

ECONOMIC CRIMES IN FMCG INDUSTRY

Dev Bajpai
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FMCG INDUSTRY IN INDIA: SOME FACTS



- ❖ Over 3 Lakh crore in size
 - Fourth largest industry
 - Parts of Industry are unorganised
- ❖ Includes sectors like Personal Care, Home Care, Foods & Refreshments, Household Accessories etc.
- ❖ Product segments include toilet soaps, detergents, shampoos, toothpaste, shaving products, packaged food products like jams, juices etc.
 - Low penetration. Per capita consumption low.
 - Straddles the pyramid
 - Big opportunity to premiumize.
- ❖ Innovation including packaging innovation is key in FMCG Industry.
- ❖ Entry barriers are low
 - Comparatively low engagement with technology
- ❖ Progression to services from products
- ❖ Many categories (Personal Care & Home Care) impacted by raw material costs.



ECONOMIC CRIMES IN FMCG INDUSTRY IN INDIA



- ❖ **Counterfeiting, Grey Imports & related forms of economic offences.**
- ❖ **Leakages in Supply Chain**
- ❖ **Corruption and Bribery**
- ❖ **Manipulation of sales system/ Distributor Management System**
- ❖ **Revenue leakages in Advertising spends.**



COUNTERFEITING & GREY MARKET SUPPLIES



- ❖ **Locally manufactured counterfeits**
- ❖ **Imported counterfeits**
 - Coming into the country also as Parallel Imports
- ❖ **Pass Offs/ look alike**
- ❖ **Serious consequences**
 - Estimated loss to FMCG Industry ~40, 000 crore annually*
 - Health related on account of sub standard quality
 - Neither licenced nor tax paid
 - Lay consumers being misled
- ❖ **Grey Imports distort markets**
 - Adversely impact domestic players
 - Create a non level playing field
- ❖ **E-commerce channel also being used by counterfeiters**



LEGAL FRAMEWORK & ENFORCEMENT



- ❖ Regulations exist but there are rough edges
 - Section 115 of Trade Marks Act, 1999
- ❖ Enforcement is low
 - Different States accord different priority
- ❖ On Cross Border counterfeiting/ grey imports, support from Customs is key
 - Section 30 of the Trade Marks Act, 1999
 - Rights of Trade Mark owners diluted
- ❖ Well Known Trade Marks accord better protection to such right holder
 - Rules yet to be notified after thirteen years.
 - Adhoc approach in according registration



* Trade Marks Act, 1999 effective from 15-9-2003

LEAKAGE IN SUPPLY CHAIN



- ❖ **Organised set ups that intrude into the Supply Chain**
- ❖ **Thefts of raw material/ packing material from genuine supply chain**
 - **Systems & processes not always as robust at packaging suppliers**
 - **Thefts during transport. Short receipt of CLD at distributor/stockist point.**
- ❖ **Sale of finished product as scrap**
 - **Scrap is a major area of leakage**
 - **Collusion with scrap vendors**



MANIPULATION IN SALES SYSTEM/DISTRIBUTOR MANAGEMENT SYSTEM



- ❖ Fake outlets and fake salesmen
- ❖ Inflation of period end sales & sales returns.
- ❖ Bungling in trade promotions
 - Trade schemes and promotions are cut down/diverted.
 - Non distribution of schemes in the market
- ❖ Resort to forged documentation by Distributors
- ❖ Focus on 'What' much more than 'How' causes behaviours to change.



REVENUE LEAKAGES IN ADVERTISING SPENDS



- ❖ Big area of concern where advertising budgets are high with discretion to choose from a variety of media platforms.
- ❖ Kickbacks taken by employees of the Company and advertising agency.
- ❖ Advertising done at remote locations
 - Print media
 - Outdoor media
- ❖ Lack of transparency in deals struck with outdoor media owners



BRIBES AND CORRUPTION

- ❖ Payment to Consultants and Service Providers
- ❖ Sale to CSD and other Government owned channels.



MAJOR CHALLENGES TO PREVENT CRIMES



- ❖ **Third Party Operations**
 - Ensuring that the rigour and focus on compliance is always high
- ❖ **Educating the value chain on emerging areas to prevent crimes**
 - Anti Bribery
 - Competition Law
 - Data Privacy

EMERGING RISKS & AREAS TO WATCH

- ❖ **Cyber Crimes**
- ❖ **Data Collection & Data Privacy**
 - Newer ways to connect with consumers
 - Consumer is the King in a free market
- ❖ **Anti Trust**
 - Gaining traction in India



INITIATIVES @ HUL



❖ Presence in India of over 80 years

where

- Strong Code of Business Principles that apply across 100 plus countries where Unilever has a presence.

- 22 Code Policies govern our conduct both on and off work.
- Audit Committee reviews Code awareness and governance.

❖ To tackle counterfeiting and related crimes

- Building awareness – Schools program, Respect for IP, National IP Policy
- Advocacy for enabling regulation & educating Customs through cascades
- Effective field level action through a dedicated team

❖ To tackle bribery and corruption

- Robust third party compliance program
- Ensure proportionate measures are in place to prevent bribery
- Regular cascades to targeted audience.





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**THANK
YOU!**