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Return of The FMCG Giants

HOW LEGACY FMCG COMPANIES STAGED A COMEBACK IN THEIR BATTLE WITH NEW-AGE BRANDS BY INVESTING IN DATA-LED STRATEGIES, ACQUISITIONS AND PREMIUM PRODUCT PORTFOLIO.

By **Ajita Shashidhar**

FOR A SLICE OF THE PIE

$110 billion
FMCG market size in 2020; projected to touch $220 billion by 2025.

$24.53 billion
Personal care market in 2022; expected at $33.3 billion by 2023.

$35 billion
Branded food market in 2022; expected at $70 billion by 2025.

SOURCE: INDUSTRY REPORTS

ILLUSTRATION BY **YUGANSHIKA GARG**

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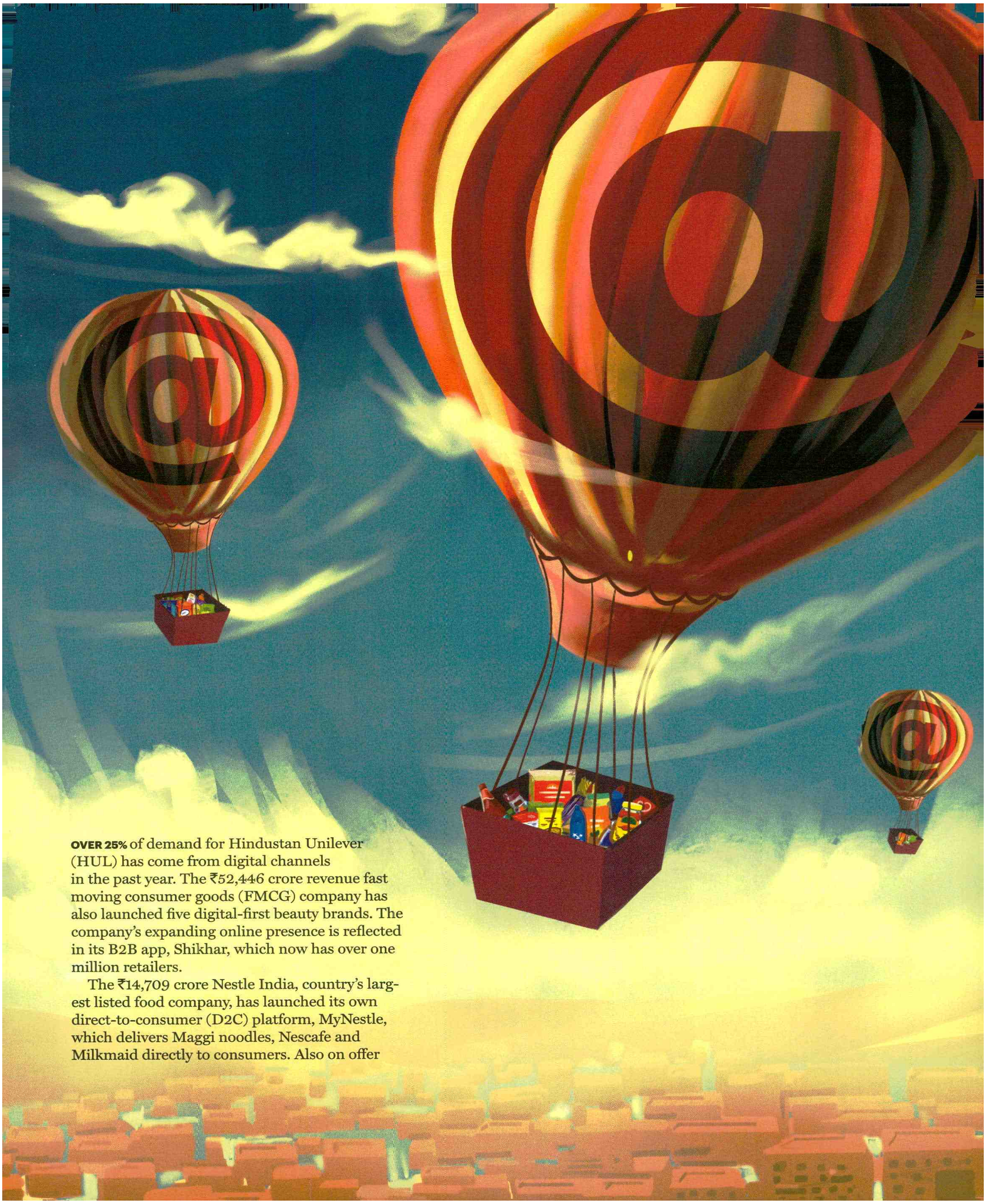

