



Urban Household Consumption Behavior and Future of FMCG Sector in India

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Abstract

In a market economy, consumers hold a paramount position. The supply of goods and services typically aligns with market demand patterns. The level of consumption expenditure serves as an indicator of household income and, ultimately, the economic well-being of a country. Between August 2022 and July 2023, the Ministry of Statistics and Programme Implementation (MOSPI), Government of India, conducted the Household Consumption Expenditure Survey (HCES) to gain insights into household consumption and expenditure patterns, as well as the standard of living and overall well-being. This survey yields crucial economic indicators that are poised to shape the future landscape of the Indian Fast-Moving Consumer Goods (FMCG) sector.

Key Words: Consumption Behavior, HCES, FMCG, Household Consumption

Introduction

In the present era of rapidly changing socio-economic changes, the study of household consumption patterns plays the pivotal role in measuring the pulse of societal changes. As per the article published in The Times of India, New Delhi (dated-26.06.2024, Page no.-16), a report from ICICI Lombard General Insurance said "Looking ahead, the FMCG sector in India is poised for sustained growth, with forecasts indicating a 7 to 9% expansion in 2024,".

The "Household Consumption Expenditure Survey (HCES): 2022-23 fact sheet" stands as an important repository of data related to consumption patterns. This offers insight glimpse of the consumption behaviors of households. This survey embarks on a journey to unknown the multifaceted dimensions of household consumption, delving into the intricacies of expenditure patterns, changing preferences, and the many factors that shape the choices of households.

The HCES:2022-23, conducted with minute attention to methodological accuracy, serves as the backbone of this research endeavor. This survey captures major nuances of the household expenditures, shedding light on the allocation of household expenditure across various categories divided into two major groups i.e. food and non-food items. This survey not only allows for a comprehensive examination of current consumption behavior but also lays the groundwork for understanding the implications of these patterns on economic dynamics, societal trends, and the future path of urban living. The growth in the purchasing power of urban population has a greater scope (Singh, M. P., & Arya, K. C. 2011).

The contemporary urban context is marked by rapid technological advancements and changes, changing demographics, and a heightened awareness of environmental sustainability (Singh,

M. P. 2021). From the impact of digital technologies on the retail landscape to the growing interest in sustainable and ethical consumer practices, the study aims to provide nuanced insights into the evolving landscape of urban consumers.

The importance of this research is beyond academic curiosity, implications for businesses, policymakers, and stakeholders. By decoding the patterns of household consumption, we can inform strategies for businesses to adapt and thrive in the changing market situations. Policymakers can utilize these insights to design interventions that address societal needs and promoting inclusive economic growth. Moreover, a better understanding of consumption patterns contributes to the discourse on sustainable practices and ethical consumerism, promoting a holistic approach to social well-being of all groups.

As we navigate an era marked by unparalleled global challenges and opportunities, the research herein, is the way to restrict and direct access about the earnest endeavor to comprehend between households and their consumption choices. Through the data of the HCES 2022-23, we embark on an exploration of urban consumer behaviors, hoping about the clarity of the path towards a more informed and adaptive approach to the challenges and opportunities in the future.

Objectives

1. To analyze the household consumption behavior in urban India based on the "Household Consumption Expenditure Survey (HCES): 2022-23."
2. To examine the trends in the allocation of expenditure on food and non-food items among urban households in India.
3. To assess the impact of changing socio-economic dynamics on consumer preferences, particularly in the Fast-Moving Consumer Goods (FMCG) sector.
4. To identify regional and social group-based disparities in urban consumption behavior and spending patterns.
5. To forecast the future growth trajectory and emerging opportunities for the FMCG sector in India.
6. To provide recommendations for FMCG companies and policymakers based on the evolving trends in urban consumption patterns.

Research Questions

1. What are the major trends in household consumption behavior in urban India, particularly concerning food and non-food expenditures?
2. How have urban household consumption patterns shifted between 1999 and 2023, as per the HCES 2022-23 data?
3. What factors contribute to the changing expenditure on processed foods, beverages, and convenience items in urban India?
4. How do regional and social group-based disparities impact household consumption behavior in urban India?
5. What implications do the findings have for the future of the FMCG sector in India, particularly in terms of product innovation, regional strategies, and inclusive growth?

