



WINNING STRATEGIES FOR A SMOOTH RIDE

Come up Trumps in India's FMCG Landscape

INDIA'S TOP 25 FMCG COMPANIES

Rank	Company	2012 Est FMCG Turnover (Rs. Crs)	Category	Major Brands/ Products
1	Hindustan Unilever	21,786	Bakery and Confectionary, Beauty and Personal Care, Home Care, Non-alcoholic Beverages, Packaged Foods, Staples	Annapurna, Brooke Bond, Clinic Plus, Fair & Lovely, Kissan, Lakme, Lifebuoy, Lipton, Lux, Pepsodent, Ponds, Sunsilk, Surf Excel, Vaseline
2	Ruchi Soya	19,909	Bakery and Confectionary, Beauty and Personal Care, Packaged Foods, Staples	Nutrela, Nutri Gold, Ruchi Gold, Sunrich
3	ITC	17,850	Bakery and Confectionary, Beauty and Personal Care, Packaged Foods, Snacks and Savories, Staples, Tobacco	Aashirvaad, Bingo, Classic, Fiama Di Wills, Gold Flake, Kitchens of India, Minto, Sunfeast
4	Amul	11,668	Dairy	Amul, Amul Ice Creams, Dahi, Ghee, Kool Café, Kool Lasse, Masti Sagar, Stamina, Taaza
5	Adani Wilmar	9,188	Oil	Avsar, Bullet, Fortune, Fryola, Ivory, Jubilee, Kings, Pilaf, Raag
6	United Spirits	7,660	Alcoholic Beverages (Spirits)	Bagpiper, Black Dog, Four Seasons, McDowell's No.1, McDowell's VSOP, Royal Challenge, White Mischief, Whyte and Mackay
7	Nestle	7,514	Bakery and Confectionary, Dairy, Packaged Foods	Bar-One, Everyday, KitKat, Lactogen, Maggi, Milkmaid, Munch, Nan, Neslac, Nescafe, Nestea, Polo
8	Gokul Refoils & Solvent	6,487	Oil	Gokul, Zaika
9	P&G	5,566	Beauty and Personal Care, Home Care	AmbiPur, Ariel, Duracell, Gillette, Head & Shoulders, Olay, Oral-B, Pampers, Pantene, Tide, Vicks, Wella, Whisper
10	Britannia	4,974	Bakery and Confectionary, Dairy, Packaged Foods	Bourbon, Daily Bread, 50-50, GoodDay, Healthy Start, Marie Gold, Nutrichoice, Treat, Tiger, Time Pass
11	Parle Products	4,640	Bakery and Confectionary, Snacks and Savories	Bite, Bourbon, Hide N Seek, Mango Kismi Bar, Melody, Monaco, Parle-G, Parle Marie
12	Rei Agro	4,225	Rice	Hansraj, Hungama, Ikon, Kasuti, Mr. Miller, Rain Drop, Real Magic
13	Shakti Bhog Foods	4,212	Bakery and Confectionary, Staples	Divss, Premium Gold, Shakti Bhog Atta, Shakti Bhog Heat and Eat
14	Dabur	3,759	Beauty and Personal Care, Home Care, Non-alcoholic Beverages, Packaged Foods	Activ, Babool, Dabur Amla, Dabur Chyawanprash, Glucose D, Gulbari, Hajmola, Lal Dant Manjan, Nutrigo, Odopic, Real, Vatika
15	United Breweries	3,593	Alcoholic Beverages (Beer)	Kalyani Black Label, Kingfisher, Kingfisher Ultra, London Pilsner, Zingaro
16	Godrej CPL	2,980	Beauty and Personal Care, Home Care	Cinthol, Ezee, Good Knight, Godrej Dish Wash, Hit, Shikakai
17	Marico	2,970	Beauty and Personal Care, Home Care, Packaged Foods, Staples	Manjal, Mediker, Naturals, Nihar, Parachute, Revive, Saffolas
18	Cadbury (Kraft)	2,811	Bakery and Confectionary	Bournville, Bournvita, Dairy Milk, Gems, Oreo, Tang
19	GSK CHL	2,771	Bakery and Confectionary, Non-alcoholic Beverages	Boost, Crocin, Eno, Horlicks, Iodex, Maltova, Viva
20	Colgate-Palmolive	2,693	Beauty and Personal Care, Home Care	Axion, Colgate, Colgate Sensitive, Palmolive, Palmolive Naturals, Palmolive Charmis Cream
21	K S Oils	2,667	Oils	Double Sher, Kalash, K.S. Gold
22	Kwality Dairy	2,385	Dairy	Dairy Best, Kwality, Wake Up Instant Dairy Creamer
23	Nirma	2,125	Beauty and Personal Care, Home Care	Nirma Clean Dishwash Bar, Nirma Rose, Nirma Washing Powder, Nirma Shudh Iodized Salt, Nirma Bartan Bar
24	Tata Global Beverages	1,994	Non-alcoholic Beverages	Glucos+, Himalayan, Tata Coffee, Tata Tea, Tetley
25	Johnson & Johnson	1,900	Beauty and Personal Care	Band-Aid, Carefree, Clean N Clear, Johnson Baby, Listerine, Neutrogena, Stayfree