OVER 25% of demand for Hindustan Unilever (HUL) has come from digital channels in the past year. The ₹52,446 crore revenue fast moving consumer goods (FMCG) company has also launched five digital-first beauty brands. The company's expanding online presence is reflected in its B2B app, Shikhar, which now has over one million retailers.

The ₹14,709 crore Nestle India, country's largest listed food company, has launched its own direct-to-consumer (D2C) platform, MyNestle, which delivers Maggi noodles, Nescafe and Milkmaid directly to consumers. Also on offer

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are gourmet chocolates, baby food, health food and protein-based beverages. The company has launched over 100 products over past couple of years.

Similarly, FMCG arm of the cigarettes-to-hotels conglomerate, ITC, now earns more than 10% revenue from digital platforms. Its D2C platform, ITC Store, is the go-to place for ready-to-cook delicacies, chocolates, plant-based meat, premium skincare products and stationery. ITC has also acquired popular D2C brands Yoga Bar and Mother Sparsh to expand into adjacent categories.

The digital renaissance of legacy FMCG brands that have been around for over a century is in sharp contrast to the situation a few years ago when new-age D2C firms, armed with technological edge, innovative products and investor backing, threw them unprecedented challenges. The industry began to write them off assuming they lacked willingness to innovate and perform outside their comfort zone.

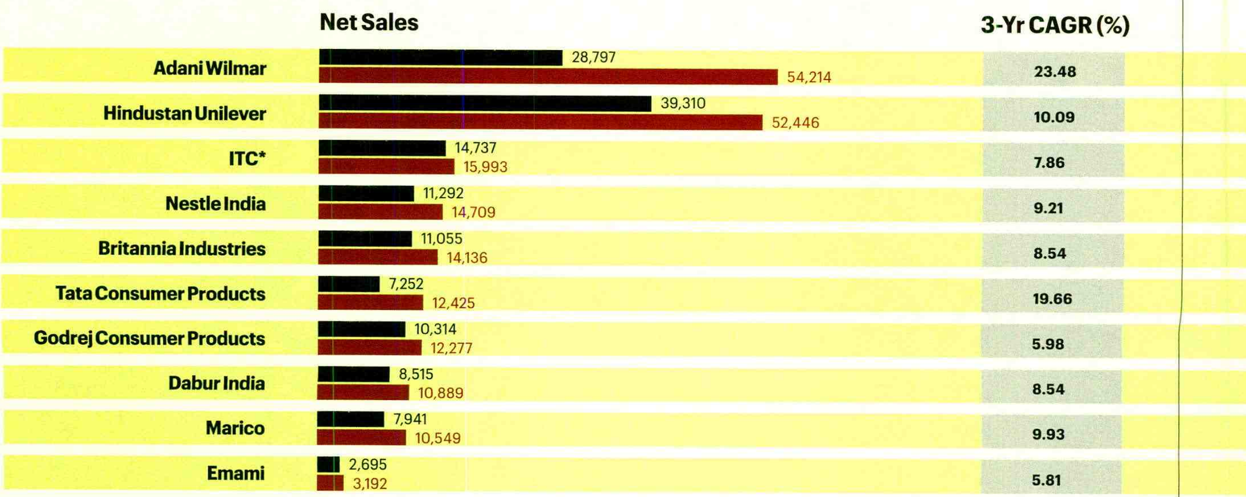
However, they have returned with a bang, thanks to big investments in technology, own D2C brands and smart data-led strategies. Thanks to this comeback, the FMCG industry, worth $110 billion in 2020, is expected to clock $220 billion by 2025, and its orchestrators are going to be none other than older FMCG giants such as HUL, ITC, Nestle, Marico and Emami, among others.