Research Methodology: The research methodology for this study is based on secondary data analysis, utilizing the “Household Consumption Expenditure Survey (HCES): 2022-23 Fact Sheet” conducted by the National Sample Survey Office (NSSO), Ministry of Statistics and Programme Implementation (MOSPI), Government of India. The survey covers a vast dataset from 8723 villages and 6115 urban blocks, including 1,55,014 rural and 1,06,732 urban households. For comparative analysis, NSS rounds from 1999-2000, 2004-05, and 2009-10 are also examined to understand consumption trends.

Data:

Table 1. Average MPCE and share of food and non-food items: Urban India

Item Group	Average MPCE (Rs.)	Share in total MPCE
Food	2,530	39
Non-food	3,929	61

Figure 1: Average MPCE and share of food and non-food items: Urban India

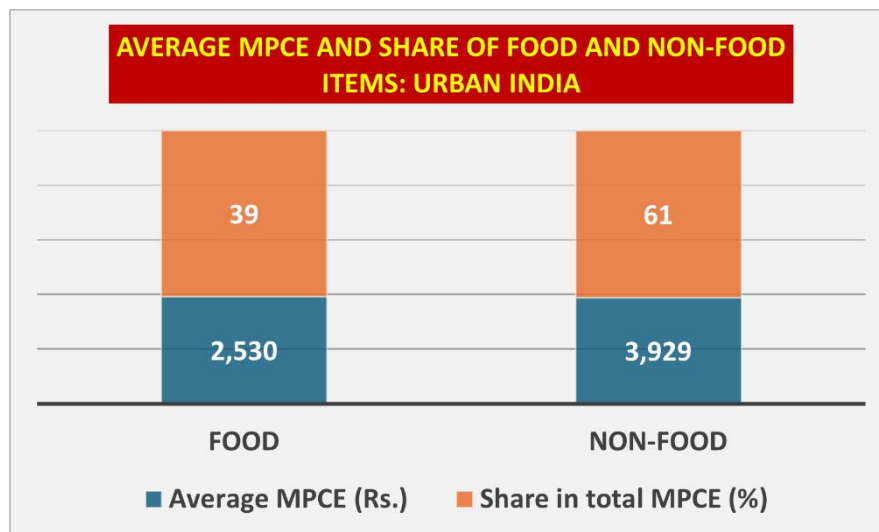


Table 2: Trend in percentage composition of MPCE since 1999-'00: Urban India (food Items)

Item Group	% share in total MPCE					Change (From 1999-00 to 2022-23)
	1999-00 NSS (55 th round)	2004-05 NSS (61 st round)	2009-10 NSS (66 th round)	2011-12 NSS (68 th round)	2022-23	
Cereal	12.35	9.58	8.12	6.61	3.62	-8.73
cereal substitutes	0.04	0.05	0.04	0.05	0.02	-0.02
Gram	0.11	0.10	0.10	0.11	0.18	0.07
pulses and pulse products*	2.84	2.04	2.37	1.93	1.21	-1.63
sugar & salt	1.80	1.57	1.49	1.15	0.60	-1.2
milk and milk products	8.68	7.54	6.90	7.01	7.22	-1.46
Vegetables	5.13	4.24	5.67	4.63	3.80	-1.33
fruits (fresh)	1.95	1.68	2.54	2.64	2.50	0.55
fruits (dry)	0.47	0.46	0.63	0.78	1.31	0.84
egg, fish & meat	3.13	2.58	3.63	3.65	3.57	0.44
edible oil	3.14	3.29	2.66	2.66	2.37	-0.77
Spices	2.07	1.47	2.21	2.42	2.13	0.06
beverages, processed food etc.	6.35	5.91	8.03	8.98	10.64	4.29
Food Total	48.06	40.51	44.39	42.62	39.17	-8.89

Figure 2: Trend in Percentage Composition of MPCE Since 1999-00 to 2022-23: Urban India (Food Items)