The study has excluded companies whose financial data was not available in the public domain or could not be sourced for analysis. The excluded companies are Coca-Cola India, PepsiCo India, Perfetti Van Melle India, Parle Agro, Mother Dairy, Pernod Ricard and L'Oreal India.

There are growing concerns that the once sizzling Indian economy is cooling off. With the rainfall playing truant and industrial growth slowing down, both agricultural and manufacturing sectors are likely to feel the heat. In addition, the Indian buyer presents a unique challenge; discerning in her taste but also value conscious; global in her mindset but truly Indian at heart.

How are these challenges likely to impact FMCG companies and what steps can they take to sustain past performance? How do brands create a lasting impression and a place for themselves in customers' minds and hearts?

But companies will need to tailor their strategies to ensure a smooth ride in the Indian safari.

Despite the economic challenges, we believe India offers huge opportunities for growth in FMCG.

A DECADE OF INDIA SHINING

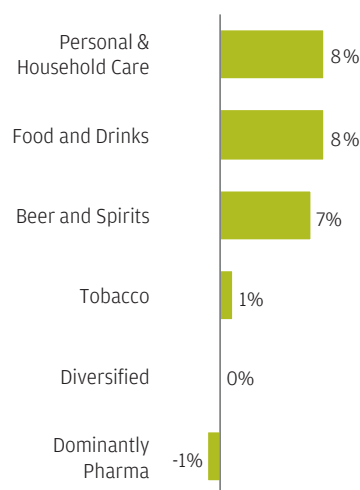
The past decade saw the Indian economy come of age and firmly establish itself on the global map and on the radar of every major corporation in the developed world. Not only did the Indian economy recover strongly from the 2001 recession, but the next seven years saw it scale unprecedented heights.

A comparison of the past ten years' performance of the top 50 FMCG companies globally versus the Indian top 50 shows that India has outperformed global growth across all major FMCG categories. (Side exhibit)

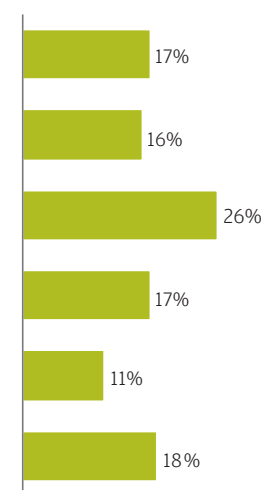
While FMCG companies in developed economies performed steadily at best, India consistently delivered near double digit growth. Even the post 2008 period which was marked by de-growth in most traditional markets, saw only a slight blip on the otherwise stellar run rate being delivered by the Indian economy.

Category Wise Growth in Revenues (CAGR) 2002-11

Global 50 FMCG Firms



Top 50 FMCG Firms in India



INDIA REMAINS AN IMPERATIVE...DESPITE CHALLENGES

The looming European credit crisis along with a policy paralysis at the center, high inflation and a failed monsoon have spewed concerns about the general health of the Indian economy. But, has the Indian FMCG growth story slowed down for good?

