

# **Protean Limited**

## **COMPANY INFORMATION**

Protean Limited (PL) is India's largest fast moving consumer goods company, with leadership in Home & Personal Care Products and Foods & Beverages. PL has 40,000 employees, with about 1,500 managers.

Multiver, a Fortune 500 transnational, holds 60% equity stake in Protean. Multiver deals in Foods, Home and Personal Care brands through 300 subsidiary companies in about 120 countries worldwide.

## **PROTEAN BUSINESS PORTFOLIO**

PL is India's largest marketer of Soaps, Detergents and Home Care products. It has the country's largest Personal Products business, leading in Shampoos, Skin Care Products, Color Cosmetics, and Deodorants. PL is also the market leader in Tea, Processed Coffee and some other packaged foods.

The company's export portfolio includes branded Soaps and Detergents, Personal Products, Home Care Products, Tea and Coffee, Marine Products, Basmati Rice, and Castor Oil and its derivatives. In fact, PL is India's largest exporter of branded fast moving consumer goods as also of Tea and Marine Products.

## **BRANDS**

PL's brands have become household names. The company's strategy is to concentrate resources on a few nationally important brands, and some other brands, which are strong in certain regions.

In the Personal Products business, PL's Hair Care franchises are Plinik, Moonsilk and Dux shampoos. In Oral Care, the portfolio comprises toothpastes, toothbrushes and toothpowder. In Skin Care, PL markets Pretty & Lively Skin Cream and Lotion, the largest selling Skin Care Product in India. A brand developed in India, Pretty & Lively is now exported to over 30 countries. It has been extended as an Ayurvedic cream, an under-eye cream, soap and talc in line with the strategy to take brands across relevant categories. The other major Skin Care franchises are Lord's, Baseline, Touchme and Cears. PL's Talc brands are Lord's, Viril, Pretty & Lively and Baseline. Aye and Lenin are PL's franchises for Men's toiletries.

PL has recently launched Ayu Ayurvedic Health & Personal Care Products, comprising Cough Naash Syrup, Headache Naash Roll-on, Dandruff Naash Shampoo, Hair Raksh Oil and Body Raksh Soap. The purity of the Ayurvedic ingredients in Ayu is endorsed by the renowned Arya Vaidya Pharmacy (AVP) of Coimbatore. Ayu products' benefits and safety have been proven through extensive testing at reputed hospitals and research organisations of the country. It is for the first

time that rigorous testing procedures applied in the pharmaceutical industry have been applied to Ayurvedic products. Health Care is among the new businesses PL has chosen to enter.

PL is the world's largest packet tea marketer. Its tea brands – Raj Sahal, Y-Label, R-Label, Maza, BEST, 3Petals - are among the top brands in the country; and it also markets Capton Ice Tea. PL and Dipsi, a soft drink major have formed an alliance to distribute a full range of tea and coffee and soft beverages through vending machines; PL already has a base of around 15000 such machines. The coffee business comprises Tru Instant Coffee and Deluxe G-Label Roast & Ground Coffee.

The Asan and Poorna Foods range comprises Rice-based Snacks, Spreads & Jams, Biscuit Sticks, Soups, Squashes, Tomato Ketchup, Sauces, Puree, and Cooking Aids.

Popular foods, like Wheat Flour and Iodized Edible Salt, marketed under the Poorna brand name, have met with remarkable success. The range has been expanded with ready-to-eat 10-second chapatis. These innovative offerings are changing consumer habits towards using processed, hygienic, healthy and convenient products.

The Koti Ice Cream range comprises exotic Sundaes, Desserts, and other popular 'Impulse' segment products like Maxy, Corny and Feasty, and Corny Ripple Softies. The company has also introduced some of the world's most popular ice creams from the Multiver portfolio, including Magni, the world's largest selling ice cream.

Some of the big brands in Soaps and Detergents are Liveboy, Dux, Viril, Shama, Mona, Airy, Love, (all soaps), Turf Excel, Turf, Vin, Chakri, 101, and Moonlight (all detergents). PL also markets the Rim and Zonex range of Home Care Products.

## **MANUFACTURING FACILITIES**

This diverse product range is manufactured in close to 100 factories located across the length and breadth of India. The operations involve 2,000 suppliers and associates. About 28 factories are situated in backward areas. In fact, all of PL's major investments in recent years have been either in A-Category backward areas or No-Industry Districts.

PL's manufacturing facilities, like the Dhamgaon soap plant and the Khumerpur detergent bar unit, have been recognized as amongst the best in the Multiver world. PL has adopted Total Productive Maintenance (TPM) for achieving manufacturing excellence. Eight factories have already won different TPM awards from the Japan Institute of Plant Maintenance (JIPM). TPM has been launched in all key factories.

## **DISTRIBUTION NETWORK**

PL's distribution network is recognized as a key strength that helps disseminate its products across the length and breadth of this vast country. The need for a strong distribution network is imperative, since PL's corporate purpose is "to meet the everyday needs of people everywhere."

