Strategies for Survival of Indian FMCGs

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Abstract

SUCCESSFUL INDIAN BRANDS COMPETING WITH GLOBAL ONES-STRATEGIES FOR SURVIVAL

In 1991 we opened our country to foreign brands. As per this liberalization policy many a foreign players ventured into our country finding it a lucrative large mass market. This research paper is a theoretical paper studying the coping strategies of Indian players in competition to the MNC companies. It studies those Indian players who have stood out in this competition and have been successful in doing so.

INVESTING IN INDIA

India's market potential lures foreign companies. But local consumers and rivals have tripped many up. For foreign companies, doing business in India can be gut wrenching. Its demanding consumers can be difficult to read, and local rivals can be surprisingly tough. For most of its postcolonial life, India has shut out the world, adhering to a socialist ideal of self-reliance. Policymakers have been struggling for the past 16 years to attract capital and ignite growth. In 1991, the government dramatically rejected its socialist past and admitted foreign investors. The idea was to enlist foreign companies' aid to turn India into another Asian Tiger, where cheap labor, an English-speaking workforce, a vast new middle class, and a democratic government would create a wave of prosperity.

Now, the international companies that ventured in after 1991 are tallying their profits and losses and wondering what the future holds for this market of 950 million people.

A primary lesson, especially for consumer-goods companies, is not to be dazzled by India's size. Many investors accepted government estimates that India's middle class numbered 250 million. But according to a recent survey of consumer patterns conducted by the National Council on Applied Economic Research in Delhi, India's consumer class probably totals 100 million at best--and there's much stratification among them. People in Madras, for example, have tastes vastly different from people in Punjab. 'Different states have different consumption patterns and customs.'

Following is the table summarizes pre and post liberalization scenario.

Table I. Comparing Pre and Post Liberalization Scenerio

SECTOR	MAJOR BRANDS 1970s & 80s	NEW BRANDS- 1990s onwards	
		Indian Brands	Global brands
FMCG			
Soaps	Lifebuoy, Cinthol, Liril, Lux, Pears, Rexona, Mysore Sandal, Neem, Margo	Nirma Beauty soap	Palmolive, Dettol, Dove
Creams & Lotions	Fair & Lovely, Pond's, Johnson & Johnson	Dabur, Himalaya	Oriflame, Avon, Biotique, Amway, Garnier
Detergents	Surf, Nirma, Wheel	Fena, Lakhani	Ariel, Tide, Henkel
Processed foods	Maggie, Kissan, Parle, Britannia	MTR, Aashirwaad, Haldiram, Bikaner	Heinz, Pillsbury

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Beverages	Nescafe, Red Label, Campa, Thumsup	Haldiram, Tata Tea, Bisleri, Tajmahal	Pepsi, Coke, Sprite, 7 up
Cigarettes	Wills, India Kings, Panama		Menthol
DURABLES			
Automobile	Ambassador, Fiat, Standard, Maruti	Tata Indica, Indigo, Indigo Marina	Honda, Chevrolet, Ford, Benz, Skoda, Hyundai, Opel
Computers	IBM, HCL	Zenith	Compaq, HP, Dell, Microsoft
Scooters/Bikes	Bajaj, Yamaha, Royal Enfield, Java	Kinetic	
Refrigerators	Godrej, Kelvinator, Allwyn	Videocon	LG, Samsung, Whirlpool, Daewoo
Air conditioners	Voltas, Fedder's Lloyd, Blue Star, Carrier	Videocon	LG, Samsung, Hitachi, Haeir
Television	Crown, Videocon, Weston, Dyanora, BPL, Onida, Beltex, Konark		Samsung, LG, Philips, Akai, Sony
Washing Machines		Videocon, BPL	IFB, Samsung, LG, Whirlpool
Tyres	MRF, Goodyear, Ceat, JK	Apollo	Bridgestone
SERVICES			
Banks	State Bank & Govt banks, Citibank, Bank of America, Grindlays	HDFC, ICICI, Kotak	HSBC
Insurance	LIC	Kotak, Sun, Bajaj, IFFCO, ICICI	Max
Cellular services		Airtel, BPL, Idea, BSNL, Dolphin, Reliance	Hutch, Orange
Hotels	Taj, Oberoi, Welcom group, ITDC		Hyatt, Meridien, Best Western, Ramada
MEDIA			
TV	Doordarshan	Aaj Tak, Regional channels, Zee, Siticable, Sony, NDTV	Star, BBC, CNN, ESPN, CNBC
Radio	Vividh Bharti, AIR	FM, Radio Mirchi, Red FM	Radio City