The answer is an emphatic No. The Top 10 FMCG companies have seen revenue growth of 18% p.a over the past three years and 24% in the last one year. This growth is robust and sustainable, driven by domestic consumption rather than external factors, with over half of it being volume growth.

Three factors that are bound to spur consumer spending continue unabated

- Increasing Urbanisation and consequently, an increase in consumerism on account of greater exposure and access to goods

- Increasing number of Nuclear Families and rising Disposable Incomes giving rise to increased discretionary spends
- Low Penetration of several FMCG categories and lower Per Capita Consumption in all categories indicating huge headroom for growth

Given the sluggish nature of the European and US markets, it is a market that the world's biggest FMCG companies can ill afford to ignore.

However India is not a market without its share of challenges as many global businesses, who tried to replicate globally successful formulae in India, have learnt to their dismay.

- There are multiple consumer segments across a wide range of affluence leading to a requirement for a complex brand architecture

- The huge regional diversity results in vastly differing tastes and preferences, creating the need for localized products
- India's vast geography and a large, hard-to-reach rural population combine to create a highly fragmented distribution network with many layers of distributors to go through before the product reaches the consumer
- Cluttered and expensive media reaching out only to a limited audience

BUT IT'S THE ELEPHANTS WHO ARE DANCING

GLOBAL RANK

INDIA RANK



Indian companies lead the list of the top 25 FMCG companies in India – 7¹ of the top 10 are from India and over 70% of the overall list consists of home-grown companies. Moreover Indian companies have outpaced their global counterparts across categories.

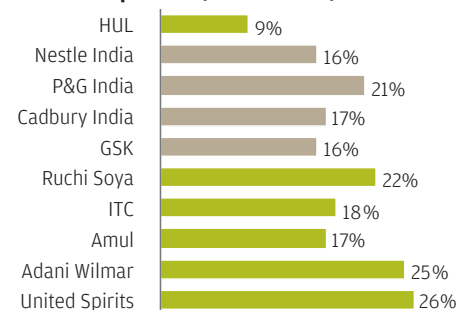
While Indian players lead the global giants overall as well as in the vast majority of categories, there are exceptions, particularly in Health and Beauty where the relative sophistication of the category has resulted in global majors squeezing out locals.

In Dairy and Snacks, MNCs except PepsiCo have largely failed to adapt to local tastes and hence have not been able to establish themselves in what remains a very local food market.

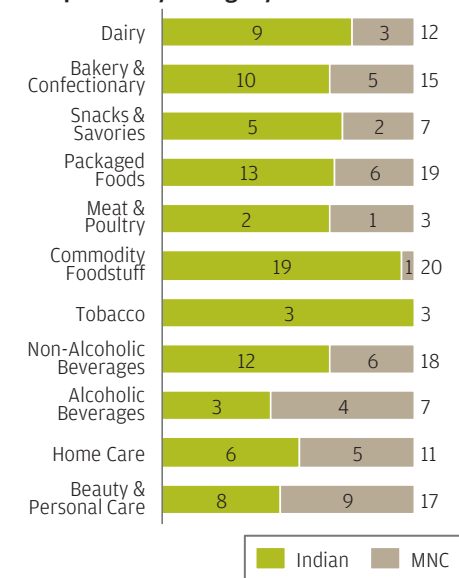
In Beer, while United Breweries (UB) leads with nearly 40% market share, global majors are slowly establishing their position. Heineken part owns UB, Carlsberg and Budweiser are creeping up. Spirits is dominated by United Spirits and Radico Khaitan, though Pernod Ricard has grown rapidly in recent years.

The make up of the non-alcoholic drink market in India is different from the West, with carbonated drinks, tea and coffee and non-carbonated drinks striking a near balance. PepsiCo and Coca Cola rule the carbonated space through acquisitions and innovations while local players lead in every other segment.

CAGR of Top 5 Indian and MNC Companies (FY 03-FY12)



of Local and Multinational Companies by Category³



Amul

Amul is a fine example of a successful and socially responsible Indian enterprise.