Staging Comeback

One of the earliest initiatives was taken by HUL in 2018 when managing director and CEO Sanjiv Mehta recognised the need to press the fast-forward button and piloted HumaraShop. The idea was to digitise local kirana stores. It also launched the Shikhar app but found it tough to convince retailers to order inventory online. The Covid-19 lockdown, though, changed everything for HUL as well as other legacy FMCG companies. When distribution came to a halt, HUL, ITC, Nestle, even Dabur, Marico and Emami, quickly put together D2C strategies. It was a period when even retailers had little option but to embrace digitisation for stocking up inventory. That was the game-changer. "Shikhar is now the most adopted app for retailers in the country. We have rejigged our supply chain. If an outlet is going to place an order any time of the day, you need a back-end system that can deliver any time. We brought in technology and set up highly automated and robotised fulfilment centres," says Sanjiv Mehta.

ADDING TO BALANCE SHEETS

The strategy of premiumisation on the back of data and digitisation has held these companies in good stead.



PHOTOGRAPH BY SANJAY RAWAT

Display: 4/11

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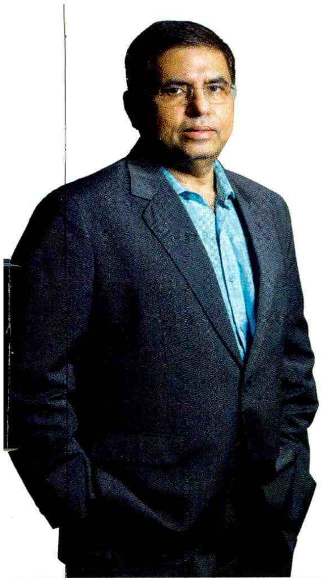


"We brought in technology and set up automated and robotised fulfilment centres."