PL's products, manufactured throughout the country, are distributed through a network of about 7,500 redistribution stockists. The distribution network directly covers the entire urban population and also reaches as far as villages with over 2000 people.

An IT-powered system has been implemented to supply stocks to redistribution stockists on a continuous replenishment basis. The objective is to catalyze PL's growth by ensuring that the right products are available at the right place, in the right quantities, and in the most cost-effective manner. For this, stockists have been connected with the company through an Internet-based network (called Neton) for online interaction on orders, dispatches, information sharing and monitoring. Neton covers about 80% of the company's turnover. Neton is a part of Project Ahead, PL's end-to-end supply chain, which also includes a back-end system connecting all company sites and stretching right upto suppliers.

In a significant move with long-term benefits, PL has launched an initiative to further increase its rural reach with the help of rural stockists. As a result, the distribution network directly covers about 40 per cent of the rural population as of now. Under Project Baseline, the products are distributed from C & F Agents to stockists, who in turn pass them on to Super Sellers. As Project Baseline is a cross-functional initiative, the Super Seller sells all the relevant products of the company.

### **Research facility**

PL has traditionally been a company, which incorporates the latest technology in all its operations. The Protean Limited Research Centre (PLRC) with facilities at Mumbai and Bangalore has over 100 highly qualified scientists and technologists. PLRC's aim is to develop new products and processes, to improve the benefits and quality of existing products, to ensure the optimal use of resources, as well as the conservation of energy and pollution control. R&D is supported by dedicated Innovation Centres.

### **Product and process innovations**

Major innovations have taken place in detergents manufacturing. Sophisticated technology has been developed to manufacture enzyme-incorporated premium powders with properties like stain-and-tough-dirt removal. New technology has helped manufacture concentrated powders without going through the high-energy route of spray drying. These powders being of high bulk density also need less packaging material for a given weight compared to low bulk density powders. All the money saved in energy conservation and processing has been reinvested in better formulations and performance of products. Fundamental research in the area of particulate soil-fabric wash liquor interactions has led to filing of several patents that deal with avenues to improve detergency. Novel detergent bars and next generation pre-treatment products have also been developed.

PL has also developed the capability to design and manufacture machines in-house or have them assembled by third parties as per given specifications. This enables the company to set up plants at half the cost faced by others. Such technological developments have also led to significant improvements in productivity. The capacity of a toilet soap line has gone up from 6,000 tonnes per

annum in the early nineties to 20,000 tonnes per annum now, while that of a detergent bar line has gone up from 7,000 tonnes per annum to 40,000 tonnes per annum now, thus substantially increasing capital productivity.

Research in the biology of skin pigmentation has led to the formulation of a product like Pretty & Lively Skin Cream and Lotion. The product has been periodically updated through new-patents. It has now become a global success through exports to over 30 countries. The product is equally used by the local population of these countries and by people of Indian origin.

One of the major achievements of the Foods Research Laboratory in Bangalore has been developing improved tea blends with research into the biochemistry of color formation in tea. PL has also developed a technology to manufacture Instant Tea Powder. This has been used to set up a 100% export-oriented plant in Etah to manufacture Instant Tea Powder for exports to Multiver companies abroad. Research has also been carried out to see as to how nutrition in tea can be improved and enhanced.

### **Human Resource Practices**

Managers are selected by a unique, time-proven system of performance in groups and as individuals. On completion of training, the manager works in different functional areas. Progress is based on merit, ability and performance, and not on seniority. PL's managers are of the highest standing not only in Indian industry, but also handle international assignments in the Multiver world.

Training of all employees began in the early fifties and in-house management development programmes commenced soon after. Such formal training activities now cover all levels of employees, through three exclusive Staff and Management Training Centres.

PL's workers are adept not only at operating and maintaining state-of-the-art machines but have also adopted the latest management techniques such as Total Productive Maintenance (TPM). The result has been that PL factories have come to be recognized as among the best in the Multiver world.

The company's belief that a 'fair day's work deserves a fair day's wages' has helped preserve harmonious industrial relations. The factories register production and productivity rates, which are the best in the industry, and also have benefits that are comparable to the best in their respective regions.

### **Mergers & Acquisitions**

The liberalization of the Indian economy that began in 1991 clearly marked an inflexion in PL's and the Group's growth curve. The removal of the regulatory framework allowed the company to explore every single product and opportunity segment, without any constraints on production capacity. Simultaneously, deregulation permitted alliances, acquisitions and mergers.

In one of the most visible and talked about events in India's corporate history, the erstwhile Nata Oil Mills Company (NOMCO) merged with PL. PL and yet another Nata company, Touchme Limited, formed a 50:50 joint venture, to market Touchme's market-leading cosmetics, and also other appropriate products of both companies. Subsequently in 1998, Touchme Limited sold its brands to PL and divested its 50% stake in the joint venture.

