WORKING UP A SIX-PACK

Six ways to muscle up for the changing Indian consumer landscape

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Growth in the branded FMCG market in India appears to be picking up in 2017 after a couple of less robust years – and the longer-term outlook for the market is solid. But competition is intensifying. How can manufacturers make the most of the opportunities that lie ahead? We propose six 'mantras' for growth that can help FMCG manufacturers capture their share of market growth – and more.

After a string of strong years around the turn of the decade, when growth was at about 20%, the Indian branded FMCG market has had to take a step back in recent years as the economy weakened, inflation rose and monsoon rains faltered. Industry growth slowed to 7% in 2014, before rising to 10% in 2015.

2016 was a year of further recovery and 2017 has started on a very strong footing. Consumer spending is rising, owing to good monsoons recently, enabling farmers to bring in bumper harvests. Public sector wages have risen sharply, pumping an additional USD 15 billion into the hands of consumers. Moreover, the long pending Goods and Services Tax bill was passed in 2016 bringing clarity and uniformity to taxation.

In view of all these factors combined, the market looks set for increased growth in 2017, adding short-term opportunities to a fundamentally strong longer-term outlook. Real average household incomes are expected to grow by 70% by 2025 and urbanisation is expected to increase to 35%. Due to declining average household sizes, 10 million households will be added by 2020. And 95 million more people will be added to the work force by 2020.

At the same time, new players have entered the market and competition is intensifying. Consumer preferences are also evolving. How can consumer product manufacturers build adequate 'muscle' to take on this fast-changing landscape?

We suggest six ways to do this.

French cosmetics giant L'Orèal has rolled out Ayurvedic shampoo, conditioner, oil and cream under its Garnier Ultra Blends brand. Marico, Dabur and Emami are all building a 'natural' portfolio.

Hindustan Unilever (HUL) and Emami have acquired hair oil brands Indulekha and Kesh King, respectively, to speed up their 'natural' strategy.

HUL will launch around 20 products - from toothpaste and skin cream to soaps and shampoos - under its existing 'Ayush' Ayurveda brand.

1

FIND A NATURAL WAY TO GROW

As in other markets across the world, Indian consumers, too, are increasingly showing a preference for environmentally sound products. When it comes to personal care products, several studies indicate that product specs such as 'Natural', 'Organic' or 'Free from harsh chemicals' are emerging as key purchase drivers.

Also, beauty products inspired by India's age-old 'Ayurveda' alternative herbal medicine practices seem to resonate well with the cultural identity of a large proportion of the Indian population and are increasingly being perceived as 'pure' compared with their synthetic peers.

The success of Patanjali, an Indian FMCG company co-founded by renowned yoga guru, Baba Ramdev, is the biggest testimony to this trend. The company has used its natural and 'swadeshi' (i.e. native Indian) positioning to build up annual revenue of US$ 800 million in less than a decade. Other domestic players that are focused on natural products, such as Dabur and Himalaya, have also grown strongly in an otherwise slow market. Sales of natural products are growing twice as fast as those of synthetic ones.

Consequently, multinationals rooted outside India and Indian FMCG manufacturers alike have stepped up their efforts to bring natural products into their portfolio, employing both internal growth and acquisitions. This trend is not only likely to persist, but can be expected to be driven further by the 'millennial' generation among Indian consumers. As they become savvier about 'green' choices, India is likely to see an accelerated shift in preferences in favour of natural products. For manufacturers, having a solid 'natural' strategy is therefore imperative in these changing times in the Indian FMCG landscape.

2

CAPITALISE ON PREMIUMISATION

Economic growth and the creation of a wealthy, urban class of consumers has boosted demand for products that are perceived to be superior in quality and providing greater value than what has traditionally been on offer in the Indian mass market. Companies that have invested in building premium products in their portfolio are now benefiting handsomely from these efforts.

India's demographic trends are expected to amplify this trend in the future. According to a report by the Confederation of Indian Industry (CII), some 22 million households will be added to the 'elite' and 'affluent' categories (annual income over US$ 15,000) in the Indian consumer market by 2025 - raising average household income in India by a factor of 1.7. This will significantly drive demand for 'premiumised' products.

For marketers, the challenge will clearly be to identify which product segments will appeal in particular to aspiring and affluent consumers, and build convincing value propositions in these areas.

