HLL, greater penetration in rural areas is also imperative since over 50 per cent of its incomes for several of its product categories like soaps and detergents come from rural India. The project has borne fruit for HLL. In Andhra Pradesh, so far, since the experiment began, HLL has seen 15 per cent incremental sales from rural Andhra, which contributes 50 per cent to overall sales from Andhra of HLL products.

e-CHOUPAL

An example of the successful application of IT is the e-Choupal experiment kicked off by diversified tobacco giant ITC. ITC has designed and set up internet kiosks called e-Choupals to support its agricultural product supply chain.
The e-Choupals are totally owned and set up by ITC with the operators not having any investment or risk of their own. There are four kinds of e-Choupals tailored for shrimps, coffee, wheat and soyabeans. The focus is on creating internet access for global market information to guide production and supply decisions. It provides price information and thus, price certainty to the farmers. In addition, the farmers get access to operational information, developed by ITC experts, pertaining to cropping, seeds, fertilisers etc.

The initial benefits of the ITC effort include a substantial reduction in transaction costs, from 8 per cent to just 2 per cent. These gains are shared roughly equally between ITC and individual farmers. The longer-term goal is to use e-Choupals as sales points for soyabean oil and a range of other consumer goods. ITC has also set up its first rural mall near Bhopal, where it distributes products of other FMCG majors as well. Hence, incomes generated through e-choupals will be targeted by the FMCG major to drive their product sales.

Export potential

India has a locational advantage that can be exploited to use it as a sourcing base for FMCG exports. Export of pre-prepared meals with Indian vegetables for large Asian ethnic population settled in developed countries is a very big opportunity for India. South East Asia, which is presently being catered to by USA and EU, can be sourced from India due to its lower freight cost.

Investments can also be made in Indian dairy industries to manufacture and package dairy food (through contract or local collaboration) for export to Middle East, Singapore, Malaysia, Indonesia, Korea, Thailand and Hong Kong. Commodities like dry milk, condensed milk, ghee and certain cheese varieties that are utilised as ingredients in foreign countries can also be exported. These markets can be expanded to include value-added ingredients like packaged cheese sauce and dehydrated cheese powders. Large export potential also exists in the soya products industry.

Sectoral opportunities

According to the Ministry of Food Processing, with 200 million people expected to shift to processed and packaged food by 2010, India needs around US$ 28 billion of investment to raise food-processing levels by 8-10 per cent. In the personal care segment, the lower penetration rates also presents an untapped potential. Key sectoral opportunities are mentioned below:

- **Staple:** branded and unbranded: While the expenditure on mass-based, high volume, low margin basic foods such as wheat, wheat flour and homogenised milk is expected to increase substantially with the rise in population, there is also a market for branded staples is also expected to emerge. Investment in branded staples is likely to rise with the popularity of branded rice and flour among urban population.
- **Dairy based products:** India is the largest milk producer in the world, yet only 15 per cent of the milk is processed. The US$ 2.4 billion organised dairy industry requires huge investment for conversion and growth. Investment opportunities exist in value-added products like desserts, puddings etc. The organised liquid milk business is in its infancy and also has large long-term growth potential.
- **Packaged food:** Only about 8-10 per cent of output is processed and consumed in packaged form, thus highlighting

the huge potential for expansion of this industry. Currently, the semi processed and ready to eat packaged food segment has a size of over US$ 70 billion and is growing at 15 per cent per annum. Growth of dual income households, where both spouses are earning, has given rise to demand for instant foods, especially in urban areas. Increased health consciousness and abundant production of quality soyabean also indicates a growing demand for soya food segment.

- Personal care and hygiene: The oral care industry, especially toothpastes, remains under penetrated in India with penetration rates below 45 per cent. With rise in per capita incomes and awareness of oral hygiene, the growth potential is huge. Lower price and smaller packs are also likely to drive potential uptrading. In the personal care segment, according to forecasts made by the Centre for Industrial and Economic Research (CIER), detergent demand is likely to rise to 4,180, 000 metric tonnes by 2011-12 with an annual growth rate of 7 per cent between 2006 and 2012. The demand for toilet soap is expected to grow at an annual rate of 4 per cent between 2006-12 to 870,000 metric tonnes by 2011-12. Rapid urbanisation is expected to propel the demand for cosmetics to 100,000 metric tonnes by 2011-12, with an annual growth rate of 10 per cent.
- Beverages: The US$ 2 billion Indian tea market has been growing at 1.5 to 2 per cent annually and is likely to see a further rise as Indian consumers convert from loose tea to branded tea products. In the aerated drinks segment, the per capita consumption of soft drinks in India is 6 bottles compared to Pakistan's 17 bottles, Sri Lanka's 21, Thailand's 73, the Philippines 173 and Mexico's 605. The demand for soft drink in India is expected to grow at an annual rate of 10 per cent per annum between 2006-12 with demand at 805 million cases by 2011-12. Per capita coffee consumption in India is being promoted by the coffee chains and by the emergence of instant

cold coffee. According to CIER, demand for coffee is expected to rise to 535,000 metric tonnes by 2012, with an annual growth rate of 5 per cent between 2006-12.