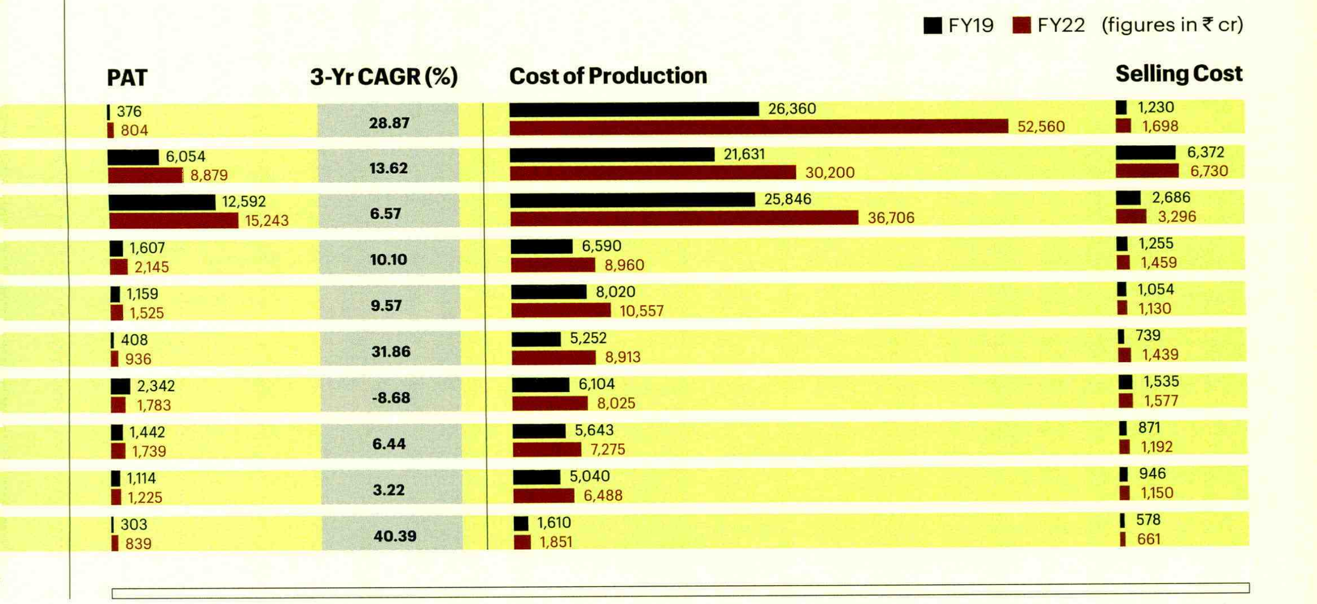
Sanjiv Mehta, MD & CEO, HUL

Even Nestle ensured that new launches, right from sanitisers and vegetable cleaners to health and immunity-based food products, hit the market within weeks. "We have launched 100 products in last couple of years. We now innovate three times faster than before," says Suresh Narayanan, chairman and MD, Nestle India.

The nimbleness has paid off. Despite stagnant volume growth, largely due to a difficult economic environment and geo-political crisis, HUL's revenues and profits have increased 31.83% and 31.58%, respectively, in last two years. Nestle India has reported strong double-digit growth in 17 out of last 22 quarters. "Four saw 9-10% growth and one, Q2 of 2020, when Covid-19 struck, is when we recorded 2.6% growth," says Narayanan.

ITC has been growing even in rural markets (which have been severely impacted by high inflation), says executive director B. Sumant. "To grow rural sales, we have added over 14,000 stockists in last couple of years. There is a lot of headroom to grow through penetration. Even if sales per outlet are low, if you go to more outlets, you get more sales."

While HUL, ITC and Nestle have been frontrunners, the likes of Marico, Emami, Dabur, Parle Agro and Adani Wil-



* FMCG revenue, other numbers are consolidated; **Cost of Production:** (Raw material cost + power & fuel + salaries + director remuneration + other operating expenses + depreciation - closing stock of WIP or work in progress + opening stock of WIP + insurance)
Selling Cost: (Advertisement + distribution expenses+ marketing expenses+commission expenses on sales+other selling expenses); Source: Capitaline

Display: 5/11

Published Date:	31 Mar 2023	Publication:	Fortune India [National]
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mar have also become more tech-savvy over past couple of years, so much so that replacement of traditional order book by handheld devices and geo-tagging of stores is standard industry practice today. Even more interesting is use of data generated by these devices to innovate and target consumers. "Data gives insights into market gaps and areas where we can bring more efficiency and sell more. We have a team to analyse next trends and ingredients that consumers are looking for. We have launched many products in Zandu and Nihar portfolios on the basis of these insights," says Harsha Vardhan Agarwal, vice chairman and MD, Emami.

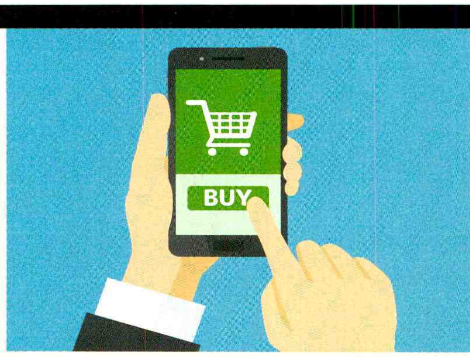
ITC's Sumant says data is helping them micro-target consumers. "We do pin code-wise sales analysis. If there is a product on ITC e-Store that is selling well in a particular pin code, it is automatically pushed to suggested order list for the store in the salesman app."

1 The pandemic has given us resilience and ability to operate in an uncertain environment, says Saugata Gupta, MD, Marico. "Black swan is now embedded into our planning. When Covid-19 ended, Ukraine-Russia war started. We had to be prepared for a far more dynamic world."

While most legacy FMCG companies had to revitalise portfolios and go omni-channel, Tata Consumer Products (TCPL) had to break out of its commodity mindset. "When this company was formed (out of Tata Chemicals in 2018), 90% business came from tea and salt. To create value in existing businesses, we needed to increase margins," says Sunil D'Souza, MD, TCPL. The company chose premiumisation. For instance, it added value to its salt portfolio by launching fortified salt, black salt and zinc-enriched salt. In tea, it launched premium variants and entered D2C with Tata Tea 1868 and Sonnets, a specialty coffee brand. "Premiumisation has helped me close market share gaps with competition in core categories such as tea and salt. We have expanded our margins and are now on a par with the rest of the FMCG world. Premiumisation has also driven revenue realisation faster than volume growth," says D'Souza. The company's market cap has surged 163.6% in past couple of years.