Founded in 1946, as a co-operative society, Amul, today, has revenues of Rs 117 Bn (\$2.2Bn), having grown at 22% p.a in the last 5 years. It is one of India's largest food brands and the world's largest pouched milk and vegetarian cheese brand.

Every day, Amul collects over 9 mn litres of milk directly from 3 mn farmers, converts the milk into branded packaged products and delivers goods to over 700,000 retail outlets across the country. It has a network of over 5,000 domestic distributors and also exports its products to over 40 countries worldwide.

Sourcing

Milk is sourced directly from farmers, through Amul's network of cooperatives. This enables Amul to provide best value to the producers

Distribution

Amul's wide distribution network maximises its reach and its policy on advance payments from dealers prevents dumping in the channel

Product Portfolio

Amul regularly upgrades its portfolio by adding value-added items - from probiotic ice cream to energy drinks to stay contemporary

Pricing

Backed by low cost operations, Amul has been able to price its products optimally, appealing to the value conscious customers

Branding

Amul's umbrella branding has enabled it to create a strong brand name in the consumer's mind

The Amul Model



1. Excludes PepsiCo
 2. Estimate - financials not available
 3. Includes companies for which financials were unavailable

SO WHAT DOES IT TAKE TO WIN

1 ADAPT THE PRODUCT TO SERVE SPECIFIC INDIAN CONSUMER NEEDS

Indian consumer tastes are often unique, and indeed very varied. Additionally, hectic lifestyles and increasing health consciousness present FMCG companies with opportunities to innovate. Leading the innovation race, or at least being a fast follower is critical for survival.

We believe that the three cornerstones driving FMCG innovations in India will be:

- **Serving up the Taste of India** – Despite the fact that her tastes are now more global than ever before, the Indian consumer seeks the comfort and familiarity of traditional flavours and fragrances. For example, while oats may be growing in popularity as a breakfast cereal, they have also been reconstituted as idlis, upma or dosas in many Indian households.



Several Indian and global firms have cashed in on this trend; in both Food as well as Non

Food segments. From Amul's spiced buttermilk, Nestle's Maggi Dumdaar noodles, Danone's Lassi to Marico's Parachute Advansed Hot Oil, Maybelline's Colossal Kajal all exemplify this phenomenon.

- **Bringing Convenience to the Consumer** – The urban consumer's lifestyle today is fast paced, with the desire to fit more into every day; time is at a premium and she seeks convenience.



Food majors continue to address this need by bringing more products under this umbrella. MTR's Breakfast Mixes and Britannia's Healthy Start range of RTC products as well as the Maggi Juicy Special range of Indian curries are examples of recent forays into this segment.

Waxing strips by Dabur (Fem) and HUL's 'Magic Water Saver', designed to save water, time and effort to wash clothes are examples in the personal care segment.

- **Continuing to Focus on Health, Wellness and Nutrition** – The consumer is increasingly aware that a hectic lifestyle can take its toll on her health. Hence, she is now looking for healthy options in her food and drink purchases.

PepsiCo, Nestle, HUL etc. have introduced healthy variants to their popular brands such as Baked Lays, Nestle Actiplus Dahi and Horlicks Foodles. Indian players have not been far behind with introductions such as Britannia's Nutrchoice range of biscuits and Agrotech's Sundrop SlimLite Cooking Spray.



Dettol's No-Touch HandWash and Good Knight Advanced low smoke coil are examples of the focus on Health extending into personal and household care products.

2 INTRODUCE NEW PRODUCTS, CATEGORIES AND VARIANTS

In June 2012, Audi narrowly pipped BMW to the position of the #1 luxury car brand in India with long-time leader Mercedes Benz being relegated to third place. The rise of Audi and decline of the Merc show a remarkably linear relationship with the number of models and variants on offer.

Is there a lesson here for FMCG companies? Does the Indian customer like companies that respect his need for choice and give him a range of options?