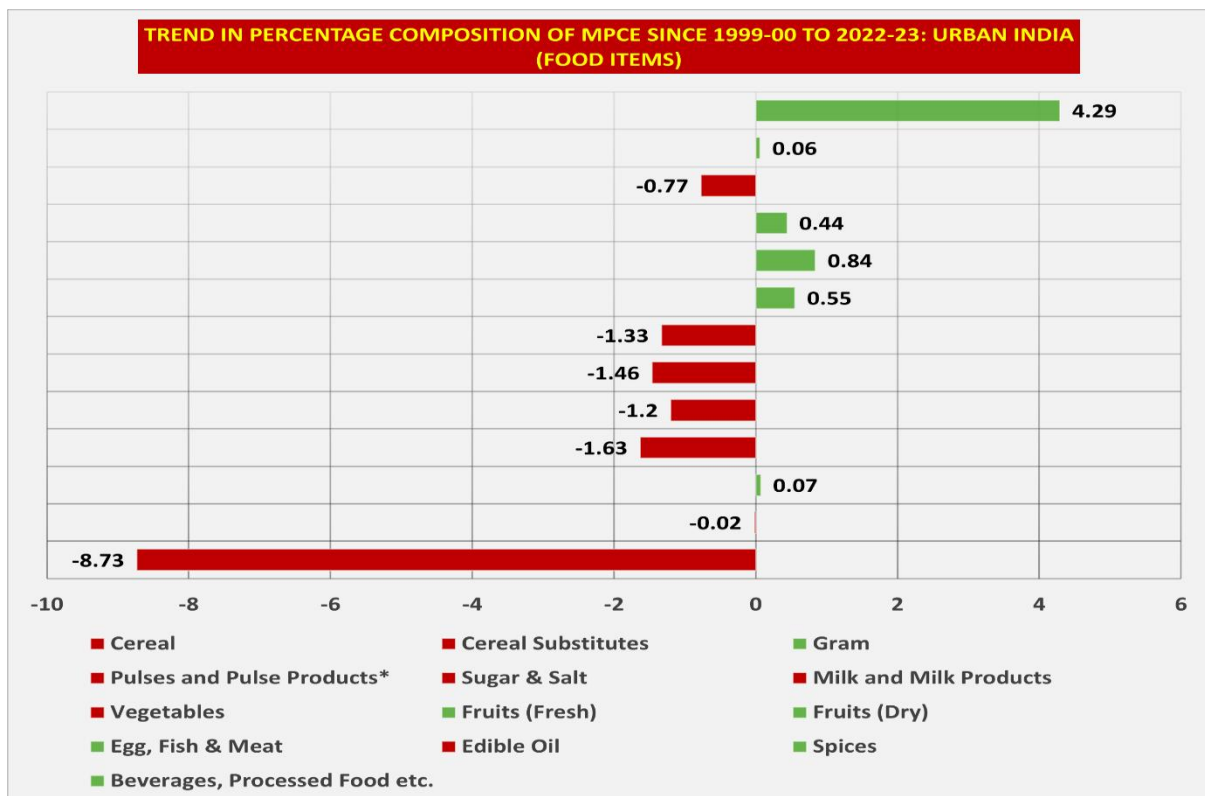




Table 3: Percentage break-up of MPCE by food item group (2022-23: Urban India) in ascending order

Item Group	% share in total MPCE	%
sugar & salt	0.6	2
Spices	2.13	5
edible oil	2.37	6
egg, fish & meat	3.57	9
cereals & cereal substitutes + pulses & their products*	5.03	13
milk & milk products	7.22	18
Vegetables + fruits	7.61	19
beverages, refreshments, processed food#	10.64	27
Food Total	39.17	100

Figure 3: Percentage break-up of MPCE by Food Item Group (2022-23: Urban India)

