

## Warehousing potential in fast-moving consumer goods industry

### Current market scenario

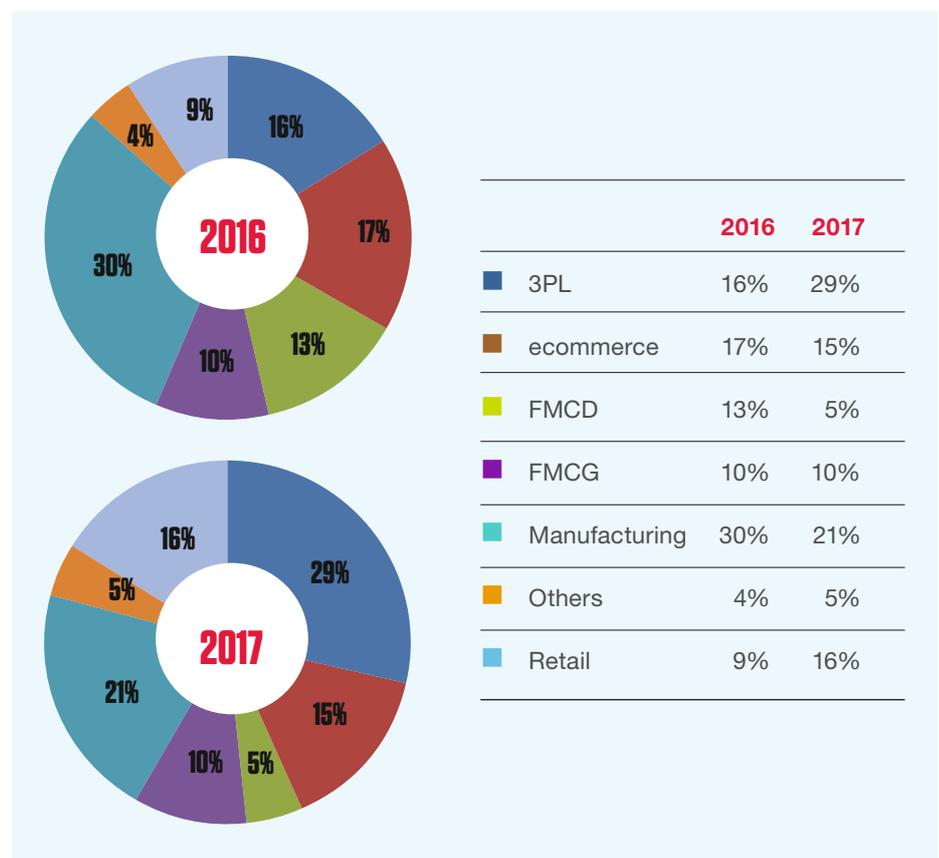
The fast-moving consumer goods (FMCG) industry is the fourth largest in the Indian economy with a total market size in excess of USD 13.1 billion. The FMCG industry is broadly categorised into Household, Personal Care, Hair Care and Food and Beverages (F&B). Household and Personal Care together account for 50% of the overall sales in India followed by others<sup>1</sup>. The FMCG industry has attracted a lot of multinational corporations (MNCs) and has a widespread distribution network. The key growth drivers for the FMCG industry are the changing lifestyles, ease of access and rapidly changing consumer habits. Coupled with higher disposable incomes and growing penetration of internet and smartphones, the industry is on an upward trajectory. Of the total revenue generated by FMCG, the urban market comprises for 60% market share which is expected to grow at 9–9.5% on an annual basis<sup>2</sup>. On the other hand, the rural market which has a vast population compared to urban consumption centres has a lot of untapped market potential for FMCG categories. Due to increasing internet connectivity in rural areas and improvements in transport infrastructure, the rural market for FMCG products is set to witness fast-paced growth.

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The Indian FMCG landscape is dominated by few major players such as ITC Limited, HUL, Patanjali, Marico, Procter & Gamble Co. and Godrej Group. Some other FMCG majors include Nestle, Cadbury, Asian Paints, Amul, Dabur, L'Oréal, Himalaya and CavinKare. Whilst the household and personal care categories are the leading segments, F&B and related segments such as food processing are picking up pace and are expected to be a major growth driver. The retail market in India is expected to touch USD 1.1 trillion by 2020 from USD 672 billion in 2016, with modern trade expected to grow

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FIGURE 1  
Industry wise share of warehouse transactions across top 8 cities



<sup>1</sup> India Brand Equity Foundation (IBEF), Media reports  
<sup>2</sup> Knight Frank Research

Source: Knight Frank Research

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Indians are now increasingly shopping for FMCG products at supermarkets than the neighbourhood *kirana* stores.