While the above can be debated, what cannot is the fact that the Indian market is under-served, both in terms of product width as well as depth across FMCG categories compared to major global markets. (See Exhibit on Ariel and Kellogg's)

Penetration of FMCG categories varies widely in India. While soap, detergents, tea etc. are highly penetrated, others like packaged fruit juices, cold cream and deodorants have a much lower penetration. Also several highly penetrated categories have much lower per capita consumption (PCC) compared to the developed world. Low penetration and PCC have long

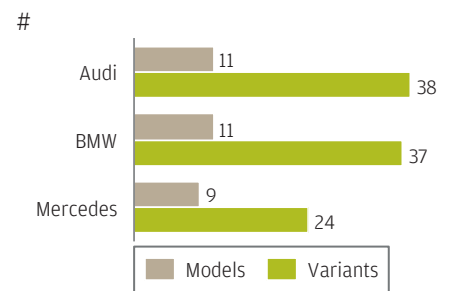
been the arguments against introduction of new variants and products in India.

While in the West, categories may have evolved in a particular manner with one stage following another sequentially as penetration increased, in India stages are more likely to overlap and co-exist given the diversity in socio-economic profiles, purchasing power and tastes of consumers e.g. along with dish-wash bars and powders, there exists a large enough market for dish-wash liquids as well.

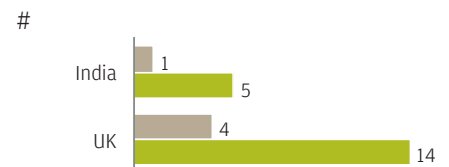
As consumer preferences evolve, categories may bypass evolutionary stages and companies that recognize the opportunity in presently niche segments with high growth potential are likely to gain from an early start.

e.g. General Mills introduced their range of Nature Valley Granola Bars in 2006; nearly a decade after Kellogg's first entered the Indian market. Did Kellogg's miss a trick by not introducing their range of granola bars, allowing General Mills to assume a leadership position in the segment and more importantly letting them get a foothold onto the health platform?

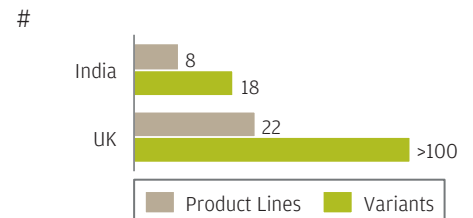
Models and Variants



Ariel – Product Lines and Variants



Kellogg's – Product Lines and Variants



SO WHAT DOES IT TAKE TO WIN

3 APPEAL TO THE CUSTOMERS SENSE OF 'VALUE' TO IMPROVE REALIZATIONS

Improving realisations remains high on the agenda of companies across FMCG categories and market segments. The demanding Indian customer is also highly value conscious and needs to be convinced of the same and Companies that do so are most likely to succeed. We identify three approaches guaranteed to yield rich dividends:

- **Premiumisation** - as the Indian economy grows and affluence improves, consumers will trade up. Premiumisation not only helps drive growth in good times but also ensures that companies stay 'recession resistant' in tough ones.

There have been several launches recently in the super-premium alcoholic beverages segment by both Indian and global majors. The trend manifests itself in Food and Dairy as well with General Mills recently introducing Haagen Dazs, whereas GSK-CH and HUL have taken the mass premiumization route with Horlicks Gold and Bru Exotica.

- **Branding and Value Addition** - Staples have long been the poor cousins to their more glamorous FMCG counterparts. Not anymore, as frenetic action is seen in this segment with every major player from rice to oil and pulses launching and aggressively marketing their brands e.g. recent launch of branded Dal by the Tata group.

Companies are also looking at Value Addition such as functional benefits and user convenience e.g. the healthier and less messy cooking spray introduced by oil companies exemplifies how staples companies are attempting to increase realizations.

- **Don't Ignore the Masses... YET** - Sheer volumes demonstrate that no one can afford to ignore the mass segment. Mass does not automatically translate into lower realisations and established approaches to cast the net wider will yield rich dividends viz. introduction of 'Value Brands' e.g. Lehar by Pepsico to complement the mainstream Lay's or 'Value Packs' e.g. HUL's 8kg pack of Rin or 'Popular Price Points' for the aspirers e.g. Oreo cookies at Rs 5.

