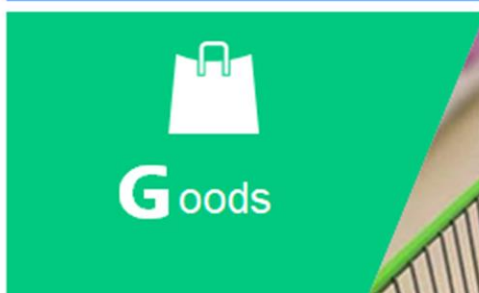
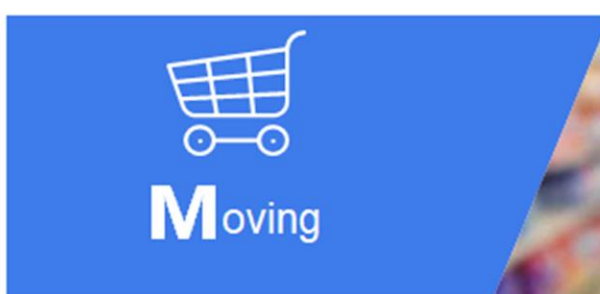
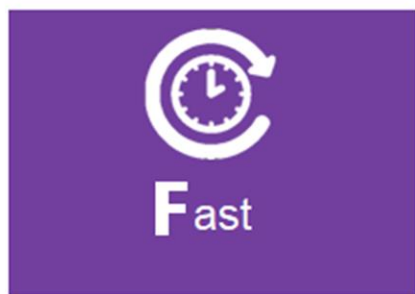




FMCG Industry of Bangladesh: An Overview of Current Challenges



FMCG Industry of Bangladesh: An Overview of Current Challenges

Nabihatul Afrooz¹

Executive Summary

This analysis focuses on the present status, price volatility, and challenges of the FMCG industry. This report also analyses the market, comparing some of the market players. Bangladesh imports a significant amount of raw materials required to produce FMCG products. Due to the current Russia-Ukraine war, the whole economy is affected as global trade declines. The prices of raw materials and other products have risen, affecting local businesses. This study demonstrates the industry's challenges arising from the Russia-Ukraine war, increased import costs, and the current energy situation.

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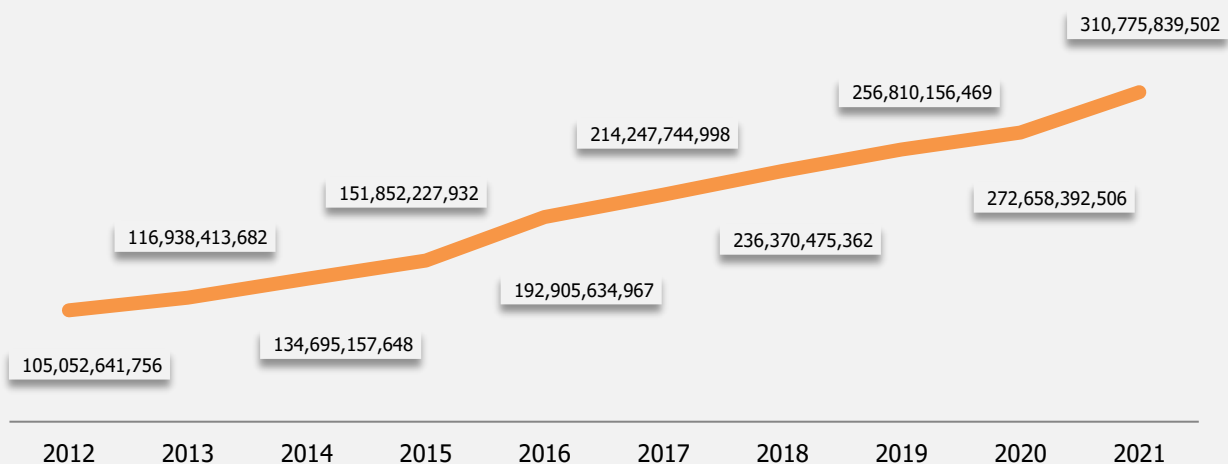
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Introduction