Advantage Legacy Companies

Uncertainty after Covid-19 taught larger FMCG players that they have to be nimble, agile and proactive. But it also proved that the nimble-footed start-ups need to look beyond valuations. Take distribution. Brands need to adopt omni-channel strategy in a big and diverse nation such as India but bulk of FMCG start-ups, barring a few like Mamaearth, Sugar Cosmetics and Wow, are digital-first. "Online can take a business only that far. Once you touch ₹50-100 crore revenue, you have to shift offline, and that's where the business becomes challenging," says Rajat Wahi, partner, Deloitte India. After all, ecommerce is just 10% of Indian retail pie



D2C FORAY

- ITC bought 16% stake in Mother Sparsh, a direct-to-consumer mother and baby care brand, in 2022; in 2021, it bought 10.7% in Bluepin Technologies, which owns D2C mother and baby platform Mylo.
- HUL has acquired two digital-first brands, Oziva and Wellbeing Nutrition; it has also launched its own D2C brands Dove Baby, Dermalogica, Simple and Love Beauty & Planet.
- Marico acquired D2C health food brand True Elements and ayurvedic hair and skincare brand Just Herbs in 2022. Its first D2C acquisition was male grooming brand Beardo.
- Emami has bought 19% stake in nutrition company TrueNativ F&B, and 30% in Cannis Lupus (to foray into the petcare segment).
- Nestle India has launched its own D2C platform MyNestle.
- TCPL acquired Kottaram Agro Foods, which owns breakfast cereal brand Soulfull, in 2021.

163%

Rise in market cap of Tata Consumer Products in last two years.

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and building a physical distribution network is expensive and time consuming.

Vineeta Singh, co-founder and CEO of colour cosmetic start-up Sugar Cosmetics, agrees most start-up founders have taken long-term brand-building for granted. "Since ecommerce had no entry barrier, most start-ups believed if you are good at optimising keywords on Google or Meta, you have found your way. But if you search Amazon for, say, a vitamin-c serum, you will find thousands of companies. When traditional companies with deep pockets started spending heavily on digital advertising, the challenger brands started feeling the pinch. As a result, in last six months, ecommerce and social media have become unsustainable for a number of brands." Singh says she was clear from day one that Sugar will be an omni-channel brand. "When retail was off during Covid-19, during those 24 months, Sugar was aggressively adding shelf space. We grew from 1,000-1,500 to 40,000
1 stores during those months. We believe India is always going to be an omni-channel market. Build the brand digitally but don't force people to shop online." The strategy has paid off, says Singh. She hopes to close FY23 with revenues of ₹500 crore.

And selling only on ecommerce platforms is not cheap either. Wahi of Deloitte says margins required on Amazon and Flipkart are 35-45%. "You give them all the money you save by not having physical distribution. This puts a lot of pressure on companies." Further, global liquidity crunch and rising interest rates are slowing down funding. "Second and third funding rounds have become difficult. Crash in value of a lot of start-ups that have got listed (such as Nykaa) has been a reality check for investors," says Wahi.

Amid this chaos in the start-up world, patience of legacy brands has paid off. "They haven't taken knee-jerk actions. They have not got carried away by valuations of start-ups. HUL, P&G and ITC have spent a lot of time building high-quality brands," says Arvind Singhal, chairman, Technopak Advisors. Singhal believes the larger companies are now fully prepared to press the growth accelerator. "They have basics like distribution in place. With real-time data, they know which variant is doing well in which part of the country. They also have access to capital as stock market is doing well. Interest rates haven't risen as sharply in India as the rest of the world. The larger companies are taking advantage of new ways of doing business."