Today is no more a monopoly market of MTNL telephones, Maruti cars. Thumps Up or Amul chocolates. Half of the monopoly brands have either sold off their brands to MNCs and earned huge amount of money with shortcuts or have vanished as compared to the presence of their global counterparts. Coca-Cola Co., for example, bought the local maker of a popular brand of soda, Thumps Up, and wanted to use its entrenched distribution system to build Coke's dominance. The Indian company of Ramesh Chauhan having the largest market share with Thumbs Up gave up to the global players (Coke).So did Uncle Chips which was the only largest Indian chips brand now under the Lays brand umbrella.

Rather than competing with the MNCs we have succumbed to their competitive pressure, taken up short cuts and made money by selling our own established USP Indian brands to foreigners. But there are some brands that are still competing with the global brands. I can broadly classify them into two segments:

- The Indian-MNC joint ventures wherein each mutually benefit from each other
- The successful original local players standing by themselves and taking on the MNC competition.

It is primarily the study of the above two segment of companies that I have undertaken in my research paper.

The Indian-MNC JOINT VENTURE

There are quite a few Indian companies that joined hands with MNCs and in the process not only countered competition but also took advantage of the highly technical advancements of MNCs.

- Anglo-Dutch conglomerate Unilever, for example, began selling soap and toothpaste in India in 1887, the heyday of the British Raj. Its India operation, called Hindustan Lever Ltd., has the distribution muscle of 3,500 wholesalers selling to 10 million small shops in rural India--figures to give any competitor pause.
- The same elusive dream of tapping many millions of consumers also lured the automakers. After 1991, Ford, General Motors, Daewoo, Mercedes, Fiat, and Peugeot all quickly teamed up with domestic carmakers but were blocked out of the low-cost segment by Japan's Suzuki Motor, which, in collaboration with the government, has 80% of the passenger-car market. So the new entrants all launched midsize cars priced too high for middle-class India. Ford's and GM's, for example, sell for $22,000 in a country where the average per capita purchasing power is $1,666. "They were forced to hit the premium end because they couldn't compete with Suzuki's quality and low cost. So many plants have been built that capacity will be 1 million vehicles, way over the 600,000 estimated buyers, by 2000. Automakers now have to make fewer cars than they had planned and export the extras.
- In other cases, a local partner turns out to be a liability. Germany's Lufthansa learned that the hard way with the $2 billion Modi Group, whose joint-venture partners include blue chips such as Walt Disney, Alcatel, Rank Xerox, and Revlon. Lufthansa signed an agreement with one Modi brother, S.K. Modi, in 1993 to launch a new domestic private airline, ModiLuft. But soon after, executives realized the Modi Group was not a smoothly functioning entity. Its five brothers were engaged in bitter feuds with one another. The beleaguered airline went bust in 1996.
- GE is sharing this cautious approach, with positive results. The U.S. conglomerate came to India in 1991, when Indian law had just started letting foreign investors set up wholly owned subsidiaries rather than have to find local joint-venture partners. Still, GE chose Indian appliance maker Godrej and sent a special team from the U.S. to determine Godrej's capability and market dominance. Godrej-GE venture in Bombay that makes refrigerators and washing machines. Then, GE hired local managers and made them meet U.S. standards. The tie-up benefited both companies. Godrej got GE's technology to upgrade its appliances; GE got Godrej's good reputation and distribution system. Godrej-GE now claims a 40% market share in consumer appliances, and GE uses India as a low-cost manufacturing base for such exports as light bulbs and X-ray equipment.
- San Francisco's Bechtel Group Inc. has been in India since 1993, constructing large projects for groups such as petrochemicals maker Reliance Industries Ltd. and even for Enron--all the while keeping a very low profile. Bechtel is one of the few foreign companies in post-liberalization India to turn a profit. Bechtel’s goal "is to be viewed as a local company." The talents of the 500 engineers Bechtel employs in India will eventually be deployed in Bechtel ventures worldwide.