With the evolving consumption patterns of Indian consumers, the demand for packaged products is also rising. Coupled with the vast market size and growth in consumption, a lot of global MNCs have set up manufacturing

facilities for packaged products in India. With a huge population of 1.3 billion people, India presents a vast opportunity for companies, mainly MNCs in the FMCG market whose growth in developed markets has largely stagnated.

<sup>3</sup> India Brand Equity Foundation (IBEF)

## Industry Operations

FMCG products typically involve higher volumes and low profit margins. As the distribution channels catering to FMCG products are complex and broad, the role of supply chain is a key distinguishing factor in an FMCG company's profitability. From traditional store keeping, purchasing, materials management and integrated materials management, the industry is entering a new era of supply chain management.

Due to the complexity and scale of the Indian FMCG market, companies are taking a differentiated approach with respect to adopting supply chain strategies. While companies such as HUL are outsourcing manufacturing and distribution processes

TABLE 1

Industry	Major characteristics	Logistics cost as a % of revenue
FMCG	High amount of inventory holding	6%–8%
	Emphasis on last-mile connectivity	
	Product packaging a key area	

Source: Knight Frank Research

while owning the marketing, Patanjali primarily controls the entire supply chain itself including retail. P&G, on the other hand, has only outsourced the logistics or distribution arm while owning the manufacturing and marketing processes itself.

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TABLE 2

## FMCG operating models

Company	Owned Processes	Outsourced Processes
HUL	Marketing	Manufacturing, Distribution
Marico, P&G, Pidilite	Manufacturing, Marketing	Distribution
Patanjali	Manufacturing, Marketing, Distribution	

Source: Knight Frank Research

The logistics operations in FMCG business are typically operated on a hub-and-spoke model where distribution hubs in major cities and towns serve both the wholesalers and retailers. Though most FMCG companies are into multi-brand retail, few such as Haldiram's and The Body Shop are single-brand retail stores. With the advent of e-commerce, companies are not only pushing for sales through online channels but are also realising the importance of omni-channel retailing.