"The days of crazy start-up valuations are over. Start-up founders have realised that they are getting paid for their idea and the company has no value," says Arun Kejriwal, founder, Kejriwal Research and Investment Services. He says biggies such as HUL, ITC and Nestle are doing what they do best, that is, focus on core business and traditional distribution channels. "None of them are meddling with their core. They are tinkering with adjacencies. They have the muscle to try something incremental. The market has supported them as they have been making the right noises," he adds. Market caps of HUL, ITC and Nestle have risen 44.4%, 46.18% and 33.26%, respectively, in last two years. TCPL, Marico and Emami have seen an even sharper rise in market caps—165%, 83.50% and 155.99%, respectively. "Earlier, launching and marketing new products was expensive, hence one could do limited innovations. Ecommerce

> **We use analytics tools to send targeted ads. Click-through rates are high as we have profiled customers well."**
>
> **B. Sumant**
> Executive Director, ITC

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has reduced the cost of launching a product. You can now develop a product, test waters, and then scale up. These opportunities were not there earlier," says Emami's Agarwal.

Digital Focus

The game changer for legacy FMCG firms has been their investments in technology, be it sales, warehouse and inventory management or distribution. "We want to be the most intelligent consumer goods enterprise. From a historically linear value chain where you plan, source, make and deliver, we are now creating ecosystems. There is a consumer ecosystem and an operations ecosystem, both intertwined with data and technology at the centre," says Mehta of HUL.

The company's sprawling headoffice in Mumbai has an artificial intelligence hub that captures trends from across the world in real time. "We get to know global consumption
1 trends, who all are adopting them and the time they will take to come here. We have a library of perfumes, we have 3D machines which make prototypes, and we do virtual testing. All this has crashed lead time dramatically," says Mehta. At back-end, along with Shikhar, the company has rejigged its supply chain so that it can deliver to retailers any time of the day. Its first fully automated and robotised fulfilment centre (Samadhan Centre) in outskirts of Chennai delivers directly to retailers. It plans to set up several such centres across the country. The FMCG major also has own software systems such as Jarvis and Livewire on which it uses machine learning to optimise pricing, distributor commission and spending on trade support and media. Technology has also made its factories more efficient.

25%

Demand for HUL products has come from digital channels over past one year.

Nestle, on the other hand, is betting on Project Midas, an analytics data framework. "We have a geography-specific data system that we can use to target cities, localities, households and outlets. A strong data analytics network helps me plug into wherever there are opportunities," says Narayanan.

ITC has built a listening engine, Sixth Sense, which tells what people are talking about. It picks up social conversations, trends and issues people are grappling with; the company can use these inputs to create products. A number of recent launches such as plant-based meat, ready-to-cook snacks and skin treatment products available on ITC Store were planned after the company analysed trends captured

> "We now innovate three times faster than before. We have launched 100 products in last couple of years."
>
> **Suresh Narayanan**
> Chairman and MD, Nestle India

PHOTOGRAPH BY **SANJAY RAWAT**

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DIGITAL PLAY

- HUL's app, Shikhar, is used by one million retailers to order inventory. It has also set up its first automated and robotised fulfilment centre, Samadhan Centre, near Chennai, and an artificial intelligence hub in Mumbai to capture consumer trends in real time.
- Nestle has launched Project Midas, its analytics and tech data framework, setting the pace for data-led decision making rather than hierarchy-led decision making; its command control centre T-Hub is used to track all freight across the country.
- ITC's data repository, Customer Hub, uses data for cohort generation, innovations and digital marketing; automated data capture at manufacturing plants helps the company do quick change-overs and produce multiple products; its personalised app for distributors and retailers has 2.5 million members.

1 by Sixth Sense. ITC has also invested in a repository which has data from sales, distribution as well as D2C platforms. "We have first-party data that we use for cohort generation. Data of anybody who comes to our website, participates in a brand contest or buys at our hotels or ITC Store comes to the repository. We use analytics tools to send them targeted ads. Click-through rates are significantly high as we have profiled customers well. Digital marketing cost falls and effectiveness improves significantly when we use first-party data," says Sumant of ITC. "Our plants also capture a lot of data and produce multiple products without losing efficiency. We do a lot of analytics with IoT devices and digital data capture capabilities. If you have to sense and respond to consumer needs, you have to create more products, and this gives our plants a lot of flexibility and speed," he says.

Emami has digitised not just sales and distribution but also sourcing. "While ecommerce has strengthened our topline, digitisation of back-end has made our bottomline stronger. It has improved our ability to reduce wastage and end inefficiencies in the system," says Agarwal.