THE SUCESSFUL ORIGINAL LOCAL BRANDS:

Local brands feared they would lose out to new foreign competitors after the market opening of 1991. But they "overestimated the power of global brands". Listed below are a few companies who have been successful in this globally competitive scenario despite keeping their originality intact.

- Godrej soaps and Lakme cosmetics remain popular with Indians, with respective market shares of 10% and 65%. Multinational corporations must not start with the assumption that this is a barren field.
- Consumer-products giants such as Kellogg Co., based in Battle Creek, Mich., have seen their brand power severely tested in India. Kellogg dreamed of 250 million cereal-eating Indians. So in September 1994, with a $65 million investment, it launched Corn Flakes. The flakes did well initially, helping to double the market for breakfast cereals. But sales soon plummeted because a 500-gram box of Kellogg's product cost 33% more than its nearest competitor. Kellogg has since introduced Wheat Flakes, Rice Flakes, Chocos chocolate puffs, and Frosties frosted flakes to counter its Indian counterpart.
- Indian companies such as Infosys and Reliance are starting to adopt international accounting standards used by global counterparts. But there are always surprises.

A thorough study of such original Indian players was the purpose of my research paper. I have tried to do the same taking examples of three FMCG brands who are vigorously competing with their global counterparts and have been successful in maintain their position in India. They are namely:

- BISLERI
- ITC biscuits vs. Britannia

BISLERI

Old cola-rivals and highly competitive MNCs Coke and Pepsi are discovering there is more money in water than colored water. Things are warming up in the Rs 1,000 crore bottled-drinking-water market and competitors, including Parle's Ramesh Chauhan, faced the threat of a whitewash.

Two parts hydrogen, one part oxygen may well be the newest get-rich-quick recipe in marketing circles. There's no questioning the existence of a market for water: the typical human needs between a litre and two a day; India's 1 billion plus populace needs between 1 billion and 2 billion litres a day; even if the number crunching is restricted to the country's 100-odd million consuming classes, the result is a staggering 100-200 million litres a day, or 36.5-73 billion litres a year. In money terms, at Rs 10 a litre, the potential market could be worth between Rs 36,500 and Rs 73,000 crore. A glass of water would be in order now. The market is worth a measly-by-comparison Rs 1,000 crore now, but it is growing at the rate of 40 per cent a year (a claim not many markets can make). And in the last one year, the world's largest colored water companies Coca-Cola and PepsiCo have made inroads into a market previously dominated by the Chauhan brothers. Numbers sometimes confound, but this time they are as clear as, well, pure water. According to market research firm ORG-MARG's retail audit in March 2000, Pepsi's Aquafina had a negligible presence in the market, Coke's Kinley was yet to be launched, and Ramesh

Chauhan's Bisleri and Prakash Chauhan's Bailley accounted for three out of every four bottles of water sold.

A year later, in March 2001, Kinley had a 10 per cent share of the market, Aquafina, 4 per cent, and the share of Bisleri and Bailley had come down to 68 per cent. By June 2001, numbers provided by the companies to BT indicate, it had come down to 57 per cent and the cola majors, together, accounted for just over a third of the market. Still I would say that Bisleri has been able to retain the maximum share of 57% in the market despite the fact that both the MNCs Coca-Cola and Pepsico are making the huge investments in bottling plants and distribution.