- **Edible oil:** The demand for edible oil in India, according to CIER, is expected to rise to 21 million tonnes by 2011-12 with an annual growth rate of 7 per cent per annum.
- **Confectionary:** The explosion of the young age population in India will trigger a spurt in confectionary products. In the long run the industry is slated to grow at 8 to 10 per cent annually to 870,000 metric tonnes by 2011-12.

ANNEXURE: APEX CONTACT AGENCIES

Indian Dairy Association (IDA)

Established in 1948, Indian Dairy Association is the apex body of the dairy industry in India. The key functions of IDA are transmission of technical/scientific information to the members, both individuals as well as institutions, to organise periodic conferences, seminars and workshops on subjects of current interest and to undertake consultancy projects both overseas as well as in the country whenever such a request is received from any central ministry of the Government of India. IDA also intervenes on the policy issues like presentation of pre-budget memorandum, addressing issues arising out of the tariff rates, import/ export, sanitary standards including PFA issues etc.

Indian Dairy Association (IDA)
Sector IV, R.K. Puram (Near Syndicate Bank),
New Delhi - 110 022
India
Tel: +91 11 26165355 / 26165237 / 26170781
Fax: +91 11 26174719
Web: http://www.indairyasso.org/

The Solvent Extractors' Association of India (SEA)

The Solvents Extractors' Association is an all India body of solvent extraction industry having wide representative membership consisting of processors of rice bran, oilcakes, minor oilseeds and soybean. SEA is the Trade Promotion Organisation for the exports of various de-oiled meals (feed ingredients), animal and poultry feeds and minor oils (fats) from India. SEA acts as a catalyst between international buyers and local exporters and is responsible for export promotion and performs various export promotion functions.

The Solvent Extractors' Association of India
Premier Association of Vegetable Oil Industry & Trade
142, Jolly Maker Chambers No.2,
14th Floor, 225 Nariman Point,
Mumbai 400 021
India
Tel: +91 22 2202 1475/ 2282 1692
Fax: +91 22 2202 1692
Web: www.seaofindia.com
E-mail: solvent@vsnl.com

OTHERS

Indian Soap & Toiletries Manufacturers Association
Raheja Centre, 6th Floor, Room No. 614, Backbay Reclamation,
Mumbai - 400 021
India
Tel: +91 22 2824115
Fax: +91 22 2853649
E-Mail: istma@bom3.vsnl.net.in

Vanaspati Manufacturers Association of India
903, Akashdeep Bldg,
26-A, Barakhamba Road, New Delhi
India
Tel : +91 11 23312640, 23310758
Fax : +91 11 011-65521
E-mail: vmai.vanaspati@smy.sprintrpg.ems

All India Food Preservers Association
206, Aurobindo Place Market Complex
Hauz Khas, New Delhi - 110 016
India
Tel: +91 11 26510860/26518848
Fax: +91 11 26510860
Web: http://www.aifpa.com/

All India Bread Manufacturers Association
Commercial Complex,
9A, Connaught Place, New Delhi
India
Tel: +91 11 23327421
Fax: +91 11 23324483

Federation of Biscuit Manufacturers of India
9A, Connaught Place, New Delhi.
India
Tel: +91 11 26863801
Fax: +91 11 26863135

Indian Soft Drinks manufacturers' Association
New Delhi.
India
Tel: +91 11 23716782
Fax: +91 11 23327747

DISCLAIMER

This publication has been prepared for the India Brand Equity Foundation ("IBEF").

This publication is for information purposes only. While due care has been taken during the compilation of this publication to ensure that the information is accurate to the best of IBEF's knowledge and belief, the content is not to be construed in any manner whatsoever as a substitute for professional advice.

IBEF neither recommends nor endorses any specific products or services that may have been mentioned in this publication and nor does it assume any liability or responsibility for the outcome of decisions taken as a result of any reliance placed on this publication.

IBEF shall in no way, be liable for any direct or indirect damages that may arise due to any act or omission on the part of the user due to any reliance placed or guidance taken from any portion of this publication.

The India Brand Equity Foundation is a public-private partnership between the Ministry of Commerce and Industry, Government of India and the Confederation of Indian Industry. The Foundation's primary objective is to build positive economic perceptions of India globally.

India **B**rand **E**quity **F**oundation
c/o Confederation of Indian Industry
249-F Sector 18
Udyog Vihar Phase IV
Gurgaon 122015 Haryana
INDIA

Tel +91 124 501 4087   Fax +91 124 501 3873
E-mail ajay.khanna@ciionline.org
Web www.ciionline.org