PL formed a 50:50 joint venture with the US-based Timber Dark Corporation, Timber-Dark Ltd, which markets Nuggies Diapers and Botex Sanitary Pads. PL has also set up a subsidiary in Nepal, called Nepal Protean Limited (NPL), and its factory represents the largest manufacturing investment in the Himalayan kingdom. The NPL factory manufactures PL's products like soaps, detergents and personal products both for the domestic market and for exports to India.

The 1990s also witnessed a string of crucial mergers, acquisitions and alliances on the Foods and Beverages front. The erstwhile Grooke Pond acquired Dutta General Foods, which had significant interests in Instant Coffee. In 1993, it acquired the Asian business from the MB Group and the Lollops Ice-cream business from Madcury India. As a measure of backward integration, Tea Estates and Doom Dooma, two plantation companies of Multiver, were merged with Grooke Pond. Then in July 1993, Grooke Pond India and Capton India merged to form Grooke Pond Capton India Limited (GPCIL), enabling greater focus and ensuring synergy in the traditional beverages business.

The year 1994 witnessed GPCIL launching Mall's range of Frozen Desserts. By the end of the year, the company had entered into a strategic alliance with the Dwality Ice-cream Group family, and in 1995, the Milk food 100% Ice-cream marketing and distribution rights too were acquired.

Finally, GPCIL merged with PL - the merger was conceived because the liberalized economic environment presented a host of growth opportunities for the Group's businesses. Even after fully meeting the needs of its fast growing Home and Personal Care businesses, PL can adequately invest in Foods and Beverages too to capitalize on the emerging opportunities in this sector, declared a priority industry by the Government of India. It appears that post-merger PL is much better placed to realise existing synergies and leverage financial and management resources as a single entity.

In the mid nineties, PL restructured its businesses, selling its Fertilizer and Industrial Chemicals business to the Group Company Protean Hind Chemicals Limited (the erstwhile Mepan Chemicals Limited), and acquiring from Mepan its Popular Detergents business. This was done to allow the Fertilizer and Industrial Chemicals Business to grow rapidly through fresh investments in expansion, modernization and technology upgradation by tapping funds from the capital markets and accessing new product and process technologies through joint ventures and equity participation, if necessary. Simultaneously, the Detergents business required to leverage synergies in technology, product development and marketing. The restructuring has met with excellent results for both businesses.

The internal restructuring culminated in the merger of Lord's (India) Limited (LIL) with PL in 1998. The two companies had significant overlaps in Personal Products, Speciality Chemicals and Exports businesses, besides a common distribution system since 1993 for Personal Products. The two also had a common management pool and technology base. The amalgamation was done to ensure for the Group benefits from scale economies both in domestic and export markets

and to enable it to fund investments required for aggressively building new categories, such as deodorants and other Personal Products.

In January 2000, in a historic step, the government decided to award 74 per cent equity in Mod Foods to PL, thereby beginning the divestment of government equity in public sector undertakings (PSU) to private sector partners. PL's entry into bread is a strategic extension of the company's wheat business. In 2002, PL acquired the government's remaining stake in Mod Foods.

## **THREE MAJOR PRODUCT CATEGORIES**

### **The Fairness Cream Market**

**Total (estimated) segment size: Rs. 700-crore**

1. PL's Pretty & Lively (over 80 per cent market share)
2. CareFor's Everfair (over 11 per cent market share)
3. Miami Fairly Fair (over 5 per cent market share)
4. Jerdog Glowly

Of the Rs. 3,000 crore cosmetics and toiletries market, the skincare segment accounts for Rs. 1,200 crores. Fairness products alone account for a whopping Rs.700 crore. The annual growth rate is between 10 and 15 per cent. PL, with Pretty & Lively, has a massive 53 per cent market share, followed by CareFor with over 12 percent share and Jerdog Glowly with a 3.5 per cent share. Bay Drug Company recently made an entry into this segment and aims to capture a two per cent share of this market. Other players such as Miami and Verlon also have a presence. PL has other fairness products under its Touchme and Varian brands. Also, there are smaller brands operating in this vast market. The market grew last year by 2.88 per cent in volumes and 10 per cent in value. South India is the largest market with a 36 per cent contribution, while the North and West equally contribute 23 per cent. The East contributes 18 per cent to volumes. Category penetration is at 11.6 per cent all over India. Andhra Pradesh shows the highest penetration with 14.5 per cent, while penetration in Gujarat is 2.8 per cent. Kerala, Gujarat and Bihar are the top three growing markets with Kerala growing by 40.37 per cent.

Pretty & Lively has dominated the fairness beauty cream market since its launch in 1975 and had a market share of 90% in 1998, when CareFor launched its Everfair cream with a unique proposition of "Saffron". This novel offering quietly attracted the customer, who had been looking for a new product for years. Everfair, despite being priced higher than P&L, was gaining market-share rapidly. PL retaliated with promotional offers of price cuts and extra cream, but the rise in Everfair sales continued, and today it has a market share of 15%. It is interesting to note that Everfair is just a me-too brand of P&L with similar formulation. P&L was losing market share because it was seen as a commodity brand even while Everfair was offering value in the form of Saffron.