Coke and Pepsi aren't the only transnational to be drawn to this market. The world's largest water-players Danone, and Nestlé have a presence in the Indian market too and are thus a potential competitor to Bisleri. It is the potential of 36-73 billion litres that these companies find attractive.

The size of the global water market is estimated at 55 billion litres a year. The bulk of this is packaged drinking water. Some analysts predict that Coca-Cola and Pepsico will offer a stiff challenge to market leaders Danone and Nestlé. India, with its huge potential could play a crucial role in that battle. 'In the last one year, margins have come down from Re 1 a bottle to 65 paise.

What's helped companies like Coke and Pepsi is a March-2000 Ministry of Health notification making it mandatory for all bottled drinking water brands to have an ISI certification issued by the Bureau of Indian Standards. Unable to meet the bureau's none-too-taxing standards, several brands vanished from the market; and finding the 'marking fee' (the amount charged by BIS) of 2 paise for every litre too high, a few other marginal players did. That made it easy for Coke and Pepsi to establish a presence in the market. Even Ramesh Chauhan of Bisleri isn't happy with this fee; Bisleri's high volumes meant he had to shell out Rs 70,00,000 last year:

Bisleri, Kinley, Prime, and Hello are the major brands in the segment-the water comes in 5, 10, 20, or 25 litre containers-which accounts for 25 per cent of the total market for water. In some markets, though, this proportion could be as high as 50 per cent. Chennai and parts of Tamil Nadu are a case in point. Almost 50 per cent of the water sold in these markets is in the form of 12- or 20-litre packs..

Bisleri is the dominant player in the segment, although it faces competition from local companies-Apollo in Chennai and Prime in Delhi-in specific markets. 'Bulk water sales is a great opportunity and we use direct marketing to sell (bulk) water to institutions and households. Bisleri has made a mark in the bulk market segment a USP that has not been made by its MNC counterparts.

Differentiating Drinking Water

Traditionally, mineral water brands have differentiated themselves on taste. But there are only three mineral water brands in India-Himalayan, Catch, and Lifespring-and the market is dominated by packaged drinking water brands.

It won't be easy for the brands to differentiate themselves. Coke and Pepsi claim their water is purer than pure, but building a brand around purity in a market where everyone else claims the same product-feature is tough. The premium end of the market is the least crowded with just four brands: Danone's Evian and Ferrarelle and Nestlé's Perrier and San Pellagrino. Evian retails at Rs 85 a litre; Perrier (a sparkling water-that means it is carbonated), at Rs 90 for 750 ml. Not many companies are keen to enter this segment, and Danone itself isn't averse to moving a step below. Danone may go mass-market with the Britannia brand of water. "But for the moment, we are sticking to the concept of 'lifestyle' beverages".

The dark horse is of course is Bisleri’s Ramesh Chauhan whose not letting this brand of his getting vanished from the market so soon. The lone competitor who could give a tough time to KinleyandAQUAFINA.

ITC BISCUITS

Biscuits and tea in the morning were a routine. So were the key market players and their favorite products. The two major players Britannia and Parle were busy biting of chunks of the national market among themselves, with a host of smaller brands in various regions. While the business was still very competitive, there wasn't anything groundbreaking. In 2003, with ITC foraying into the segment, a lot of that changed. At that time, Britannia and Parle held, between them over 82 per cent of the market in value terms. ITC decided to enter the foods segment because it's a Rs 550,000 crore market in India. But only 6 per cent of this is branded and packaged. In developed markets, nearly 95 per cent of the food market is branded and packaged. So there was lot of scope for a branded player.

In foods, biscuits were tempting. The Rs 4,000-crore Indian biscuits market has grown at 12-14 per cent year-on-year. Then, there was a business synergy. ITC was already value adding to wheat with its branded atta presence. By entering the biscuits segment, it could also improve its bottom line further.