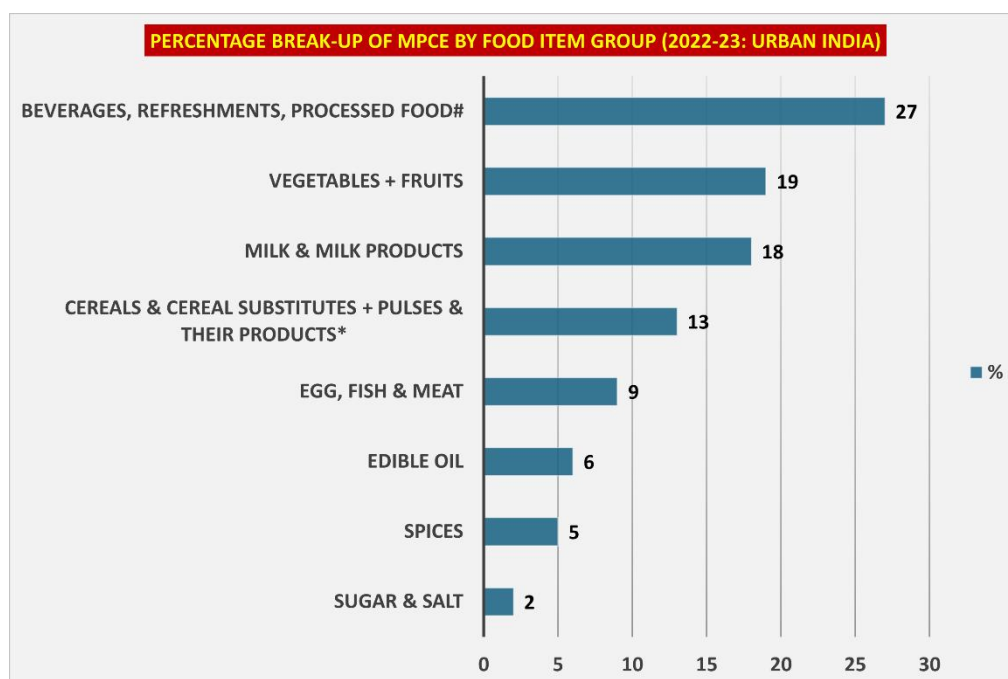




Table 4: Trend in share of consumption of cereals and food items since 1999-'00: Urban India

Round	% share of food items in avg. MPCE	Change (over the previous round)
55th round	48.06	-
61st round	40.51	-7.55
66th round	44.39	3.88
68th round	42.62	-1.77
2022-23	39.17	-3.45

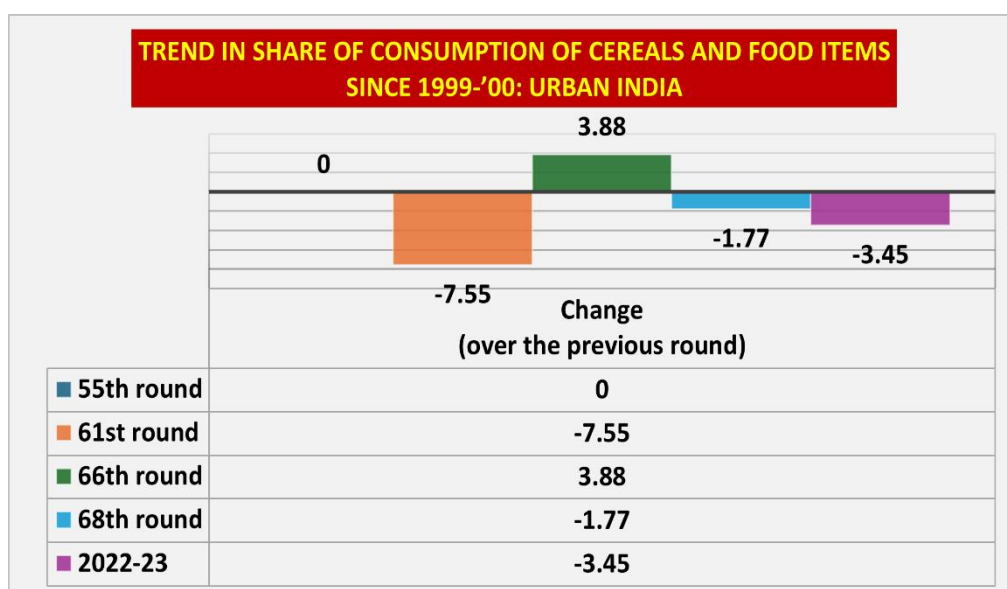


Figure 4: Trend in share of consumption of Cereals and Food Items since 1999-'00: Urban India