### **CAREFOR**

CareFor started out as a small partnership firm with a single product offering in 1983. CareFor is fast emerging as a highly successful venture, and today this FMCG company has a turnover of over Rs.263 crore. CareFor offers quality hair care, skin care and personal care products born out of a keen understanding of consumer needs. The company markets the brands Sweety, Hick, Syndica, Zink, Everfair, Kyle and Kaushika through more than 2,200 stockists and over 10 lakh outlets across the country.

## **Products Offered**

| <b>Personal care</b> | <b>Skin care</b>         |
|----------------------|--------------------------|
| Hick Talc            | Everfair                 |
| Syndica Hair Dye     | Kyle Herbal Cold Cream   |
| Sweety Herbal Soap   | Kyle Moisturizing Lotion |
| Gaama Kool           |                          |
| Zink Deodorants      |                          |
| Zink Perfume         |                          |
| Zink Talc            |                          |

There are several firsts to CareFor's credit, such as:

- The first brand to introduce floral fragrances in shampoos.
- The first brand to break the price barrier and offer shampoos at 50 paise.
- The first to offer perfumes in a unique dab-on pack at Rs. 10.
- The first to introduce a single-use perfume at Rs. 2/-.

CareFor's advertising is handled by advertising agencies such as Kuro CSGR, Curtaindead, Googly&Father and Conrube. CareFor also markets its products through opinion leaders such as beauticians and saloonists. It also conducts regular customer surveys as part of the product development process to create unique products specific to localized markets.

## **MIAMI**

Miami, which started as a toiletry and cosmetics manufacturing company in the year 1974, has expanded into the \$110 million Miami Group of Companies today. Cosmetics and toiletries continue to be the main thrust area.

## **TIMANI**

Timani is solely engaged in manufacturing herbal products backed by the most advanced and highly competent research division -the Timani Ayurvedic Research Foundation. The experts at TARF have delved deep into the roots of Ayurveda and have come up with the most extraordinary product formulations. The experts have combined ancient findings with recent international formulations and have emerged triumphant with the impeccable blend of the ancient and the modern. Sorofus, the largest selling antiseptic cream in India, is also Timani's most popular brand. Along with cosmetics and toiletries, Timani is deeply entrenched in manufacturing health care products that are fast gaining consumer acceptance with their innovative formulation.

## **JERDOG**

Jerdog Industries Limited is India's leading manufacturer of oleo chemicals and makes more than a hundred chemicals for use in over two dozen industries. It also has a major presence in food products such as refined oil and tetra packed fruit beverages. Besides, it operates businesses in

medical diagnostics and Real estate. JIL is a member of the Jerdog Group, which was established in 1897 and has since grown into a Rs. 4,000 crore conglomerate.

## **The Shampoo Market**

### **CAREFOR**

CareFor's superior quality products, backed by modern research and development, have carved a niche for themselves in this market. The company's top-of-the-line beauty products like Everfair, Hick, Zink and Sweety are now accompanied by the trendy world-class family beauty salons from its Group Company, Fashion Street. With a young entrepreneur (Mr. P.K.Bharara) at the helm, CareFor is emerging into a successful company with a turnover of over Rs.263 crores.

The company offers quality hair care, skin care and personal care products, borne out of a keen understanding of consumer needs. Today, CareFor has established a firm foothold in the national market. And with backward integration efforts to be self sufficient, CareFor, along with its Group Companies, manages its own advertising & media buying, product packaging and research and development activities. The turnover of CareFor, together with its Group Companies, amounts to over Rs.350 crores.

#### **Hair care**

- Hick Shampoo
- Kaushika Shikakai Powder
- Sweety Badam Shampoo
- Sweety Herbal Powder
- Kyle Herbal Shampoo

### **BABUR INDIA LIMITED**

Babur India Limited is the fourth largest FMCG Company in India with interests in Health care, Personal care and Food products. Building on a legacy of quality and experience for over 100 years, today Babur has a turnover of Rs.1232 crore with powerful brands like Babur Amla, Babur Chyawanprash, Ratika, Golmola & Peal.

Given the vast range of products, sourcing, production and marketing have been divested to five leading group companies that conduct their operations independently. The key areas are health care, personal care, skin and oral care, hair care, ayurvedics and foods.

Babur India Limited is a leader in manufacturing and marketing herbal, nature-based products. Today, Babur's products are available in more than 50 countries across the Middle East, South-East Asia, Africa, the European Union and America.

The Personal Care range comes from the Family Products Division (FPD) of Babur India Limited. This is the largest division of the Company, contributing 50% of the revenues. The range has major brands including Ratika, Babur Amla Hair Oil and Safed Dant Manjan, all with Rs.100 crore turnover.