Fast-moving consumer goods (FMCG) are the major consumer goods purchased for consumption by the final consumers. FMCG are usually non-durable goods that are consumed immediately with one-year shelf life. The FMCG market size in Bangladesh has been growing with the population. The FMCG industry in Bangladesh is one of the fastest-growing industries. Fast-moving consumer goods are final products & services which are frequently demanded by households and are purchased regularly at the produce stand, grocery stores, supermarkets, etc. These products get sold swiftly at comparatively low prices. Nowadays, all kinds of toiletries and beauty care items are available and accessible to people in urban and rural areas. The demand for FMCG goods and services has risen all over Bangladesh, which made this sector attractive for investments for local and foreign brands. Thus, multinational companies have come and joined Bangladesh's FMCG market. As per industry experts, the value of the FMCG industry in Bangladesh increased from USD 3.70 billion in FY2021 to USD 3.90 billion in FY2022. The revenue is projected to grow by 16.18% from 2022 to 2027 (Statista, 2022).

FMCG is used by almost everyone in the world every day. The consumption expenditure has increased significantly over the period. It includes both urban and rural areas. The consumption of FMCG products in rural areas has risen and is considered one of the major drivers of industry growth. According to the Bangladesh Bureau of Statistics (BBS), in the last 15 years, consumption expenditure for rural areas has increased significantly and reached 103% from 81%. Over the years, the spending pattern of people has evolved due to modernization and urbanization. The contribution of consumption expenditure to GDP is 74.66% in FY 2020-21, of which private consumption is 68.78%, and government consumption is 5.88% (Bangladesh Economic Review 2022). However, change in taste and fashion with income can profoundly impact FMCG consumption.

Figure 01. Final Consumption Expenditure (Current USD)