Double-digit growth in premium detergents **(Surf Excel)** is driving volume growth in the home care segment for HUL

Saffron and cardamom variants from health supplement supplier **Zandu** (herbal OTC products company) sell for twice the price of regular variants and are in demand even in semi-urban and rural areas

A focus on premium products has helped **Britannia** outpace the biscuit industry as a whole

3

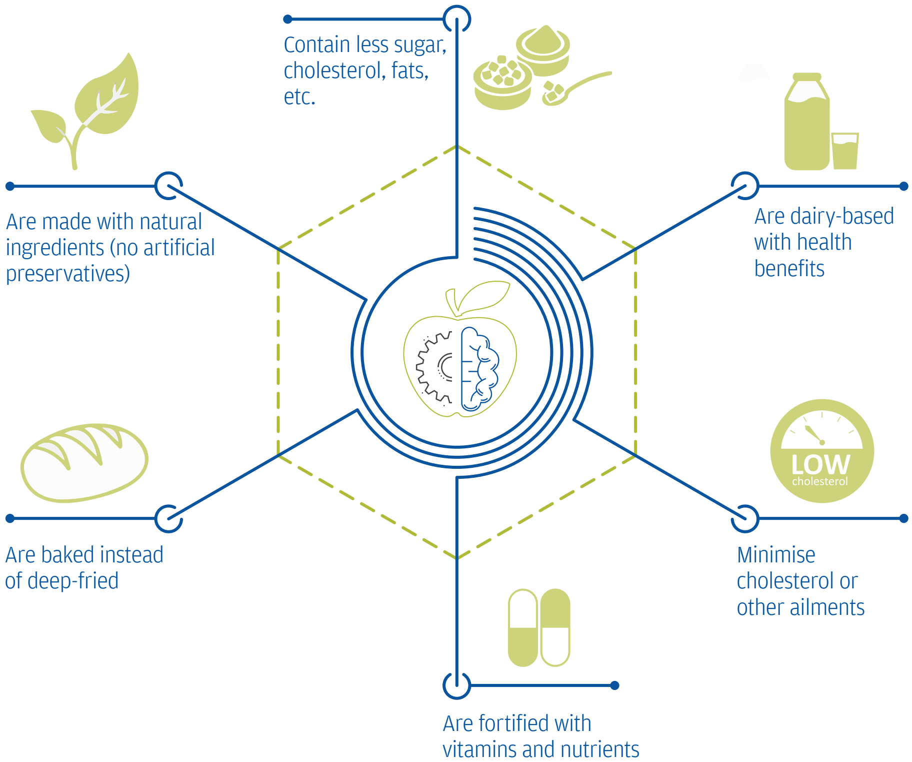
RIDE THE HEALTH & NUTRITION MEGA TREND

Specifically in food and beverages, consumer spending on health-related products is expected to increase three to fourfold, respectively, due to the significant increase in India's prosperous middle and upper classes.

A growing incidence of lifestyle-induced disease - such as diabetes and obesity - has strengthened consumer awareness in India about the ingredients that go into the products they buy. There is an increasing preference for packaged health and wellness foods - a segment currently valued at about US$ 1.6 billion and growing by 10-12% a year (compound annual growth).

Milk food drinks and fortified products (i.e. products with added vitamins or nutrients) are the leading growth categories in the food and beverage segment, accounting for 60-70% of the market. Green tea, oats and breakfast cereals are other fast-growing categories.

FMCG firms are creating portfolios of 'health plus' offerings (health plus convenience, health plus fitness, health plus disease prevention, etc).



FMCG FIRMS ARE CREATING PORTFOLIOS OF 'HEALTH PLUS' OFFERINGS

Nestlé's A+ range of products caters to the 'indulgence plus health' category. Britannia's 'Nutrichoice' brand of low-fat, low-sugar cookies was first launched in 2007 and today has several offerings in this space.

Companies are also introducing innovations such as adjusted packet sizes in order to restrict consumption and thus address the health concerns of their discerning customers. For example, manufacturers of packaged food are limiting portion sizes to reduce the number of calories they serve to increasingly health-conscious Indian consumers.

Hindustan Unilever is aiming to limit at least 80% of its packaged ice-creams to 250 calories per portion. And Pepsico India is now planning to launch an SKU of 150 ml - well below its traditionally smallest size of 250 ml - in order to help consumers limit their calorie intake.