For Godrej Consumer Products (GCPL), bulk of the digital investment has gone into the back-end. "We decided to focus on back-end as a number of our partners are investing in front-end and we are happy to partner with them. For example, quick commerce is taking off. Ecommerce is already quite big. So, we want to partner with them instead of trying to become like them," says Sudhir Sitapati, MD, GCPL. In past one year, GCPL has transformed its old IT network into a business transformation system that helps it look at ways to reduce costs and inefficiencies. "We have been able to use demand forecasting tools as well as order management systems to reduce inventory. At a time when profitability has dipped as we don't want to pass on increase in commodity prices to consumers, we have increased our cash flow. It's not easy to increase cash when profitability falls, but we have done so by focusing relentlessly on squeezing out money from working capital by using demand forecasting and order management tools," says Sitapati. "Investment in technology has helped legacy FMCG companies improve sales and bring down working capital and supply chain costs," says Wahi of Deloitte.

The larger companies have started adapting digital platforms well, says Rishav Jain, MD of Alvarez and Marsal. "They have linked their supply chain for better availability. Suddenly your warehouse caters to kirana stores, modern trade as well as ecommerce. They have also added D2C brands."

Growth Appetite

With technology at their core, the legacy majors are making inroads into ecommerce as well as traditional distribution. Narayanan of Nestle says his strategy is 'grow to win' and one can't win unless one focuses on penetration-led volume growth. "We believe we can get organic growth by being consumer-led and focusing on penetration. Only more consumers, buying more frequently, can lead to sustainable growth." This is where the company's analytics and data framework, Project Midas, comes in handy. The company has used the framework to segment India into 15 clusters. It has framed exclusive strategies for each cluster based on consumer behaviour, media consumption habits and other parameters. "You can't have one marketing plan for the entire country. It has to be by state, by district, by geography. Midas was a big commercial initiative which pushed decision-making from head office in Gurugram to regional offices and frontline. It set the pace for data-led decision-making rather than hierarchy-led decision-making. It's no longer important what I think, it is important what the data says," says Narayanan. The tool has helped the company launch a number of regional variants of main brands.

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For instance, it launched a ragi variant of baby food brand Ceregrow in South India after data showed strong preference for serving ragi to toddlers. It also launched a variant of Maggi Masala there after data indicated the brand was considered north-centric.

HUL's Mehta says without proprietary tools Jarvis and Livewire, it wouldn't have been able to orchestrate its strategy of clusterisation called Winning in Many Indias. "We could have never got such disparate information that can be sliced and diced had we not put these tech platforms together." That is why the blend of Red Label tea sold in Punjab is different from what is distributed in UP. Even formulation of Surf Excel sold in a particular geography depends on hardness of water in the region. "It is adding complexity, but it is good complexity. It is difficult to manage but good for the company. We have perfected the model," says Mehta.

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ITC has developed two apps for retailers and distributors. While one enables retailers to order online, the other, which serves 2.5 million retailers, uses an AI/ML engine that analyses 8,000 data points and gives every retailer a unique recommendation on what products to stock based on parameters such as locality, affordability, affluence, etc. "The retail delivery app has been downloaded by 4.6 lakh retailers. It allows them to order any time and receive goods within 24-48 hours, unlike earlier, where they would have to wait for weekly order capture and delivery. Online ordering has increased the range of products stocked by retailers," says Sumant. The FMCG major is also looking at adjacencies to expand its portfolio. It recently launched Aashirvaad vermicelli as it's a staple and adjacent to its Aashirvaad atta. "We look to fill a gap as long as it is value accretive and has synergy with what we do," says Sumant.