4 GET SEEN, HEARD, FELT AND REMEMBERED

It is indeed a crowded marketplace and it is important for companies to find innovative and effective ways to 'Get the Value Proposition Across' and 'Ensure Brand Recall'.

How does one successfully tap the market and create a lasting impression in the mind of a distracted customer?

- **Customer Activations:** While traditional ATL communication is still needed to promote offerings, BTL promotions are playing a more direct and important role than ever before in enhancing consumer engagement. Through these initiatives, companies give their customers the choice to 'Touch' and 'Try' their products and promote the brand through offline and web based interactions.

Companies are increasingly deploying this medium; for Product promotions e.g. HUL's Clear shampoo kiosks or for Brand promotions by Coke's 'Happiness Truck' or Dabur's beauty pageant and grooming lessons in rural areas.

- **Digital and Social Media Marketing:** Wide reach, lower costs, greater attention spans and potential for targeted marketing make digital and social media an attractive channel to engage with customers in real time.

Consumers are increasingly using the internet to research products and brands, share experiences, voice opinions and what they see, read and experience online has started to strongly influence their purchase decision. A digital presence also means that people can relate to the brand as a 'friend' who laughs, celebrates, responds and opines on issues rather than just being an inanimate entity which goes a long way towards increasing customer connect.

Sensing this, a number of FMCG companies have included 'Digital' as an integral part of their marketing campaigns, noteworthy amongst them being - HUL (Sunsilk Gang of Girls), Marico (Saffola Life), PepsiCo (Change the Game), Nestle (Know Your Neighbours) and Tata Global Beverages (Tata Tea Jaago Re).

5 EXPLORE ACQUISITION OPPORTUNITIES AND STRATEGIC PARTNERSHIPS

Companies, Indian and foreign alike, can benefit immensely from strategic partnerships, joint ventures and acquisitions as means to build scale in manufacturing, distribution or brand building.

- **Look for 'Golden Eggs'** - There is no better way for foreign players to create or strengthen their presence in India than by acquiring a small to mid-sized Indian company, while established Indian companies can intelligently use this route to fill portfolio gaps, access markets or acquire hitherto missing capabilities.
- **Look Beyond India** - It is time for Indian companies with sufficient scale to look beyond Indian shores for the next wave of growth. Identifying and acquiring these companies is key to getting off to a winning start in these markets

Other emerging markets are logical destinations for Indian majors. Africa is the Wild West that China and India were in the 80s and 90s respectively and companies would be well served to create a presence there before competition hots up.

- **Look for Strategic Partnerships** - There are synergies to be leveraged within and across industries. E.g. Tata Global Beverages and PepsiCo forming a JV to leverage the Tata brand name and PepsiCo's marketing and distribution muscle to launch products for specific markets and customer segments.

Globally FMCG and Modern Retail have a symbiotic relationship, one that we haven't yet seen in the Indian market. Identifying and leveraging these will be key to taking Indian FMCG majors into the next orbit.



HOW TO TIDE OVER THE IMMEDIATE CRISIS

Given the difficult economic climate in FY13, there are always questions around what should FMCG firms do overcome the crisis. As this paper goes to print, consumption remains robust; but the situation could get worse. What can you do to pre-empt the scenario? Here are five measures to adopt.

1. **Get back to basics. Drive sales where it is happening – focus on distribution and sales force**
2. **However, do not cut marketing spends; reconstitute. Good time to rejig the mix**
3. **Focus marketing spends on products rather than building the company brand**
4. **Explore niches. There are always some ‘slowdown resistant’ segments to tap**
5. **Focus on costs, but do not cut back on investments!**

ARE YOU PREPARED TO WIN?

Five questions to ask yourself to understand your level of readiness in the Indian context

1. **Is your portfolio adequately adapted to suit Indian needs and tastes?**
2. **Does your portfolio offer enough choice to the consumer?**
3. **Is there room to improve realisation?**
4. **Is the marketing engaging and making customers feel connected to your brand?**
5. **Are acquisitions and partnerships aligned to your strategic objectives?**

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