

PROGRESSIVE GROCCER

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AHEAD OF WHAT'S NEXT

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Modern retail chugs ahead

Growth rate of mom-and-pop stores slows

It seems modern retail in India has finally come of age. A recent report by The Neilson Company has revealed that modern retail in the country is all set to outgrow the neighbourhood 'kirana' stores that have dominated the Indian retail landscape for as long as one can remember. According to the report, sales at modern retail stores in India grew an impressive 34 percent in 2006 and over 29 percent in 2010. In contrast, the traditional mom-and-pop stores posted a sales growth of an insignificant 1.5 percent in 2006 and 6.2 percent in 2010.

It is evident that Indian consumers are increasingly preferring modern retail formats over the small unorganised neighbourhood stores. This is clearly a win-win situation for modern retail chains, FMCG brands and consumers themselves who usually get a better and cheaper deal in a sophisticated and air-conditioned retail environment. Things will become better still for modern retail once the floodgates of foreign investments are opened up. Indications suggest this can be as early as in the next few months.

One of the factors propelling the growth of modern retail is private labels. For retailers, these are much more profitable than national brands, with almost double the margins. They also help retailers create an identity of their own in the crowded marketplace, negotiate better with national brands and sustain local suppliers and manufacturers. Though the private label market is at a nascent stage in India, it is bound to grow in tandem with the expansion of modern retail chains and customers looking for cheaper options to advertising-driven, high-profile brands.

Our cover story this month covers the phenomenon of private labels in India. Our correspondent Shubhra Saini investigates why these are becoming popular with Indian consumers and, being at cross-roads, what model – premium or discount – are they going to take in future. Private labels are clearly emerging as a sweet spot for retailers in India.

One of the other sweet spots we write about in this issue is chocolate confectionary. It is not a traditional Indian food, since cocoa is not grown in India. But in recent years, driven by aggressive and very innovative advertisement campaigns that revolve around the penchant of Indians to exchange sweets to celebrate all joyous occasions, consumers have taken to chocolates in a big way.

This offers a powerful example of changing consumer behaviour through successful marketing by international brands such as Cadbury and Nestle. The result? Chocolates have emerged as a sophisticated alternative to traditional sweets in India and prominent brands are laughing all the way to the bank.

Apart from chocolates, some Indians have also been developing a taste for expensive gourmet products imported from all corners of the world. Many retailers have sensed the opportunity. Gourmet retailing is still a nascent market in India with a turnover of only ₹1,200 crores, but as Mohit Khattar, the MD of Godrej's Nature's Basket explains, the success in this segment lies in choosing the right locations to open up stores. This is one category that is going to grow as Indians get increasingly wealthier and get exposed to newer cuisines. Keep watching this space!

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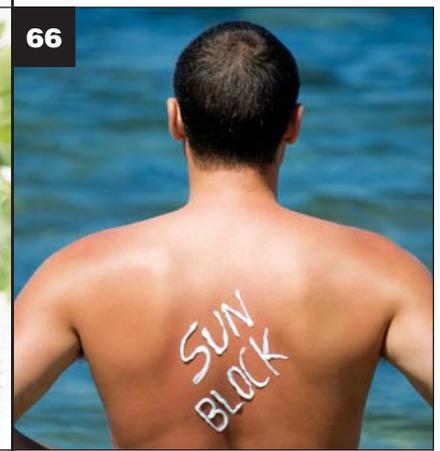
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Breakfast-er than ever before



Quest for a quick and healthy meal is fast transforming the Indian breakfast menu

By Rahul Ashok

An American author, Adelle Davis once said, “Eat breakfast like a king, lunch like a prince, and dinner like a pauper”. Although there is much truth in this statement, the underlying importance seldom seems to have been realised by the average Indians.

How manufacturers can look at juggling the consumers’ demand for taste, nutrition and convenience, is what has become one of the most hurried meals of the day. With longer commutes, more distractions in the morning owing to a highly-connected lifestyle, and rising social-professional pressures, breakfast is one meal that seems to be a soft-target for dietary modifications.

Over the last few years, it has been amply discussed in various media, that parathas and idlis on the breakfast table have slowly given way to a new dietary system, which is skewed towards partially processed and packaged foods. While breakfast cereals undoubtedly account for a lion’s share of this transformation, there are other contenders such as cereal bars, oats, etc., which are



Kellogg's special K specifically targeted at women, and delivering the proposition of weight management, was a first in the category.

for effective sustained growth in the years to come. Kellogg's journey of setting up the market in India, from a time when Mohan Meakin's was pretty much the only cornflakes brand in the country, has enough examples to stand testimony to the concern expressed by many, in terms of varying and indefinite consumer attitudes towards the segment.

In the following sections, we will delve into some trends, not only in the breakfast cereals space, but also categories such as, cereal bars, oats and pseudo-breakfast concepts that are being tailored into products from categories such as juices, as well. On the basis of these observations, we would look at some opportunities that are emerging in this space.