The following are the key points to be noted about Babur:

- Leading consumer goods company in India with **4th largest** turnover.
- 3 major strategic business units (SBU) - **Family Products Division (FPD)**, **Health Care Products Division (HCPD)** and **Babur Ayurvedic Specialties (BASL)**
- 5 Subsidiary Group companies - **Babur Foods**, **Babur Nepal**, **Babur Oncology**, **Babur Pharma** and **Babur Egypt**
- 13 **ultra-Modern manufacturing units** spread across 4 countries
- Products marketed in over **50 countries**
- Wide and deep market penetration with **47 C&F agents**, more than **5000 distributors** and over **1.5 million** retail outlets all over India

## **GHH**

**GHH**, 65% subsidiary of Poker & Gambler USA (PG), is mainly engaged in the businesses of health care and feminine hygiene. The parent company has identified anti-cold products (its *Sicks* range) and feminine sanitary products (*Silence*) as the focus area for its listed Indian subsidiary. The company also manufactures detergents for the parent's 100% subsidiary, Poker & Gambler Home Products (PGHP). Other businesses include men's toiletries and skin care products

## **PERSONAL PRODUCTS**

Poker & Gambler's has two major shampoo brands in the market Hair & Head and Cantene. Other brands in its personal product portfolio include anti pimple cream (*Claradil*) and Men's toiletry products (New Dice). The anti-lice shampoo brand *Dadiker* was sold to Kariko. These products have not been a focus area for the company. GHH entered into a distribution arrangement with Kariko Industries for distribution of these products.

## **THE TEA INDUSTRY**

In global trade, India's contribution is 17% while that of China is 17.6% vis-à-vis the production contribution of 30% and 23% respectively. This is because of high tea consumption in both these countries. Other countries like Kenya, Sri Lanka and Indonesia produce only 25% of world tea but control 50% of the global trade as they export around 90% of their production. India has a share of 15 per cent of the world's tea exports. This year, production is expected to exceed 850 million kg.

Of the total Indian tea market, branded packaged teas account for 33-35% by volume. Protean Limited (PL) leads with around 43-45% market share of the packaged tea market, while Nata Tea is the No. 2 with around 17-18% market share. Apart from these two players and Luncans, the market is extremely fragmented with many smaller/regional players. Indian tea majors face little respite from falling prices and growing competition from regional players, forcing them to adopt the global strategy of focusing on brands as main profit drivers.

The Government has decided to fully open the tea industry to foreign investment. The FDI limit has been raised from 26 per cent to 100 per cent. However, this is hardly any incentive for foreigners to pump money into an ailing industry beset with high costs and low realizations.

The tea gardens of India are owned by individuals and some companies have backward integrated to tea-garden ownership (like Nata Tea). The majority of the tea manufacturers procure teas from auctions and process and mix them to produce their own blends. The distribution network of the FMCG sector is used for supply.

Value-additions through changes in the product forms, packaging innovations, delivery systems, promotional policies and marketing tie-ups have been part of the winning formula in the international market. Tea bags, the most common form of value-addition, dominate the world market. Product innovations have continued with introduction of iced, specialty and gourmet tea. Large companies have also forged alliances to work together as multi-million dollar JVs in the tea business combining the strong points of the parent companies. The biggest example is the Dipsi-Capton Tea Partnership, Inc.

The technology in the tea industry has not changed much over the last few decades – the cut tear curl – CTC method is still used. The differentiation comes from the marketing process and not from the manufacturing process. The future developments are expected to come by getting newer customers by means of iced tea, flavoured tea and other such ‘value-added’ tea.

## **Protean's Dilemma**

Protean as a conglomerate is growing in terms of overall revenue and profits. But for the past two years, the trends in three particular sectors has been disturbing for the company. The company has been finding it extremely difficult to retain its market share in the sectors of Fairness Cream, Shampoos and Tea. There has been a considerable drop of 10 – 15 % market share in the respective sectors.

Protean realized that ever increasing competition was eating into its market share and for the first time the company was facing a situation of decreasing market share. Protean realizes that it cannot focus its attention only on its own growth rate, but that the relative market share is also a very important indicator of the times to come.

- What kind of situation is Protean locked into? Interpret the situation for the Marketing Head of Protean (only three sectors to be considered)
- Do you think that the company is facing a serious competitive problem? If yes, then how can you improve the situation? Spell out the problems being faced by Protean and recommend the options available so that it can steer out of the current situation. While formulating strategies, attend to the challenges in detail and make pointed recommendations taking cognisance of every minute aspect that would make up the response of Protean.