Table 5: Trend in level of Consumption since 1999-'00: Urban India

Average MPCE (Rs.) over different period					
	1999-'00 NSS (55 th round)	2004-05 NSS (61 st round)	2009-10 NSS (66 th round)	2011-12 NSS (68 th round)	2022-23
	855	1,105	1,984	2,630	6,459
No. of years over previous round	-	5	5	2	10
Increment over the previous round (In Rs.)	-	250	879	646	3829
Average increment (In Rs.)	-	50	176	323	383

Figure 5: Trend in level of consumption since 1999-'00: Urban India

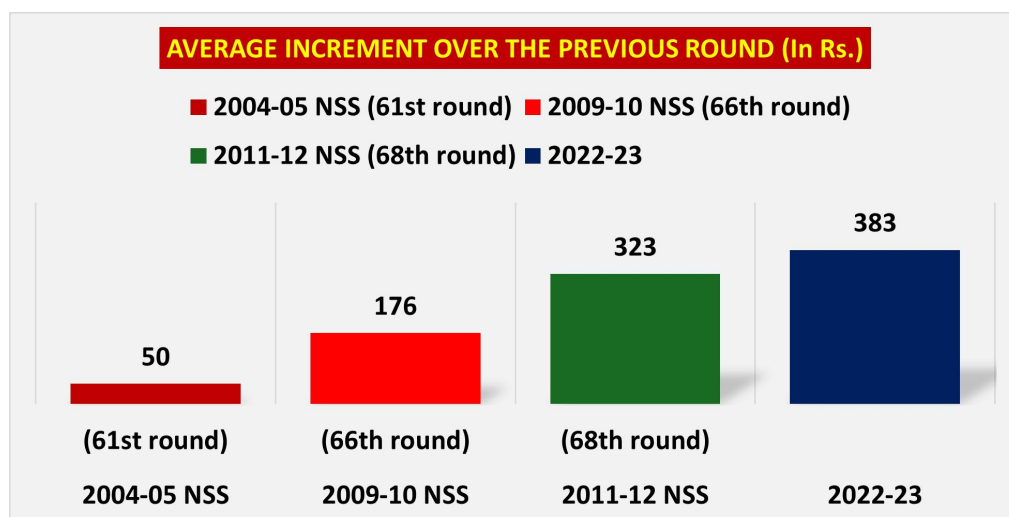




Table 6. Average MPCE (Urban India) for each State (2022-23) in ascending order

State	Average MPCE (Rs.)
Chhattisgarh	4,483
Bihar	4,768
Manipur	4,880
Jharkhand	4,931
Madhya Pradesh	4,987
Uttar Pradesh	5,040
Odisha	5,187
West Bengal	5,267
Rajasthan	5,913
Assam	6,136
Meghalaya	6,433
Punjab	6,544
Gujarat	6,621
Maharashtra	6,657
Andhra Pradesh	6,782
Uttarakhand	7,004
Kerala	7,078
Nagaland	7,098
Tripura	7,405
Tamil Nadu	7,630
Mizoram	7,655
Karnataka	7,666
Haryana	7,911
Himachal Pradesh	8,075
Telangana	8,158
Delhi	8,217
Arunachal Pradesh	8,636
Goa	8,734
Sikkim	12,105
Average	6,828

Figure 7: Average MPCE (Urban India) for each state (2022-23)