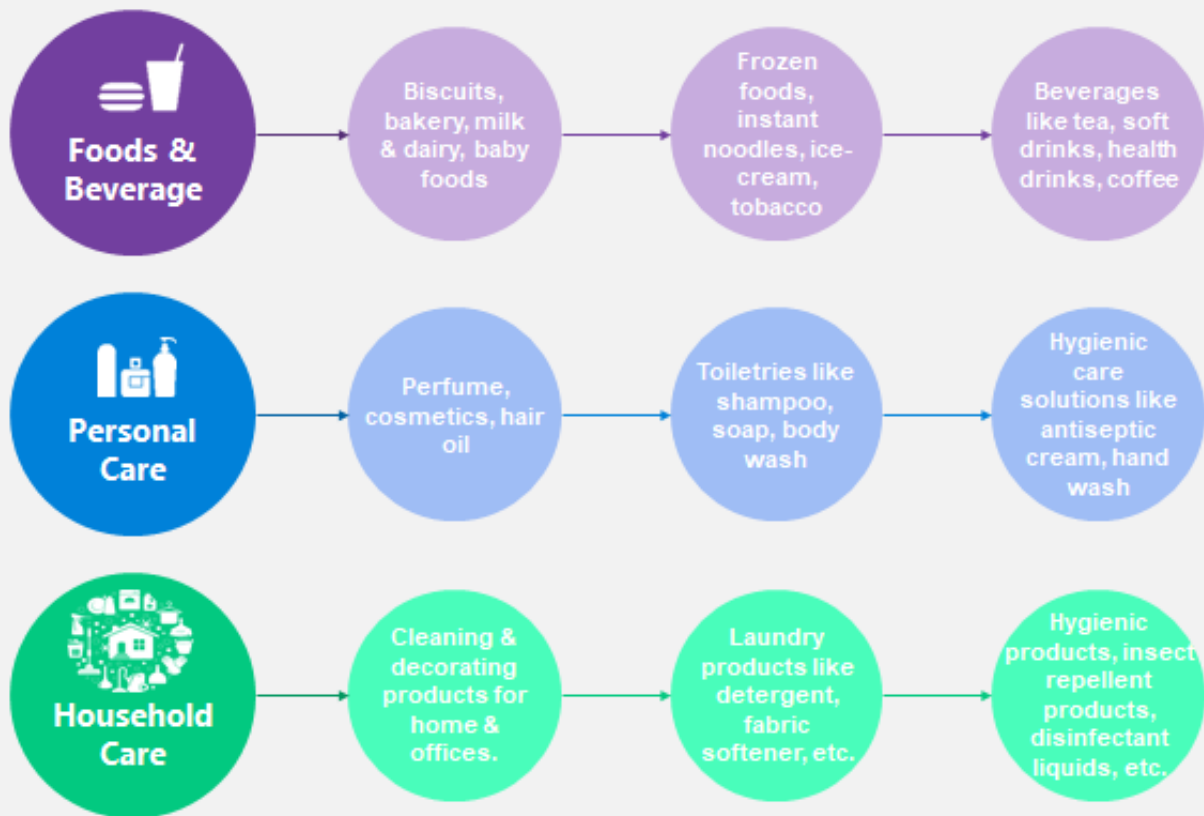


Source: World Bank Data

The past two years have been tough for all kinds of businesses worldwide. The pandemic had been a bolt from the blue and took aback everyone hurting not only physical health but creating a long-term financial impact on people's life. Moreover, other factors like the international political turmoil, dollar currency appreciation against major currencies, fuel price hike, increase in the price of raw materials in the international market, energy crisis, and increased cost of production is affecting the FMCG industry.

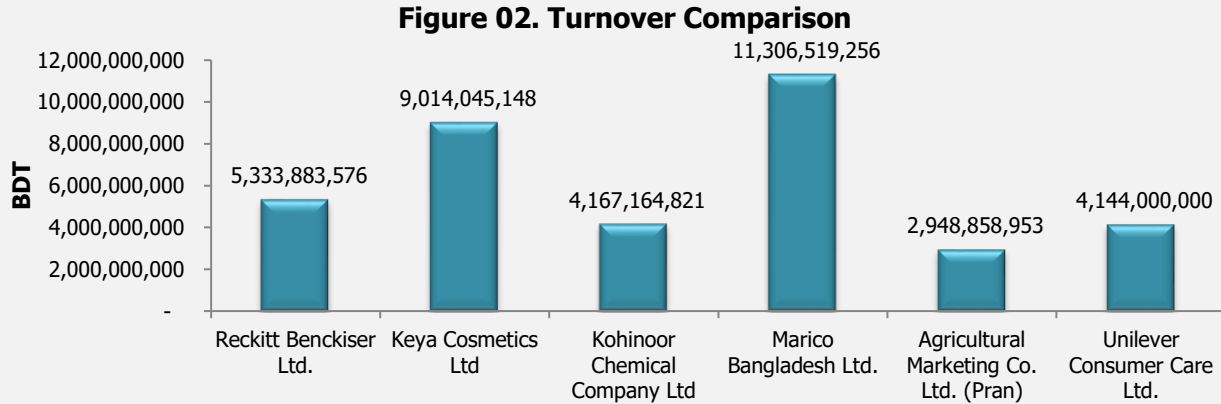
Types of FMCG Products

There are different categories of FMCG products. The three big categories include the foods & beverage industry, personal care, and household care. The food and beverage industry has a wide range of products like bakery items, biscuits, dairy, chips, chocolates, ice cream, frozen items, and many other packaged snacks. It also includes hot and cold beverages and also health drinks. The personal care industry includes products used daily like shampoo, soaps, oil, lotion, cream, perfumes, toiletries, cosmetics, and also items for hygienic care. Household care products include decorations and cleaning items, floor cleaners, dish wash liquids, laundry detergents, etc.



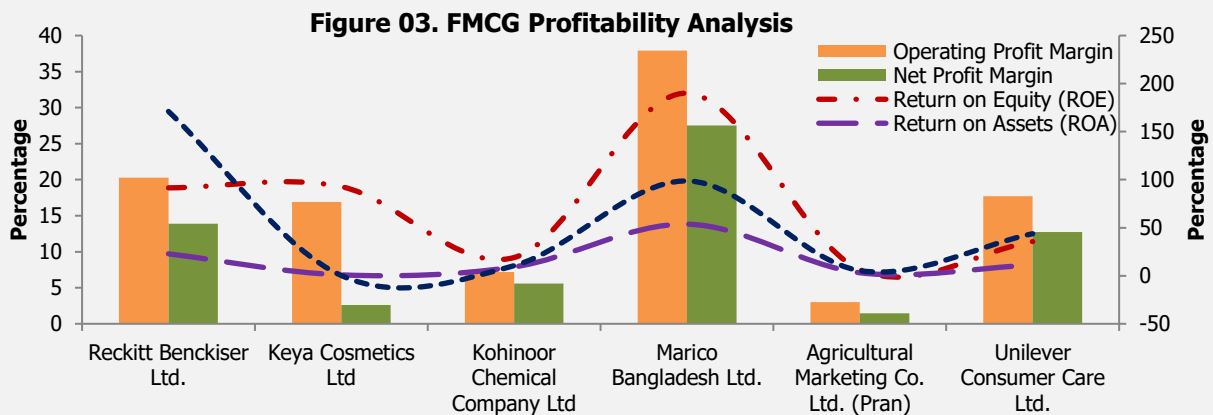
Market Analysis

The FMCG industry had been performing well with increasing growth potential, which attracted around three dozen companies, including large conglomerates. Large conglomerates and medium-scale companies are performing in the manufacturing business. Even some small-scale companies are in the manufacturing and distribution business.