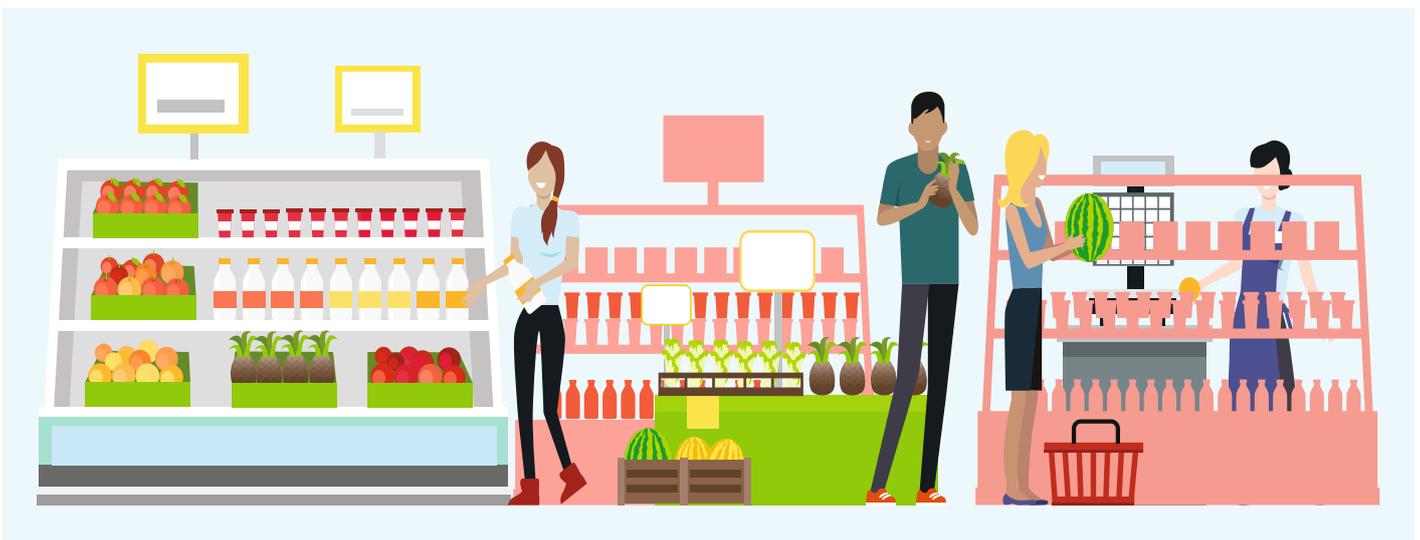
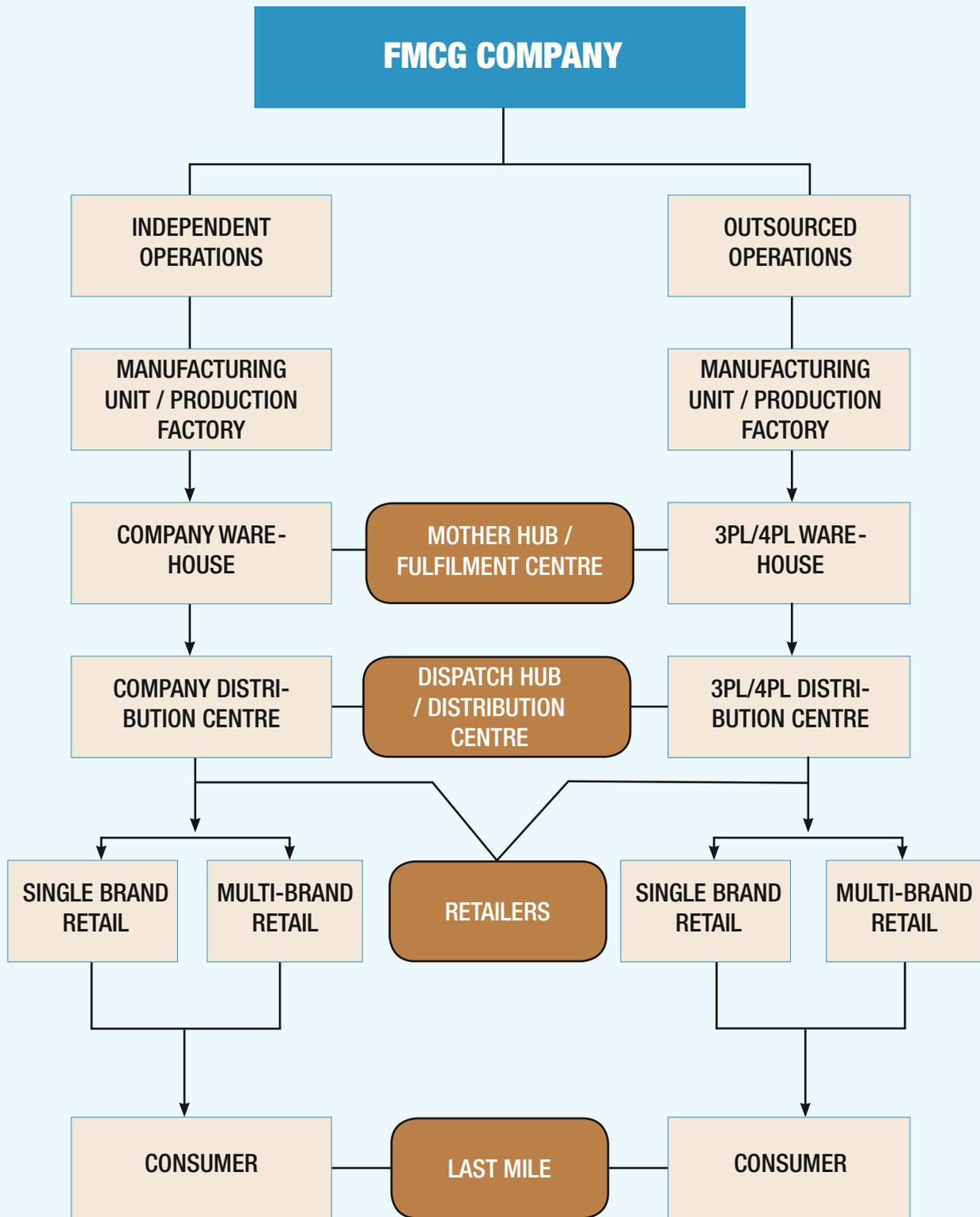


FIGURE 2

Supply chain operations of FMCG companies for retail



## City orientation

Both the organised and emerging warehouse clusters across the top 7 cities cater to multiple industries. Hence, it is difficult to demarcate a particular cluster as FMCG exclusive. However, given the proliferation of FMCG players on certain belts, some clusters are popular with occupiers from this industry.

For example, the Bhiwandi warehouse cluster encapsulating parts of Bhiwandi along Old Agra Road and the National Highway-3 (Mumbai-Nashik Highway) is strategically located in the Mumbai Metropolitan Region (MMR). This geographic advantage of proximity to the densely populated consumption markets of Mumbai, Thane and Navi Mumbai make the Bhiwandi warehousing cluster a preferred choice of occupiers intending to serve the consumption market (23.51 million people in 2011) of the MMR territory. As a result, a diversified set of consumer-oriented (B2C) industries like FMCG (amongst others) have a presence in Bhiwandi. Many FMCG majors such as Pepsi, Henkel, Reckitt Benckiser and HUL have a presence in Bhiwandi.