A call for more focused health management

Cornflakes as a category had a rather generic positioning in India even until the year 2000, where brands usually talked to the family as a whole. While Kellogg's struggled with various flavor concepts given the fact that many an average Indian was not ready to incorporate cereals into the regular dietary intake. It was the positioning of "helping to enhance mental concentration", and "Iron Shakti", that helped change fortune of the brand.

Given that there were very few brands in the market, this category positioning stayed, until the launch of Kellogg's special K. This brand, specifically targeted at women, and delivering the proposition of weight management, was a first in the category. Although the brand was worth more than billion dollars globally, the launch in India was only in 2008. This was surprising, considering the fact that obesity and weight management has been a cause for concern in India for long, and has seen much activity as a concept for the last decade through various product and service streams. Given that the health and wellness wave in India has manifested across various product categories, through various benefit platforms, breakfast cereals as a category seems to be sometimes challenged by a "too little, too late" phenomenon.

fast-emerging to be considered as serious enough options by consumers, as alternatives for a breakfast.

One of the fastest growing CPG categories in India

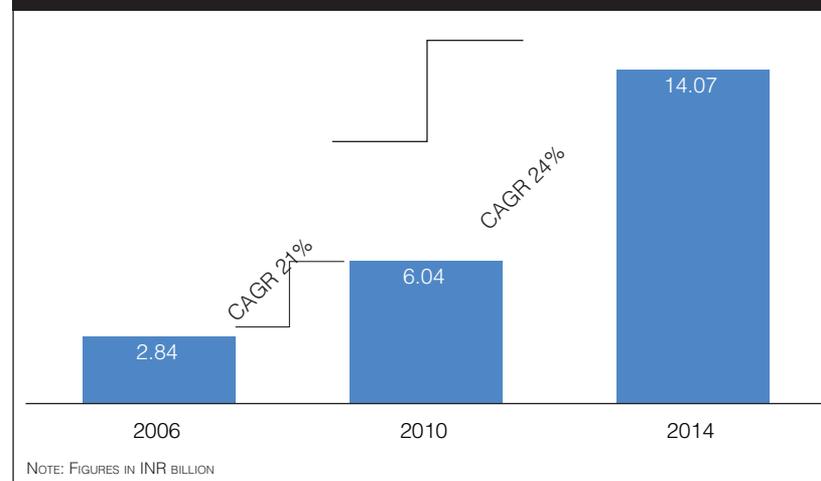
After overcoming initial hurdles in getting India as a nation to accept the concept of breakfast cereals into the fold, the growth of breakfast cereals is a story to be told. Even when one looks at a snapshot of the last five years, the market for breakfast cereals in India has grown from \$2.84bn in 2006 to over \$6bn by 2010, at a CAGR of 21 percent. Lifestyle needs and marketers' interventions are expected to impact the growth further, and the market is expected to cross \$14bn by 2014.

Looking at this from the context of Asian countries where there has been a long-standing tradition of various indigenous breakfast foods and concepts, India has been the fastest growing market over the period 2006-10, at a CAGR of almost 21 percent. In terms of absolute growth rates, only Pakistan comes

close on the heels of India, that too, with a CAGR of 18 percent.

Despite the ample optimism coming from these statistics and forecasted growth rates, what remains an area of debate and concern among many companies, is whether the impetus for breakfast cereals have built-up for a dietary transition and whether it is backbone-enough

Figure 1: The breakfast cereals market in India is expected to heat-up even further over the next five years, with a forecasted growth rate of almost 24%





Is India ready to move up the value chain in private labels?

Private Labels: Which Way?

By Shubhra Saini

The consumption of private labels (PL) in the West has been fueled by the growth of discounters such as Germany's Aldi and Lidl. Their model is in sharp contrast to that of the UK chains Sainsbury and Waitrose which have projected PLs as premium products. Out of these two successful but strikingly different models, which one is suitable for India? This is a question that is giving Indian retailers some food for thought.

Once considered a low-price, inferior-quality substitute for established brands, PLs are now steadily gaining popularity with Indian consumers. Have they really come of age in India? Are they in a position to give stiff competition to heavyweight national brands? Are Indian PL retailers going to adopt the German discount model or the UK premium one for their products?

Controlling margin mechanics

To succeed in today's competitive retail environment, a retailer has to cope with many challenges, including managing pricing pressures. Introducing PLs is one of the ways in which Indian retailers are aggressively trying to increase profit margins and raise bottom lines.

Traditionally, throughout the world, PLs are conceived to take on the leading brands in their respective categories. They are also powerful differentiating factors for retailers because of their exclusivity – they are available not in the general market but only at certain retail outlets. If customers wish to buy a particular PL, they have no option but to visit the same retailer's stores again. This helps increase footfalls and sales and strengthen brand loyalty.

Aditya Birla Retail, one of India's prominent retailers that runs a chain of stores under the "More" brand, understood the importance of PLs early on. Its CEO Thomas Varghese says: "A lot of conceptual thinking was done before the launch of our

private labels, including the potential need gaps. We were early to realize that play would be higher, say, in home care where the first set of our private labels were rolled out. The shopper in this category is less involved compared to other categories, is willing to experiment more and is certainly more value conscious while shopping."