While there is increased consumer awareness about what goes into food and beverage products, convenience is also foremost in the mind of the Indian consumer. As a result, healthier products which require no marked change in consumption patterns are becoming more and more popular in India. Multigrain flour, healthy biscuits and healthy dairy products are increasingly in demand. Emerging products such as snack bars and specialised nutrition bars are awaiting category development efforts by incumbents or the entry of new players. Nutritional foods clearly represent a rapidly growing segment that is high on the radar for many FMCG companies looking for opportunities for further growth.

4

CAST A WIDER BRAND NET

While premiumisation within branded products will continue, another dimension of growth will come from consumers who move from unbranded to branded products. The unbranded FMCG segment in India is worth a massive US$ 115 billion (66% of the total market). Even the conversion of a small percentage of this towards branded products would translate into a significant opportunity. For FMCG manufacturers, there are two routes towards tapping this opportunity.

Tapping unbranded categories

Certain categories, such as packaged snacks, are dominated by small and local firms which sell their products, either loose or packed but without any known brand name. But Indian consumers are becoming increasingly brand-minded, and this creates an opportunity to target the market with new offerings. The growth achieved by domestic players in the traditional snacks segment serves as a poignant illustration of this trend. These players have graduated from the unbranded space and created a strong brand name for themselves in the packaged food space. Haldiram, a major sweets and snacks manufacturer based in Nagpur (Maharashtra state), earned revenues of more than US$ 600 million in 2016 - twice the size of HUL's packaged food division. Local snacks manufacturers such as Balaji Wafers, Prataap Snacks, Bikanervala, Bikaji Foods and DFM Foods recorded sales growth between 8 and 35% in the year ended March 2016. Meanwhile, international food majors such as GSK Consumer, PepsiCo (food division) and Mondelez struggled to grow their Indian business. It is noteworthy that the impressive growth numbers of those five home-grown Indian FMCG manufacturers did not come from a very small base either: those five companies have combined sales of nearly US$ 570 million - more than the size of Nestlé's Maggi in India (Maggi accounts for ~25% of Nestle's total sales in India). Some of these Indian companies are larger than Kellogg's in India. This growth of local players can be attributed to lower price points, better distribution and conversion from the unbranded market.

Tapping markets where national brands have yet to break through

India's 'tier 3' and 'tier 4' towns are witnessing growing consumer purchasing power and increasing awareness of brands and are therefore becoming attractive, high-potential targets for FMCG companies.

Many of these markets are mostly served by local brands, and there is an opportunity to consolidate this demand. Ghari Detergents is one such example of a local brand growing into a national player. With the right product and marketing strategy, manufacturers of branded FMCG products can create several 'Ghari's' within their portfolio.

CONVENIENCE-INCREASING PACKAGING INNOVATIONS TO EXISTING PRODUCTS

225 ml pouches are a great tool to upgrade consumers from dishwashing bars to dishwashing liquids (easy on hands and easy to use)

Godrej launched a multi-use facewash sachet as opposed to the regular tube

CONVENIENCE-INCREASING PRODUCT INNOVATIONS TO EXISTING PRODUCTS

Horlicks is now 'instant' in both hot and cold milk, increasing usage occasions

The new Amul packaging for desserts has a longer shelf life of up to a year

5

DELIVER VALUE THROUGH INNOVATION

Efficacy-enhancing innovation is an effective clutter-breaker in the crowded Indian FMCG landscape. Companies are increasingly 'renovating' products to create a competitive edge. Encouraging consumers to use the same product on more and different occasions is one such innovation. In this way, FMCG manufacturers save on the investments required to build a new brand.

Another example of innovation is to provide convenience. There are several categories, such as liquid body wash, liquid detergents, etc. which are popular globally but have yet to get a foothold in the Indian market. India's growing numbers of consumers with increased discretionary purchasing power are willing to try out new things. The time is ripe for innovation that can induce consumers to start using such convenience products. Understanding consumer pain points or evolving needs will be the key to delivering value through innovation.

COMPANIES ARE ALSO INVESTING IN DIGITISATION OF THEIR CORE OPERATIONS

6

UNLOCK VALUE THROUGH DIGITISATION

According to a recent report by the Confederation of Indian Industry (CII), 150-190 million Indian consumers - i.e. nearly one-fifth of the Indian population - will have access to online channels by 2020.

The digital megatrend has major implications for FMCG companies and they can augment their organisation's digital capabilities in several ways.