Before entering the segment, ITC dug into market research. Research revealed that the category had gaps, which ITC could settle into. Findings revealed that consumers wished to taste new and innovative products. That was precisely what the competition had not done in a big way.

The biscuits industry had witnessed little innovation; Glucose was Glucose and Marie was still Marie. The company decided that this could be its biggest point of attack, its USP, its DIFFERENTIATION. In 2003, ITC launched Sunfeast with six ranges. But it was a calculated risk. ITC stuck to category favorites like Glucose, Marie and Bourbon cream.

Along with that, it also launched innovations such as orange-flavored Marie, Marie light and butterscotch-flavored cream biscuits. In 2004, Sunfeast followed this up with the launch of Sunfeast Milky Magic. More recently, it also has launched the Sunfeast Snacky and Sunfeast Golden Bakes.The biscuits industry had not witnessed any major product innovation in years. Consumers were just waiting for something new, something fresh, when Sunfeast happened.

Even the competition had not made things better. Between 2000 and 2005 neither Parle nor Britannia launched any major new product. Yes, Britannia did re-launch its Tiger brand in 2005.

In 2005, before Diwali, Britannia launched Occasions — boxes of assorted biscuits priced between Rs 50 and Rs 200 — which the company claims has been very successful. In 2006, however, the industry has seen a flurry of innovations from the big two. Digestive Marie — was launched by Parle in early February 2006. Britannia launched its new double-flavored Mariegold and 50-50 Chakkar. And Parle is all set to launch at least two new products before the end of this year.

Distribution maze

It's common knowledge, that for FMCG products, distribution channels are very important. For biscuits, distribution and visibility are extremely important as it's partly a impulse purchase product. And in biscuits, setting up a distribution channel is anything but easy.Consider this. Priya Gold, which entered the western region in 2000, is struggling to find its feet even five years later.

However, in this regard, Sunfeast has been fortunate: thanks to its tobacco business, ITC already had a good understanding of distribution channels. The company says the brand is now available in nearly 1.8 million outlets. Britannia claims it has a superior distribution clout with its presence in nearly 3.3 million outlets. Parle, the seasoned player itself, says it is available in 1.5 million outlets. Sunfeast's next step was to step up its branding and promotion.

PROMOTIONS

In August 2003, a month after its launch, the company undertook a major sampling exercise to promote the product. For two years then, the brand did all the usual rounds — riding behind buses, blocking television spots, booking that corner space in your favorite newspaper and so on.

In April 2005, Sunfeast launched its major campaign. It signed on Hindi film actor, Shah Rukh Khan as its brand ambassador. In the same year, as the official sponsor of the WTA tennis championship — titled the Sunfeast Open — the company had teenage sensations Sania Mirza and Mahesh Bhupathi campaigning for it. But that's not all. For promotions in southern states, Sunfeast has signed Tamil super star Surya as a brand ambassador.

Key challenges

Back in 2003, nobody thought Sunfeast would have consumers eating out of its hands.

Importantly, industry barometer AC Nielsen has indicated that both Parle and Britannia are losing market shares. According to the AC Nielsen retail sales audit in March 2006, both Britannia and Parle have lost volumes. Britannia's shares have dropped from 35.8 per cent in 2004-05 to 30.5 percent in May 2006 (volumes). Parle's shares have also dropped from 42.2 to 38.4 percent in the same period.

Even Priya Gold has seen a minor dip from 6.4 per cent to 5 per cent. ITC's Sunfeast has been a big gainer with its share increasing from 2.7 to 6.7 per cent.

Thus it can be conclude that whatever be the strategy for competition, there are Indian companies who will strategize and restrategise to retain their market share. For those who are loosing their market share to MNCs are still successful in retaining the first position in the competitive FMCG market. With players like Parle Bisleri, ITC, and Dabur, we will never give up to the MNC pressure of competition in India.

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