Road To Premiumisation

Not just technology. The FMCG majors are also looking to move up the value chain by adding more premium products to stand apart from new-age digital brands. In Q3FY23, HUL's revenue grew 17% despite volume growth of only 4%, primarily due to higher sales of high-margin premium products. During the quarter, it launched premium offerings such as Tresemme's hair care range with protein bond plex technology, Lakme's new range of serums and compacts and Lifebuoy's neem and aloe formulation. "Premium portfolios have proven to be much more resilient. They are relatively recession resistant as they are bought by those with higher disposable incomes. Our focus on market development and premiumisation has held us in good stead in driving revenues," says Mehta. Apart from premium variants of existing brands, the company has also launched exclusive D2C brands such as Dove Baby, Dermalogica, Simple and Love Beauty & Planet. It has also acquired D2C brands Oziva and Wellbeing Nutrition. HUL is not an exception. From ITC to Marico and Tata Consumer to Emami, legacy FMCG companies have been on an overdrive to either launch D2C platforms or acquire start-up brands. The aim is to have a presence in premium categories at a time when volume growth is low and rural market is shrinking. "Digital brands have garnered a significant market share at premium price points, usually upwards of ₹300. If traditional FMCG players don't participate, they will lose the opportunity. Traditional brands are usually at sub-₹200 price point. Looking at that capability organically will take time. We have fast-forwarded by acquiring these brands," says Gupta of Marico. In past one year, the ₹10,549 crore FMCG major has acquired health food start-up True Elements and ayurvedic personal care

"Acquisition of digital brands has accelerated digital transformation and innovation."

Saugata Gupta
MD, Marico

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brand Just Herbs. Marico's first D2C acquisition was male grooming brand Beardo. Gupta says acquisition of digital brands has accelerated digital transformation and innovation. "The number of bets is higher but the bets are small. In each bet, we are taking calculated risks. It's a dynamic model. It has had a positive rub-off on growth."

For Emami, D2C investments are a way to enter newer categories. The company recently entered pet care by buying a 30% stake in Cannis Lupis. It also acquired 19% equity in nutrition start-up TruNativ F&B. "Had the D2C opportunity not been there, we would have probably never entered these categories. I see D2C as an important strategic input for future growth strategy," says Agarwal of Emami.

Legacy companies have also figured out that managing digital-first brands requires different skill sets and so are allowing them to operate independently. "We are playing the role of a strategic investor and trying to have an earn-out model where founders keep running the company. That model is far better than trying to do it organically. Traditional companies are best at running big brands, distributed at scale," says Gupta.

For TCPL, acquisition of new-age brands is not aimed at adjacencies but expanding the FMCG business. While it chose to organically build tea, salt and staples verticals, it opted for an acquisition for foraying into breakfast and snacking categories. "We realised building organically would be take long. So, we acquired Soulfull," says D'Souza.

While investing in new-age companies is a good way for legacy companies to fast-track their digital journey and explore newer categories, for the latter, it is the best way to jump on to the traditional distribution bandwagon. Wahi of Deloitte expects legacy companies to acquire more challenger brands. "The Indian retail space is complex. The kirana space is tight and modern retail is not growing as fast. So, it is impossible for a D2C company to buy space. Though good FMCG start-ups will continue to emerge, it will be difficult for them to expand beyond the digital-first model."

"Building distribution takes a lifetime. Also, mom & pop shops don't have the shelf space to accommodate start-up brands even if they invest in distribution. On the other hand, the likes of DMart and Reliance Retail want to focus on private brands, and unless you are a power brand, they don't want you," says Singhal of Technopak. Under Reliance Consumer Products, Reliance Retail has already embarked upon its brand-building journey by acquiring Campa Cola, Sosyo and Joy Chocolate, among others.

The legacy brands are also acquiring regional brands to widen their portfolios. While ITC has acquired West-Bengal headquartered spice brand Sunrise, Dabur India has bought Badshah Masala. TCPL is close to acquiring the country's highest selling packaged water brand, Bisleri.

Though the legacy FMCG companies have got their act together, Jain of Alvarez and Marsal feels it will be unfair not to give credit to the challenger brands. "One thing we can't deny is that start-ups have created disruption. Newer platforms can survive and create brands well. The consumer has far more brands today."

For the time being, though, the legacy FMCG companies are at an advantage due to their deeper pockets and new-found hunger to grow. It's advantage legacy FMCG companies. ■

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"Data gives insights into market gaps and areas where we can bring more efficiency."

Harsha Vardhan Agarwal
Vice chairman & MD, Emami

Display: 11/11