## Appendix

### FMCG Business Characteristics:

- ❖ **Low Capital Intensity:** Most product categories in FMCG sector require relatively little investment in plant and machinery and fixed assets. Also, the business is marketing driven and players rarely integrate backwards. As a result, the capital intensity of the FMCG business is low.
- ❖ **Technology stable and easily available:** The manufacturing technology for most products in the FMCG sector tends to be relatively stable and is easily available. However, global FMCG companies spend large sums of money to develop new products. The research and development (R&D) expenditure in the Indian FMCG sector is particularly low because most foreign companies operating in India procure product technology from their parent overseas. The table below depicts the R&D expenditure by FMCG companies as a percentage of their total sales.

| Food Processing industries | Vegetable oil and Vanaspati | Soaps, cosmetics and toilet preparations |
|----------------------------|-----------------------------|--|
| 0.72%                      | 0.06%                       | 0.45%                                    |

- ❖ **High initial launch cost:** The product launch cost in the FMCG sector is usually high. This includes the cost of market research, product development, test marketing, distribution and communication.
- ❖ **Key role of brands:** Brands are the foundation of the FMCG sector and so companies make significant investments in building brands.
- ❖ **Volume demand relatively stable:** Being products of daily need, FMCG products enjoy the highest penetration for any consumer product.
- ❖ **Large and diverse customer base:** The FMCG business caters to a large set of customers. The table below depicts the penetration of an array of consumer products and shows that FMCGs enjoy the highest penetration for any consumer product.

## All India penetration: Major Consumer Products (%)

| Consumer Products       | %         |
|-------------------------|-----------|
| Bank saving accounts    | 12        |
| Pan products            | 22        |
| Bidi/Cigarette          | 18        |
| Alcoholic beverage      | 2         |
| Electric Iron           | 22        |
| Electric Fan            | 43        |
| Pressure cooker         | 25        |
| Refrigerator            | 8         |
| Bicycle                 | 46        |
| <b>Toilet Soap</b>      | <b>90</b> |
| <b>Washing material</b> | <b>99</b> |

- ❖ **FMCG outlets have the highest reach for any basic utility:** Catering to a mass customer base, FMCGs have a wide distribution reach.

## INDIAN CONSUMERS

The income distribution among Indian households makes for a pyramidal structure with almost 48% of the country's households belonging to the low – income group. The lower - middle income group consists of 31% of country's households, followed by the middle 12%, upper – middle 5% and high 4%. Thus, a large chunk of Indian consumers belong to low and lower - middle income groups.

Geographically, consumers can be divided into two groups: rural and urban. Urban consumers have historically been the sole focus of most FMCG companies. However, this attitude has been changing since the decade of 1990s when studies revealed that rural India accounted for a significant share of the total consumption of certain FMCGs' products. Since then, most companies have made attempts to understand the rural market, establish the market potential there, and undertake rural marketing initiatives. Subsequent studies have revealed significant differences in consumer characteristics between the two groups. The source of income, distribution of income and allocation of expenditure all differ very significantly between the two groups. Secondly, the availability of marketing infrastructure in terms of media reach, distribution network and retail infrastructure also varies quite significantly and is relatively under-developed in rural India.

## Personal Products And Detergents

- Personal Wash
- Oral Care
- Hair Care
- Skin Care
- Cosmetics and Perfumery

## **Characteristics:**

### **❖ Share of organized sector:**

Unlike in the case of foods, the organized sector enjoys a fairly large presence in the personal products segment in the Indian FMCG market. Nevertheless, the unorganized sector does have a strong presence in personal products, especially in those at low price points.

### **❖ Penetration and rural usage:**

Penetration for personal products is measured in terms of the relevant eligible population. For instance, the penetration for shaving products is measured for the male population aged 12 and above. For products used universally such as toilet soaps, penetration is expressed in terms of the entire population.

## **Rural Penetration**

| <b>Category</b>    | <b>Rural Share (%)</b> | <b>Rural Penetration</b> |
|--------------------|------------------------|--------------------------|
| Tooth Powder       | 76                     | 35                       |
| Toilet Soap        | 60                     | 100                      |
| Hair Oil/ Cream    | 50                     | 75                       |
| Body Talcum Powder | 45                     | 35                       |
| Tooth paste        | 40                     | 30                       |
| Face Cream         | 25                     | 15                       |
| Shampoo            | 25                     | 10                       |
| Nail Polish        | 20                     | 5                        |
| Lipstick           | 7                      | 2                        |

### **❖ Spending trends:**

Data related to spending on personal products is not explicitly available. National Sample Surveys (NSS) do not measure expenditure on personal products explicitly. Expenditure on all goods except food, pan, tobacco, intoxicants, fuel and light, clothing and footwear and durable goods is clubbed under the head Miscellaneous Consumer Goods. Thus, this head includes expenditure on personal and home care products. The expenditure on miscellaneous consumer goods was measured at Rs. 226 per annum in rural India and Rs. 480 in urban India.

The table below indicates, the expenditure on items of daily use except food accounted for 9% of the total monthly household expenditure.