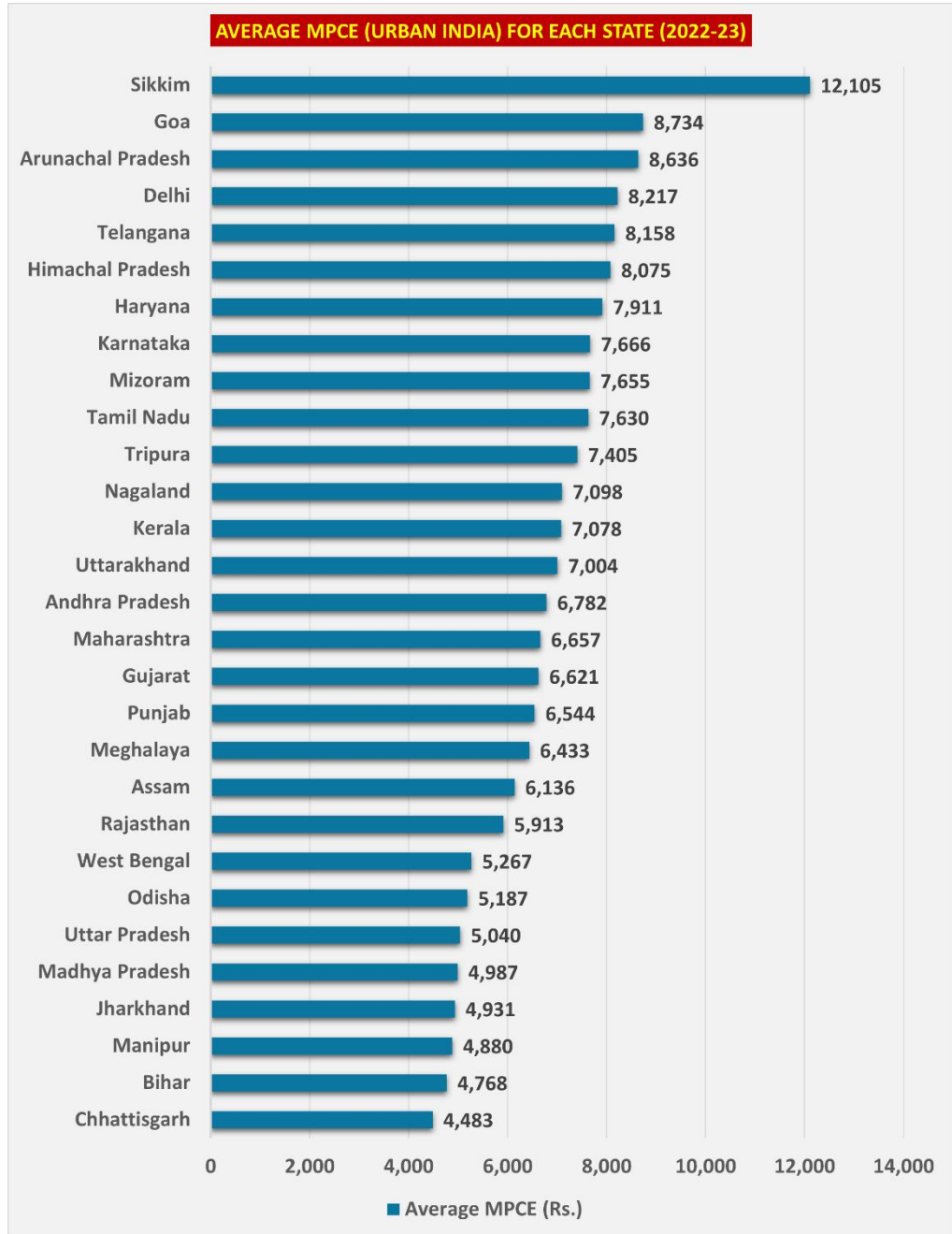




Table 7. Average MPCE (Urban India) for each UT (2022-23) in ascending order

UT	Average MPCE(Rs.)
Lakshadweep	5,475
Jammu & Kashmir	6,179
Ladakh	6,215
Dadra & Nagar Haveli and Daman & Diu	6,298
Puducherry	7,706
Andaman & N Islands	10,268
Chandigarh	12,575
Average	7,817

Figure 8: Average MPCE (Urban India) for each UT (2022-23)

