

Indus Consumer Products Limited

FMCG Sector Report

This is a confidential internal report of INDUS and must not be reproduced or circulated within or outside the company without the specific authorisation of VP, Marketing.

TABLE OF CONTENTS





TABLE OF CONTENTS.....	1
THE INDIAN FMCG SECTOR - OVERVIEW	2
TRENDS AFFECTING THE INDIAN FMCG SECTOR.....	2
IT AS A STRATEGIC TOOL IN FMCG	4

THE INDIAN FMCG SECTOR - OVERVIEW

The Indian FMCG sector is a \$13.1 billion industry (2008) dominated by many strong multinational companies like Nestlé, Unilever and P&G and equally strong domestic companies like Dabur, Godrej and Amul. The top five FMCG companies contribute 70% of the total sales in this sector. Despite the economic slowdown, consumer product companies have posted double digit growth over the last couple of years led by India's burgeoning population and an increase in personal consumption. Anand Burman, Chairman of Dabur India, pointed out in Dabur's 2008 Annual Report, *"one of the key challenges in reaching out to this enlarged market will be to build and maintain a robust distribution and supply chain to cater to our customers in urban, semi-urban and rural settings."*

TRENDS AFFECTING THE INDIAN FMCG SECTOR

The following trends are salient to the FMCG sector in India:

-  **Rise in disposable income** – With disposable incomes in India set to grow over 100% from 2003 to 2015 and changing lifestyles, the expenditure on grocery and personal care items is set to double during this period.
-  **Increase in demand for processed foods** -- With changing lifestyles and more women joining the workforce, the demand for processed foods is set to increase. The domestic food processing industry entered a high growth phase in Dec '06, recording a 30% YOY increase as compared to a mere 12% in the previous years. Penetration of processed foods is currently very low. Only about 13% of fruits and vegetables produced are processed in India, compared to 80% in the US.
-  **Expansion of organised retail** – The rapid expansion of organised retail, currently at a meager 6% of total retail, will also act as a growth catalyst for the FMCG industry.
-  **The Rural Factor** – Though only about 10,000 out of India's 600,000 villages have access to organised retail services, the rural retail market was estimated at around 40 per cent of the \$280 billion retail market.² The size of India's rural market is expected to double in the next four to five years.
 - ❖ The rural market accounts for almost 70% of Indian households.
 - ❖ The rural Indian market is where 12.2% of the world's population resides.
 - ❖ Penetration levels in the rural areas were less than 1% in 2005.³

✚ **Low penetration Levels** – Low penetration levels of FMCG goods in Indian households indicates a huge untapped potential for the FMCG Industry. However, in order to harvest this potential, huge investments are required, especially in certain areas like processed foods.

² ASSOCHAM Report *ibid*

³ ASSOCHAM REPORT 2005:
<http://www.thehindubusinessline.com/2005/07/19/stories/2005071903080400.htm>

IT AS A STRATEGIC TOOL IN FMCG

The FMCG sector has always been one of the early adopters of technology, be it hardware or application software. Some of the key opportunities and challenges with respect to IT are outlined below, as identified in a survey of CIOs in the FMCG sector published in *Network Computing*⁴:

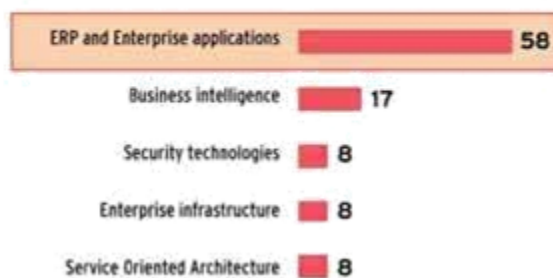
FMCG - Key Business Priorities



42% of the CIOs polled, have the mandate to use technology to drive cost efficiency

17% of CIOs also see technology as improving competitive advantage through better connection with consumers and suppliers

FMCG - CIO's Technology Priorities

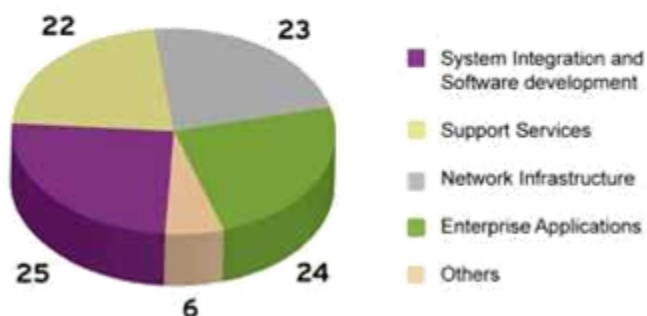


58% of respondents continue to put Enterprise Resource Planning (ERP) and related applications on their priority list

Another new trend seen in the FMCG sector is to use Business Intelligence and Data Mining tools to predict consumer trends & develop innovative products

⁴ <http://www.networkcomputing.in/FMCG-Cover-Story-001Dec008.aspx>

Category Investment Trends IT Spend



Majority of the IT spend, 45%, is dedicated for supporting current infrastructure and networks

Aligning business priorities with technology, 24% of the budget is focused on supporting Enterprise Applications

FMCG - Key Technology Implementation Challenges faced



The biggest challenge faced by CIOs in technology implementation is the reluctance of employees to adopt new technology

This is followed closely by the difficult task of aligning business priorities of different business units to the IT agenda

The FMCG sector in India is a very price-competitive marketplace with most firms focusing on creating value through product differentiation and branding. Due to high price pressures, most FMCG organisations see IT as a strategic tool to cut cost and create an efficient, but lean enterprise. The findings of the above survey emphasize that most of the IT spend in firms will be incurred on ERP systems and for maintaining and enhancing the current IT infrastructure.

Further, the Indian manufacturing industry is quickly moving from the first phase of deployment of ERP applications to the second phase of high-level integration. Companies are busy strengthening their distribution and logistics to bring in more efficiency and innovation in

their supply chain. “The centrepiece of our organisation is an effective supply chain. Being in the FMCG business, the supply chain assumes utmost importance in our scenario,” said D Sundaram, Finance Director, Hindustan Unilever, in a panel discussion on Supply Chain Management (SCM). Elaborating on the system followed by HUL, he added, “We follow the acronym of ALFA in our supply chain management, which stands for: Alertness to the response of market needs, Leanness of the supply chain, Freshness of stock, and Availability of products on the shelf. We benchmark ourselves particularly with South-East Asia and China where efficiency is higher.” According to S Sivakumar, Chief Executive - Agri Business, ITC and the architect of ITC’s eChoupal initiative, “The dynamics of supply chain management offer immense scope for sophistication even in rural India, quite counter-intuitively, in spite of the weak physical, social and institutional infrastructure.”

Indian FMCG companies are looking at IT not only to reduce supply chain costs but also to adapt to the changing business environment both domestically and globally, enhance relationships with business partners, benchmark operations with global players, build an agile and adaptive infrastructure that will help them sense the market changes and respond quickly.

With the emergence of a strong ITeS (Information Technology enabled Services) industry and record-level attrition of IT talent in India, more and more companies are open to outsourcing the development of their IT applications.

Overall, IT has emerged as a strong driver of efficiency and innovation in the FMCG sector. The leading companies are leveraging IT in a variety of ways to enhance competitiveness, putting pressure on the rest of the sector to follow suit. This is reflected in the high growth rates of IT spend in the FMCG sector – the average growth rate in the IT budget of firms surveyed by *Network Computing* was 30%.