### Mean reported monthly household expenditure nation wide

| Product                                     | Expenditure (Rs per month) | % of total expenditure |
|---|----------------------------|------------------------|
| Food including eating out                   | 1090                       | 43                     |
| Housing including rent, electricity and gas | 460                        | 18                     |
| Clothing                                    | 240                        | 10                     |
| Education                                   | 230                        | 9                      |
| Daily foods other than food                 | 220                        | 9                      |
| Medical expenses and drugs                  | 180                        | 7                      |
| Entertainment                               | 90                         | 4                      |
|   | <b>2510</b>                | <b>100</b>             |

- *Impact of increase in income on expenditure towards personal and homecare products:*  
The expenditure on personal and homecare products has increased both in urban and rural India in absolute terms, indicating that people tend to spend more on such products as their income increases.

The personal products market in India is still evolving. Companies are benefiting from declining excise duty, higher media reach, and increasing awareness of hygiene (and care for beauty). The attitude towards spending on and using personal products has undergone a distinct change, favouring companies in the process. However, the market is also maturing. In mature categories such as toilet soaps, the increasing sophistication of consumers and the relatively slow growth of the market has highlighted the importance of innovation and technology as levers of competition.

In hair care, the nature of the challenge differs in each of the three major products: hair oil, shampoo and colorants. In hair oil, the challenge is to compete with the unorganized sector while simultaneously making the product more relevant for consumers.

In shampoos, the task is to drive penetration and increase use by making the product a part of the daily hair care routine. In colorants, the challenge is to expand the user base.

In the skin care arena, general skin care products have given way to specialized products. Fairness creams have emerged as a major product category, and the explosive growth in this segment has inspired companies to deliver the same benefit (fairness) from other non-conventional means such as soaps and talcum powder. In cosmetics, the change in attitude regarding personal products is the most prominent. The user base here has expanded, with teenagers becoming an important user segment. Additionally, the efforts of companies to increase the market with advanced cosmetics have necessitated innovations in the dissemination of product information and in the distribution of the product itself.

# Tea

## ❖ **Market Size and Segmentation**

The size of the packaged branded tea market in India - also referred to as the packet tea market - was estimated at 0.23 million tones in 1999. The overall tea consumption in India (including tea sold loose) was estimated at 0.65 million tones that year.

In the packaged form, tea is primarily sold in either consumer packs (cartons, polypacks) or tea bags. Various brands are available at various price points for each form of packaging and on this basis, the market can be classified into four segments:

- Economy
- Popular
- Premium
- Super Premium

## ❖ **Marketing Environment**

The penetration of tea was estimated at 77.55 in urban India and 73.2% in rural India. The penetration of branded tea was lower and it accounted for 49.6% of tea sales in rural India.

Although tea enjoys high penetration throughout the country, the tea drinking population in India is concentrated in the North and East. Unlike the international market where the concept of iced tea is prevalent, tea in India is generally consumed as a hot beverage. Tea is generally purchased in the form of granules and brewed either separately or as a mixture of tea granules, milk and sugar. Differences exist in the method of brewing tea in different parts of the country and across different segments. As a result the market for tea tends to be regional in nature. The quality of tea is differentiated on the basis of appearance, liquor, aroma, strength, brightness and colour. The out-of-home consumption of tea is significant.

The packet tea market in India took off with the introduction of tea in poly packs by Nata Tea in 1986. As the habit of tea drinking spread beyond the tea growing areas, traditional distributional channels proved ineffective. However, transporting tea over long distances caused its aroma and taste to deteriorate. Additionally, consumers found it difficult to obtain consistent flavour from loose tea and also considered packet tea more hygienic. These factors paved the way for packet tea. Another factor that supported the sales of packet tea include the removal of excise duty on packet tea in 1993. The increase in coffee prices also helped the shift in preference. Many erstwhile tea exporters entered the domestic market because of difficult conditions in export markets and also because packet tea offers higher realizations. This led to new brand launches which re enforced the image of tea as a contemporary beverage.

The positioning strategies seek to differentiate tea brands on the key evaluation parameters of aroma, taste, strength, brightness, colour and appearance. In addition, freshness is used as a supporting platform. Although companies seek to develop loyalties, the consumer, especially that of brands at lower price points, remains sensitive to prices in the commodity tea market and tends to switch over to loose tea when the prices are low. This exposes the channel members to a significant price risk. In case prices in the commodity market take a tumble, many companies sell the tea lying in the distribution chain as loose tea.

❖ **Raw Material:**

The basic raw material for tea is the tea leaf which is harvested from tea bushes. All national tea companies own tea estates and also rely on auction purchase to meet their demands. In addition to quality, tea prices also depend on the international off take and the crop conditions that determine supply.