Source: Annual Reports

In figure 02 and figure 03, some FMCG market players were compared based on turnover, profitability, return on equity, and return on assets. According to figure 02, the revenue of FMCG companies is displayed, which has been collected from the annual reports of the respective companies. The data of Marico Bangladesh Ltd., Keya Cosmetics Ltd, Reckitt Benckiser Ltd., Kohinoor Chemical Company Ltd, Unilever Consumer Care Ltd., and Agricultural Marketing Co. Ltd. (Pran) were compared.



Source: Annual Reports; ECRL Calculation

According to the financial data, the company's return on equity and return on assets had been high for the companies with higher profitability margins. It is also noticeable that the companies with high revenue have high profitability margins.

Challenges of the FMCG Industry

After Covid-19, the war between Russia and Ukraine affected the global economy, intensifying the impact on underdeveloped and developing countries like Bangladesh. Moreover, the dollar price appreciated against major currencies worldwide, and BDT depreciated, further hurting the nation's imports. There was a supply shortage, and production was also affected during this time. The inflation at the national and international level, increased price, national energy crisis, fuel prices hiked up to 51.70%, regular load shedding, etc., is creating chaos in the industry.

The businesses involved in the FMCG industry are having difficulty coping with the rising prices of raw materials. It is creating pressure on the business and the consumers, as well as the prices of the final products, are also increasing. Consumers are also cautious while spending their money on different products and changing their consumption habits. Thus it is creating pressure on the industry as the costs are rising, but profits are limited.

Conclusion and Recommendation

FMCG products are essentially used in the daily lives of people almost everyone in the world. This sector in Bangladesh has been growing every year, and the demand for FMCG products increased during the pandemic. It has attracted large and small investors. The current situation is different from past events. Raw material prices are constantly increasing. According to industry insiders, the largest difficulty for small entrepreneurs engaged in the FMCG sector is controlling increased costs brought about by rising commodity prices, given their limited financial reserves, making it extremely hard to maintain margins. Even large conglomerates have a difficult time meeting the cost and maintaining margins. The Russia-Ukraine war and Indonesia's subsequent prohibition on palm oil export caused a sharp spike in the price. Thus, to sustain these shocks, the businesses have to opt for price rises, which then begin hitting demand, and consequently, the sales are affected. During this challenging time, the industry needs better government policy support, and the industry also needs to adopt strategies to endure these changes to sustain itself in the long run.

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About ECRL

Emerging Credit Rating Limited (hereinafter referred to as ECRL) began its journey in the year 2009 with the motive to deliver credible superior & quality credit rating opinion in various industry segments around Bangladesh. ECRL obtained credit rating license from Bangladesh Securities and Exchange Commission (BSEC) in June 2010 as per Credit Rating Companies Rules 1996 and also received Bangladesh Bank Recognition as an External Credit Assessment Institutions (ECAI) in October 2010 to do the rating of Banks, Financial Institutions and their borrowers and also from Insurance Development & Regulatory Authority (IDRA) in 2015 to do the rating of Insurance Companies & affiliated with Malaysian Rating Corporation Berhad.

Emerging Credit Rating Limited's team is oriented towards the continuous improvement of processes, striving for an important role in the leadership of the business world. Every individual in ECRL is committed to providing topmost ingenious Credit Rating Services and Comprehensive Research Services in Bangladesh. ECRL's rating services and solutions reflect independence, professional, transparency and impartial opinions, which assist businesses in enhancing the quality of their decisions and helping issuers access a broader investor base and even smaller known companies approach the money and capital markets. The Credit Rating process is an informed, well-researched and intended opinion of rating agencies on the creditworthiness of issuers or issues in terms of their/ its ability and willingness of discharging its financial obligations in a timely manner. Issuers, lenders, fixed-income investors use these risk assessments for the purpose of lending to or investment in a corporation (such as a financial institution, an insurance company, a non-banking corporation or a corporate entity) as well as evaluating the risk of default of an organization's financial obligations in terms of loan or debt.

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