To keep consumer goods flying off the shelves in India beyond the slowdown, companies have to focus on the right products at the right prices.
Ashish Singh is the managing director of Bain & Company, India, and Mike Booker leads Bain’s Asia-Pacific Consumer Products and Retail practices. Sandeep Barasia is a partner in the India office and a member of the Retail and Consumer Products practices.
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Heads didn’t turn when Coca-Cola and Pepsi hiked prices on some of their most popular beverages in India in late 2008. Even in the downturn, both companies have enjoyed double-digit volume growth. And despite projections that the world’s second-fastest-growing economy will watch its 9 percent growth rate (for 2005–2008) slow to 5.5–6 percent in 2009 (see figure 1), India’s makers of fast-moving consumer goods (FMCG) such as beverages, biscuits and beauty aids historically have been somewhat insulated from economic slowdowns. (See figure 2, 3 and 4.) Indeed, the FMCG sector in India registered 10 percent sales growth for the quarter ending June 2009. But that doesn’t mean FMCG companies in India—both multinational and domestic—can afford to be overconfident. The fact is, now is the time for them to keep their eyes on the ball.

How is the slowdown in the Indian economy affecting consumer-goods companies in India? For one thing, it is forcing them to focus on traditional retail channels like small mom-and-pop stores. It’s no secret that India’s modern-trade retailers are aggressively closing stores or curbing expansion plans. For example, Subhiksha, once the poster child for India’s fledgling modern retail industry, shut down nearly all of its 1,600 stores this year in response to a crippling cash crisis. The 12-year-old retail chain says it is left today with just 50 employees on its rolls, compared with the 5,000 it had.

Figure 1: Growth is expected to slow down across all emerging Asian economies

![2009 GDP growth forecast](chart)

Source: GDP growth rates from Euromonitor, EIU, IMF; Forex rate from Bloomberg; Political risk from EIU
India: Strategies for consumer goods

in September. As modern trade slows its expansion, it will be traditional retail and distribution networks—lower tech, lower cost and smaller than their modern counterparts—that will become more important to consumer-products companies. This is especially true in rural areas, where consumer spending has remained particularly strong. In 2008, rural and semi-urban markets contributed almost 80 percent to FMCG growth.

Another distinct trend: Demand for high-end products is dropping. Indian consumers are still buying; it’s just that they’re avoiding the most expensive brands. That’s why companies will need to become more sensitive to price by offering price reductions on existing products and introducing innovative new products at low price points for mainstream consumers. Hindustan Unilever realized in November 2008 that consumers are not seeing value in its Red Label 1-kilogram tea carton pack and moved to a pouch format, passing on a significant reduction in packaging costs to consumers.

An opportunity to build and innovate

FMCG companies in India can use these trends to their advantage—and as a foundation for overtaking their competitors in the recession. Downturns provide opportunities to reorder industries; to come out ahead of the pack requires using recessionary trends to build and innovate. But it’s important to have a clear and comprehensive strategy. For example, passing along cost reductions in anticipation of weakening demand may be little more than stopgap measures unless it’s part of a broader plan.

FMCG companies in India are winning by systematically targeting four key areas to spur growth.
India: Strategies for consumer goods

Customers: Focusing on only the right products

Mainstream consumers in India are still buying, but their needs are changing. So winning consumer-products companies are delivering innovative products aimed at addressing those changes. Consumers tend to eat out less frequently during economic slowdowns. McDonald’s is trying to counter that by introducing a wider range of value meals and increasing what it spends to advertise its low-price menus. Domino’s introduced a pizza priced at 30 rupees (64¢) for the Indian market, a first of its kind. Meanwhile, because consumers are showing a preference for snacks in smaller units, Nestlé introduced Kit Kat Minis in India, a product it sells elsewhere.

But in the race to introduce new products to serve changing consumer needs, it’s important to be selective. Each new product a company launches has the potential to increase its operating complexity. Those added costs could reverse any revenue gains. Just as recessions are a good time to introduce new products for a changing consumer, it’s also a time to reduce complexity by pruning unprofitable product lines or to reconsider the need for high-end products at a time when shoppers want better value.

The downturn is also an opportunity to spur growth from core customers in big traditional product segments. Consumer-products company Marico is trying to get consumers to use its Parachute brand of hair oil more frequently by promoting the traditional habit of oil massage, hoping to gain from category expansion. There are lessons here for other traditional product sectors like toothpaste, soaps and shampoos, which have witnessed modest volume growth in the past.

Figure 3: Recently, FMCG in India has been much less volatile than the overall economy

Indian indices (January 2004 = 100)

Source: Bloomberg, S&P Compustat; Factiva; OneSource; Euromonitor
Costs: Selling at a price consumers can afford

Shoppers are clamoring for prices they can afford, and with dropping commodity prices, many companies are passing along cost reductions. That’s what Hindustan Unilever did with Lifebuoy, its leading soap brand, which is particularly popular in rural India. In January 2009 the company reduced the price from 13 rupees (28¢) to 12 rupees (26¢) on 90-gram bars. Even a 1-rupee price cut can be significant in a country with a per capita income of $710. Meanwhile, companies such as Godrej Consumer Products and Nestlé India are taking other steps that will allow them to reduce prices aggressively while making sure margins aren’t eroded—moves such as improving supply chains by shifting suppliers, ensuring they’re not caught with excess inventory as consumer demand fluctuates, and looking for ways to reduce operating costs.

For purveyors of premium products, costs become even more critical—India’s consumers just aren’t willing to pay high prices. There are three routes for companies hoping to avoid overpriced goods: acquire a less expensive brand, price products more carefully and launch new value-focused brand extensions, such as different package sizes. Dove shampoo in India successfully introduced a 3-rupee (6¢) sachet in 2007 that now accounts for more than 30 percent of the brand’s hair-care sales. The sachet was launched before the downturn, as part of a strategy to reach lower-end consumers.

Channels: Shifting to traditional stores

In urban India, consumer-products companies are realizing the importance of traditional trade. Hindustan Unilever, Marico and Dabur all have programs that give mom-and-pop stores in India’s cities the same type of discounts on branded goods that are commonly provided to modern retailers. In exchange, the consumer-goods companies get point-of-sale visibility and dominant display—the goal is to tap the large loyal customer base that’s typical of big-city mom-and-pop outlets.

Winning companies are doubling down on traditional trade in rural areas, too. Right now consumer demand for fast-moving consumer goods is holding up well in rural India—and the regions represent a major opportunity. For example, more than 40 percent of all purchases of biscuits, a household staple in India, take place outside of urban areas, according to Bain & Company research. Success in rural areas starts by establishing the right product mix for local stores, adapting promotion, and ensuring a tight focus on route-to-market management. That’s why Clinic Plus, Hindustan Unilever’s leading shampoo brand, is aggressively targeting its half-a-rupee sachet to rural consumers through extensive trade promotions.

Competition: Investing ahead of the pack

Staying in front means investing for the future—ahead of the competition. Consider the moves by Marico. Building on its core business of healthy foods, Marico has expanded its Saffola cooking oil brand to include extensions such as Saffola foods for diabetics and Saffola Zest baked snacks. While the Indian company began the brand-extension strategy before the downturn, it hasn’t let the economic turbulence curtail its efforts. The moves also help detract newcomers from establishing strong positions in the downturn.

For consumer-products companies in India, moving up in the downturn means focusing on selling only the right products, becoming more strategic about pricing, following consumers to where they shop and investing ahead of the competition to strengthen a core market segment or help make the most of a new one.
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