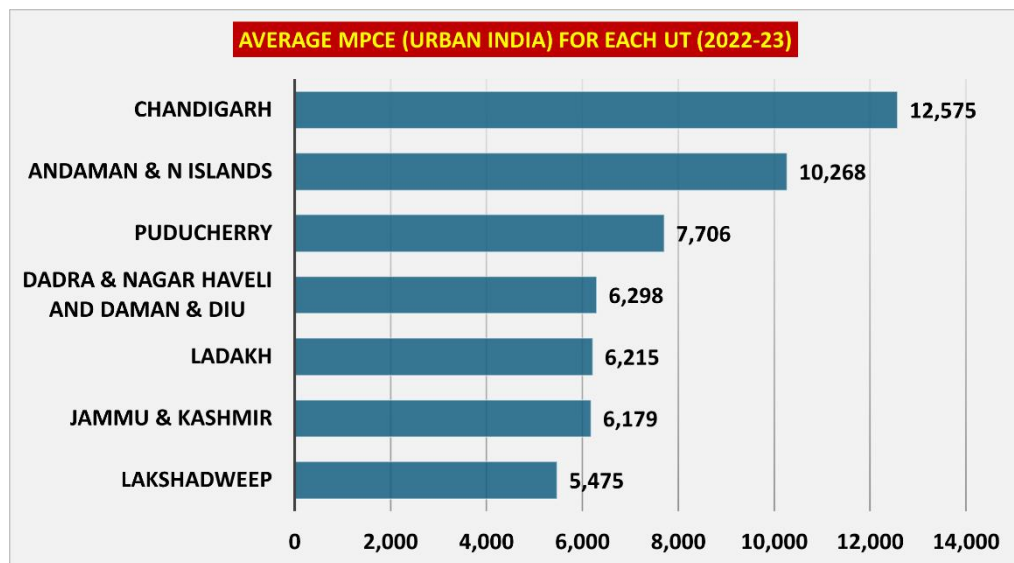


Table 8: Average MPCE by Social Groups in 2022-23: Urban India

Social Groups	Average MPCE (Rs.) Urban
Schedule tribe	5,414
Schedule caste	5,307
Other backward class	6,177
Others	7,333
Average	6,459

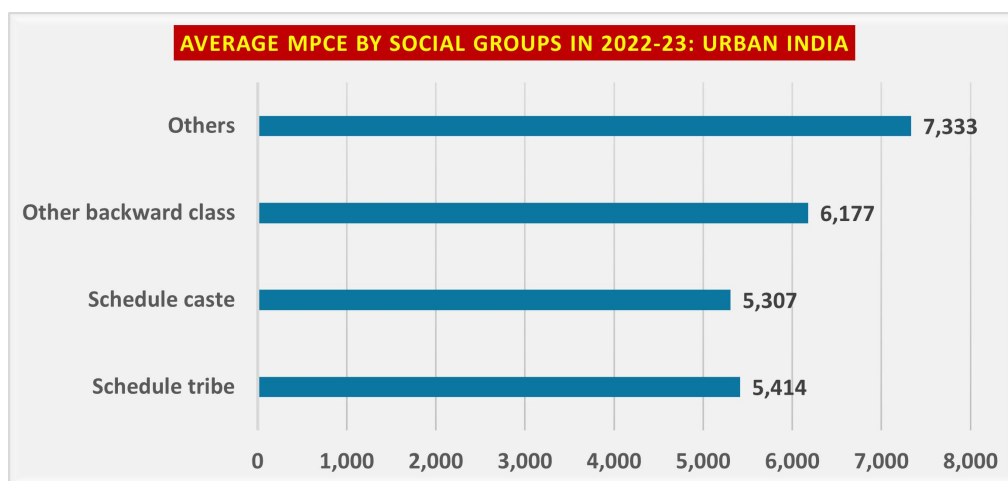


Figure 9: Average MPCE by Social Groups in 2022-23: Urban India

Discussions

When compared to food items, non-food items account for the majority of expenditures. According to the data (Table 1), food items make up 39 percent of the total MPCE, while nonfood items make up 61 percent.

The percentage of expenditure on beverages, processed foods, etc. has increased significantly (Table 3), suggesting a shift in consumption patterns toward these items. The percentage of expenditure on cereals has significantly decreased (Table 2), from 12.35 percent in 1999–00 to 3.62 percent in 2022–2023; this suggests that expenditure on cereals has been declining over time. Between 1999 and 2022, the percentage of total expenditures that went toward food items dropped (Table 4) from 48.06 percent to 39.17 percent.