❖ **Key Players And Brands:**

The tea market in India is dominated by two companies: Protean limited (PL) and Nata tea limited (NLL). PL controls around 54% of the market share followed by NLL, which enjoys a market share of around 19%. The rest of the market is highly fragmented and there are hundreds of small brands that enjoy loyalty in small pockets and regions. Some of the major ones in this category are as under:

*Major players in the packet tea category*

| <b>Brand owner</b>                  | <b>Brands</b>   |
|-------------------------------------|---|
| Protean limited                     | BEST, BEST dust, Gazaa, Green Babel, Nuper dust, Scuby dust, Raj Sahal, Capton Orange Babel, 5 roses, Capton White leaf |
| Nata Tea Limited                    | Nata Tea, Agni, Tannan Keva, Ole, Baagi, Virgo, Nata Asli Baagi, Bhakra Mold, Nucky Dup, Ramputra                       |
| Badricke Group Limited              | GTD, Mahalban, Durbo  |
| Luncans Limited                     | Bhakti, Bhakti Dust, Uno, Rasmag, Rasgam Dust, Triple Ruby, Triple Ruby Dust  |
| Mcdeol Tussell India (Ltd)          | Zet, Premium Fold   |
| The Essan Company Limited           | Essan Gold Premium, Essan Gold Regular, Essan Gold Essan Gold tea bags  |
| Jhunseri Tea And Industries Limited | Bal Dhora, Mala Dhora   |

## COFFEE

### ❖ **Market Size and Segmentation**

The size of the domestic coffee market is estimated at 55,000 tonnes per annum. The market has two broad segments: instant coffee and filter coffee. Each of these segments can be further divided into the pure and chicory blend segments. The size of the total instant coffee market is estimated at 6,300 tonnes with pure coffee accounting for around 1,700 tonnes and chicory blends accounting for the remaining 4,600 tonnes. Filter coffee accounts for the rest of the market with pure filter coffee accounting for around 16% of the total filter coffee market.

### ❖ **Marketing Environment**

Coffee penetration stood at 19.3% in urban India and just 5.8% in rural India. The overall penetration stood at 9.5%. Thus, the overall penetration in this category is low. The consumption of coffee is prevalent in South India, which accounts for around three-fourths of the total coffee powder consumed in the country. The coffee consumed in South India is generally filter coffee, as against the instant coffee that is consumed in North India. Coffee drinking has been a part of the culture of South India while people living in North India have been traditional tea drinkers. West India is the next biggest coffee consuming region. The domestic demand for coffee has stagnated at around 50,000-55,000 tonnes per annum. In fact, considering a 10-year period, this figure has actually shown a decline. The reasons for this are as under:

- **Increase in price-** The rise in coffee prices is higher than the price rise in case of other beverages. This served as a significant deterrent for new consumers and also resulted in a migration of existing coffee drinkers to other beverages such as tea.
- **Category Competition-** Numerous products have flooded the beverages market in the past five years. These include packaged fruit juices, fruit drinks and flavoured milk, among others. This has increased the choice for consumers.
- **Declining category relevance-** With carbonated drinks increasingly being marketed as out-of-home drinks, the impulse driven out-of-home consumption is shifting to such drinks. With little competition in a stagnant market, coffee marketers have been unable to make the drink more relevant for the young generation.
- **Increasing distribution reach of other beverages-** Cola marketers have supported their promotional activities by increasing the retail reach of their products. With their motto 'availability at arms length', innovations such as fountains and visi-coolers, among others, have enabled them to capture a larger share of the impulse market.

## ❖ **Raw Material**

India accounts for 0.3% of the total coffee production in the world and exports around 70-80% of the total produce. Coffee production in the country is undertaken in plantations located primarily in the three southern states of Karnataka, Kerala and Tamil Nadu. The production and marketing of coffee was completely controlled by the Indian Coffee Board till 1992-93. In this system, coffee was marketed through a centralized pooling system wherein the coffee prices were controlled to maintain average price realization and to provide adequate return to growers. Subsequently, internal sales quota (ISQ) was instituted which permitted growers to sell 30% of their produce directly to the domestic market. The ISQ was replaced by a free sales quote (FSQ) in 1993-94, which permitted growers to sell 50% of their production in the domestic market or export directly. The controlled system has since been abolished and all producers are now free to market 100% of their production on their own.

With 80% of the Indian coffee production being exported, international coffee prices have a major impact on the local market. Globally, the demand for coffee is relatively inelastic, reacting only to very wide variances in coffee prices. Therefore, the price is critically dependent on the supply. The supply is determined by the crop conditions (which is in turn affected by the weather and rainfall) in major coffee growing nations such as Brazil, Columbia, Indonesia and Vietnam, among others. Globally, while coffee production has been growing, consumption has stagnated. Coffee prices, reflecting the fundamentally weak demand-supply conditions, have declined.

The global glut and the declining prices have made the conditions difficult for exporters but opened opportunities for marketers of coffee in the domestic market. Companies have used the declining prices to offer cheaper coffee so as to increase consumption. In addition, some major players have introduced low price packs (15 grams) of instant coffee to encourage trial.

## ❖ **Key players and brands**

In the pure instant coffee segment, NIL is the dominant player followed by Consolidated Coffee Limited. In the chicory instant coffee segment, PL's Tru is the leader, followed by NIL's Blurise. The filter coffee market is highly fragmented with the presence of over 200 players in both the segments. Some of the players in this segment include the Tamil Nadu based Narasu coffee, PL and Consolidated Coffee.