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FDI in retail will give brands better visibility: FMCG cos

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Heads of FMGC companies feel FDI in retail will help them improve supply chains, which will cut layers of distribution, and shopping experience for consumers BLOOMBERG

Mumbai, Oct 10: Even as the country is debating the government's decision to allow FDI in multi-brand retail, Indian FMCG companies are upbeat about the government's move. FMCGs see this move as a positive step towards improving consumption, employment and supply chain, while reducing wastage.

They expect the move will provide a high visibility for FMCG brands in competitive markets. On the flip side, they expect the government's decision will impact small and local FMCG players in India.

Highlighting the benefits, Adi Godrej, chairman of Godrej Consumer Products (GCPL), said, "The move will improve supply chains and reduce wastage. I think any competition is good for growth. Any modernisation is good for improving sales."

Sunil Duggal, chief executive officer, Dabur India, said modernisation will give consumers a pleasant shopping experience. "It would enable easier launch of new products, too. Improved supply chains will cut layers of distribution," he added.

One of the major arguments of those against FDI in mutli-brand retail has been that it will marginalise small-time retailers. In the same way, some experts say small and medium FMCG manufacturers may face pressure if retail MNCs import their private labels into the country. "Small-time players could be squeezed out of business due to the influx of cheap imports," Duggal said.

However, the consumer will be the ultimate winner.

Anubav Rastogi, a senior official from Marico, said the move will spur the growth of categories such as grooming, styling and packaged foods in India. "These categories are likely to do very well in the retail format where customers can study and feel the product. General trade cannot offer such a shopper experience. However, we should not expect too much in the immediate to short term," he said.

According to Rastogi, the channel that dominates the FMCG sector today is 'general trade'. Modern trade, that accounts for about 8-10% of FMCG sales, is likely to reach about 15-20% levels after five years.

China, where investments in modern trade were started much earlier, is still dominated by general trade. Likewise, in Indonesia, about 90% of the FMCG is sold through general trade channels.

Rastogi feels Indian FMCG companies are unlikely to get impacted significantly in the short term. "However, they will have to go through the learning curve of operating in an evolved modern trade environment such as relationship building, shopper marketing, ensuring desired fill rates," Rastogi said.

Brand visibility and premiumisation will get a boost, according to analysts. "It will improve the visibility of their brands. It will be a boon for companies that are focusing on premiumisation of their select brands," said R Sinivasan, an analyst with Angel Broking.

Echoing similar views, Nitin Mathur, an analyst with Espirito Santo Securities, said it will eliminate of layers of distribution in the industry. "If wholesale buyers and distributors can co-exist, it's a win-win situation."

In sharp contrast to the above views, chairman of Jyothy Labs MP Ramachandran said the FMCG industry will get no specific advantage with the opening of FDI in multi-brand retail. "I think it will have an adverse impact on FMCG companies. If foreign companies introduce private labels, it will eat away our volumes. Small FMCG players will definitely be impacted."