According to the data (Table 3), expenditure on processed and convenience foods is noteworthy, despite the fact that basic food items like cereals, pulses, milk, and fresh produce still account for a sizable portion of food expenditures. This suggests that consumption patterns are changing due to factors like urbanization, changes in lifestyle, and the availability of processed foods.



It is significant to note that the average MPCE has been rising over time (Table 5), with different growth rates noted at different times. The average annual accumulation sheds light on changes in consumer spending trends over time as well as the rate of economic growth.

Several significant interpretations –

1. The information (Table 6) shows that India's union territories and states have very different economic conditions and spending habits. The average MPCEs of states like Chhattisgarh, Bihar, and Manipur are lower than those of states like Sikkim, Delhi, and Arunachal Pradesh. The data (Table 7) indicates significant economic disparities, even among UTs. Lakshadweep has a significantly lower average MPCE than Chandigarh, which has a significantly higher average.
2. Sikkim, Delhi, Arunachal Pradesh, Goa, and Telangana have better economic environments and higher spending levels (Table 6), with significantly higher average MPCEs. UTs with significantly higher average MPCE (Table 7) values include Chandigarh, Puducherry, and the Andaman & Nicobar Islands. This suggests that economic conditions have improved and that spending levels may have increased.
3. Chhattisgarh, Bihar, Manipur, and Jharkhand have comparatively lower average MPCEs (Table 6), which suggests that their economies are less prosperous and may face more difficulties. Despite being the least prosperous UT on the list (Table 7), Lakshadweep has a respectable level of economic wellbeing when compared to the national average.
4. Significant differences in income between different urban social groups are shown by the data (Table 8). When compared to marginalized groups like ST and SC groups, the "Others" category—which most likely represents the general population not falling into the mentioned categories—usually has a higher MPCE.
5. The MPCE is a reflection of the differences in the financial health and spending power of various social groups. The "Others" category's higher MPCE could be a sign of comparatively better economic conditions (Table 8).
6. In urban areas, the average MPCE of various social groups combined is Rs. 6,459 (Table 8), which can be used as a baseline to compare the values of different social groups.
7. In order to improve the economic status and standard of living of marginalized communities such as OBC, ST, and ST, laws and initiatives that specifically target them must be put in place. This information highlights how important it is to address economic disparities and promote inclusive growth.

All things considered, the data highlight the need for targeted interventions meant to address inequality and promote inclusive economic growth by illuminating the wealth gaps that exist between different urban social groups.

Future Outlook for the FMCG Sector

1. The observed increase in spending on beverages, snacks, and processed food suggests a shift in consumer preferences toward easy-to-eat meals and ready-to-use processed products. FMCG companies now have the opportunity to innovate and offer a wide range of products to meet the changing needs and tastes of urban consumers.
2. While processed foods are in vogue, consumers' awareness of their health is also rising. By providing better and healthier options, such as natural and organic products, fortified foods, and functional beverages, FMCG companies can capitalize on this trend.
3. States that are doing better economically and offer FMCG companies more spending



opportunities can launch premium or value-added products aimed at affluent consumers.

4. The FMCG industry can apply Sustainable Development strategies by providing reasonably priced products that are suited to the needs and preferences of consumers in lower-income groups, taking into account the disparities in economic well-being that exist between various regions and groups. This can entail introducing more reasonably priced versions, smaller pack sizes, or goods geared toward underserved populations.
5. Taking into account regional variations, FMCG companies can implement localization tactics to accommodate the distinct tastes and cultural subtleties. This could entail regionally specific distribution plans, customized products, and localized marketing campaigns. This will fulfill the "Vocal for Local" objective.

All in all, the FMCG industry in India has a plethora of opportunities, from addressing regional disparities and fostering inclusive growth to accommodating shifting consumption patterns and priorities. FMCG companies can position themselves for future market expansion and sustainable growth by comprehending and adjusting to these trends.

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