Similarly, the Aslali-Kheda warehouse cluster is one of the first warehousing markets to be developed in Ahmedabad due to the strategic location. Aslali was a major transit point for all the transporters and logistics players before the national expressway was constructed. Currently, most of the incremental demand in

this cluster comes from the e-tail and FMCG companies that not only require adequate clear height within the warehouse for multi-level stacking of products, but also seek added amenities such as fire-fighting equipment and enhanced security. This has resulted in majority of the new warehouses being constructed to adhere to such standards and move away from the traditional godown-type structure. Over the last 5 years, a large number of FMCG and third-party logistics (3PL) companies have shifted their

warehousing space from old godown-type structures in Aslali to the recently constructed good quality warehouses in Bareja, Kanera and Gobalaj.

Haryana is also an upcoming location for FMCG occupiers post Goods and Service Tax (GST) implementation, as it caters to multiple consumption markets of Delhi, Ghaziabad, Faridabad and Punjab amongst others.

TABLE 3

### The below warehouse clusters in major cities remain popular amongst FMCG occupiers:

Occupier	Warehouse cluster	City
HUL	Aslali-Kheda	Ahmedabad
Pepsico	Nelamangala-Dabaspatte	Bengaluru
Procter & Gamble	NH-5 – Periyapalayam	Chennai
Ratnadeep	Jeedimetla-Medchal	Hyderabad
Nestle	Jeedimetla-Medchal	Hyderabad

Source: Knight Frank Research

## Logistics challenges in the FMCG industry

### Unorganised logistics industry

The large-scale FMCG businesses require the logistics industry to develop rapidly. The logistics industry itself is getting organised only now with recent government initiatives. Hence, most of the impact on costs and efficiency are yet to be realised. The recent implementation of GST was expected to enable a wave of consolidation of operations across businesses, but its impact on the ground is being felt at a very slow pace. Due to infrastructure bottlenecks, the cost reductions in total logistics cost have not shrunk below 7–8%. As per our interactions with FMCG industry experts, consolidation of warehouses in this industry is significantly low compared to other industries and may well remain so as the FMCG players need to continue operations closer to consumption centres just like in the pre-GST era, which may not leave any scope for large-scale consolidation.

### Inadequate infrastructure

As the supply chain has evolved and grown in India rapidly, problems associated with inadequate infrastructure such as wastages and inflated costs have come to the fore. The road and rail infrastructure lack dedicated freight corridors and logistics players with good quality transportation fleet and warehousing stock. These are some serious challenges on the supply side. While primary transport, which constitutes transport of goods from the manufacturer to the mother warehouses, is smooth as these warehouses are often situated on national highways, it is the secondary transport in the later stages in movement of goods to distributors and retailers that is a pain point. This is largely due to presence of traditional trade outlets in dense urban and rural pockets with remote accessibility due to road congestion. This results in a much higher cost per unit for secondary transport. The variation between

secondary and primary transportation costs can be as much as 3–6 times.

Other logistics challenges that plague the FMCG industry are some industry specific issues such as low turnaround time and the need for on-shelf availability, as well as other issues like fragmented markets and demand uncertainty. All these factors taken together impact the profitability of the industry and restrain the FMCG players' investment in modern warehouses. Hence, the awareness about the benefits of large-scale investment in modern warehouse stock is yet to trickle in.

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## The way forward

As per early estimates, quarterly update for Q1 FY 2018–19 by some large FMCG companies suggest a revival in demand in urban areas as well as rural areas which is pushing high volume growth<sup>4</sup>. In the aftermath of a prolonged period of dull demand due to demonetisation and GST introduction over the past 2 years, this is good news. In rural India, the government's various investments as well as introduction of minimum support price (MSP) and good monsoon are supporting rural income and driving consumption of FMCG products. With rising rural consumption, brand consciousness in rural India is also increasing which will help the organised FMCG industry's growth. The rural FMCG market in India is expected to reach US\$ 220 billion by 2025 from US\$ 29.4 billion in 2016. In FY 2018-19, FMCG's rural segment is forecasted to contribute 15–16% of the total income<sup>5</sup>. Additionally, GST implementation has streamlined. With GST slab cuts in place, prices will reduce for consumers and the demand revival will continue. With FMCG demand coming back, we can expect supply chain disruptions in FMCG companies, focus on the expansion of distribution reach and expansion of warehousing footprint to cater to demand in

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<sup>4</sup> Media reports

<sup>5</sup> India Brand Equity Foundation (IBEF)



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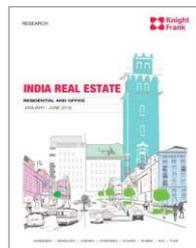
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