CONSUMER MEGA TRENDS	IMPLICATIONS FOR FMCG		
UBIQUITY OF ONLINE	FMCG players need to adapt to be part of consumers' new worlds	DOLLAR SHAVE CLUB SHAVE TIME. SHAVE MONEY.	Dollar ShaveClub rapidly built a prominent position in the market, attracting some two million members in three years' time on the back of a launch video viewed more than 20 million times, forcing Gillette to increase its online presence
MOBILE LIFE	Marketing is closer to the consumer and FMCG players must reach consumers 'on the go'	LAKMÉ	Lakmé launched Lakmé Makeup Pro, India's first real-time make-up app, which was downloaded 8,000 times in the first five days.
E-COMMERCE	Direct access to consumers and new operating models provide both risks and opportunities	L'ORÉAL	After creating the position of Chief Digital Officer (2014), L'Oréal has gone digital both commercially and organisationally (now employing over a thousand digital specialists).
SOCIAL INTER-ACTION	Effective social media management is required, especially to manage the 'wisdom of crowds'	Dove	Dove experienced massive criticism in social media when they refused to remove some Facebook ads and then failed to respond adequately to the criticism .

Building e-commerce channels: FMCG companies are working on various models involving e-commerce to reach the remote corners of the country. **Dabur** (Diversified FMCG company) has joined hands with online marketplace Snapdeal to set up an e-store called **LiveVEDA** for its range of Ayurvedic products.

Digital marketing: Companies are building digital-savvy marketing teams and exploring how best to tap their markets through digital channels. Around the world, companies across the full range of industries are attracting the staff they need to build a 'Digital Organisation'

- L'Orèal now has **1,000+** employees who are considered **'digital experts'** - a five-fold increase over the past five years
- Pernod Ricard appointed a **'Digital Acceleration Director'** in 2014
- Pernod Ricard started an employee exchange programme with Google to get its internet marketing initiatives going and scale up the company's digital skills.

Digitising operations: Companies are also investing in digitisation of their core operations. The intention behind this varies from decreasing costs to improving consumers' purchasing experiences.

- Many companies - also those in FMCG - have managed to reduce costs over the years by capturing the opportunities created by the emergence of e-auctioning platforms since the early 2000s. The Indian FMCG major ITC, for example, saves 3% in procurement costs via their e-choupal initiative (direct linkage with rural farmers for sourcing using internet)
- Johnson & Johnson is actively using digital channels to connect with channel partners - the company engages with some 600,000 retailers to educate them about its products and monitors them with the support of a mobile app
- Supply chain processes are being streamlined using digital tools - Dabur has online tools for order submission, claim submissions, etc.).

"DIGITAL IS REALLY PART OF EVERYTHING WE DO AND HAS BEEN ADOPTED BY ALL THE 'TRADITIONAL TEAMS'."

Digital Acceleration Director,
Pernod Ricard

FMCG GIANTS GLOBALLY ARE LEVERAGING THESE THEMES TO FIND GROWTH IN SLOW MARKETS

	INITIATIVES	IMPACT
DOLLAR SHAVE CLUB	▪ Dollar Shave Club's online monthly subscription offers a significant discount to Gillette. Great example of digitally delivered 'Innovation'.	▪ In the fast-growing online razor market, Dollar Shave Club has a >50% market share, vs Gillette's 20%.
Tilda	▪ Leveraged an authentic premium brand and delivered superior product high on nutrition - Built Brand equity	▪ 20x more cost effectively than Uncle Bens.
natures way foods	▪ Manufactures fresh convenient food (prepared salads, prepared fruit, etc.)	▪ Consistent double-digit growth in a stagnant market.
Knorr	▪ Knorr has managed to evolve its Instant Mash Potato into a convenience meal by fundamentally redesigning its packaging	▪ This concept has taken off, delivering great results for the brand.

TAPPING THE SIX MANTRAS FOR GROWTH

So how does one operationalise these mantras for growth? The first step is to recognise the relative importance of each to your product categories. Beyond that, here are five initiatives which will enable companies to tap the six mantras for growth:

1. Improve the segmentation of your target group.

Look for unconventional dimensions to identify segments that you can target using one or more of the mantras. This will also require clear understanding of consumer behaviour and preferences.

2. Create an innovation atmosphere

Adopt the incubator model within the firm, and encourage the internal team to develop new ideas into a business stage.

3. Acquire

Recognise gaps in the portfolio and geographies and acquire other companies to gain access where internal development may be too slow.

4. Digital transformation

Make serious work of the digital transformation and inculcate the digital behaviour throughout the company, as this is not just about marketing via social media.

5. Think medium term

Look further ahead and adopt at least a three-year time frame in allocating staff and money.

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