The two main drivers driving the PL growth in India are the evolution in modern trade and the ever-increasing consumption of shoppers. Is it any wonder that PLs have over the years evolved to become a significant part of Indian retail growth story? Inspired by their Western counterparts, Indian retailers are also adopting new ways of increasing their profit

Traditionally, throughout the world, PLs are conceived to take on the leading brands in their respective categories.

margins. One such initiative in this direction is the introduction of PL brands. These are poised to become major contributors to the profits of Indian retailers in the near future.

Said Mark Ashman, CEO, Hypercity: "We already have private label penetration in fresh, processed, packaged products and staples. Exclusive brands such as Waitrose contribute around 22 percent of our sales. We have recently introduced private labels in packaged consumer goods such as sauces, savouries, papads, household cleaners and small appliances. We plan to penetrate further in these categories. Over the next 12-18 months, we are also

planning to launch private labels in dairy products and aerated drinks."

Indian retailers are banking on PLs because these can help them break even faster. While the PLs in food and grocery segment carry a margin of approximately 25-35 percent, the margin for national and regional brands range between 10-12 percent.

Said Varghese: "The percentage share of private labels in our total merchandise varies from category to category. In some, we are the dominant player with shares in excess of 30 to 40 percent while in others we are still very small. Overall, 19 percent of ABRL sales across all categories come from PL."



Exploring the
untapped potential
in the expanding
chocolate biz

Sweet Spot

By Utpala Ghosh

The taste of Indians for chocolates has gradually evolved over the last five decades. Now, they are ready to splurge more on this category. Taking a cue, chocolate-makers are all geared up to increase the size of the pie.

The word 'chocolate' has been derived from the Mayan word 'xocatl' meaning bitter water. It is the same bitter water derived from a small cocoa bean in Central America centuries back that has now taken the entire world in its bitter-sweet stranglehold.

In India, chocolates have been projected as something much more than confectionary. They are a "gift

for someone you love", a mode of "celebration" and the reason to "take a break". They have quietly emerged as a sophisticated alternative to traditional sweets.

With sales booming not only across the metros but also in smaller towns, driven by changing consumer tastes, chocolates have today become the key driving force for the entire confectionary industry in India.

Market Overview

The total market size for chocolate confectionery in India in 2010 is estimated to be ₹ 32.7 billion, an impressive 22 percent value growth over the previous year. This growth is mainly being driven by tablets and standard boxed assortments.

The Indian chocolate industry sells its products in a variety of forms to suit all tastes and price points, including bars, countlines, candies, moulded chocolates, assorted chocolates, eclairs and panned chocolates such as gems.

Growth Drivers

Chocolate confectionery has been very popular among people worldwide. Most of its consumption has traditionally been concentrated

in the Western world. However, in recent decades, chocolate confectionery has begun to expand as a category in highly populated nations with a growing middle class, such as China and India. In these countries, chocolate consumption is driven by the rising disposable incomes and changing tastes of consumers.

In India, the growth in sales of chocolates is being noticed across two price points which are at opposite extremes: the smaller pack sizes and the premium category.

A major factor in the growth of the chocolate confectionery industry in India has been the introduction of smaller pack sizes, such as that of 10.5g, which usually sells for around ₹ 5. These constitute the impulse-buying segment. The premium category, on the other hand, is growing because of increasing acceptance by

Chocolates are replacing sweets as the preferred gift during festivities and celebrations in India.

the Indian urban consumers who are influenced by slick advertising campaigns and Western trends.

These two categories are growing the fastest in the overall chocolate confectionery market of India. The manufacturers have also sensed this trend, and are trying to optimise this opportunity by catering to both the upper- and lower-income consumers.

In recent years, gifting chocolates on festive and other joyous occasions has also become fashionable with the aspiring Indian consumers. According to Datamonitor's recent report titled "Confectionery in India", chocolates are fast replacing sweets as the preferred gift during festivities and celebrations.

Companies are capitalising on this trend by introducing chocolate gift packs for major Indian festivals such as Diwali and Raksha Bandhan. Indian middle classes are willing customers because such gift packs not only serve the purpose of exchanging sweets with others, but also offer convenience in terms of packaging and shelf life of the gift items.

The chocolate brands are leaving no stone unturned to make their products an essential part of all joyous occasions in the lives of Indians. Cadbury's aggressive advertisement campaigns across TV and other media resonate well with Indians, especially catchy slogans such as *Kuch meetha ho jaye* ("Let's have something sweet"), *Shubh aarambh* ("Auspicious Beginning") and the latest *Aaj*

meethe mein kya hai? ("What do we have for sweets today?"). Through this quite successful and aggressive marketing strategy, Cadbury is trying to substitute traditional Indian sweets with its own products.

Chocolates have a completely different appeal from others sweets, snacks and munchies available in the market. They are considered mood-enhancers, a bitter-sweet treat that offers momentary joy and contentment to consumers with a lingering after-taste.

Capitalising on this, many companies have positioned their products as a refreshing bite for consumers whenever they want to relax a bit. "Take a break. Have a Kitkat!," the TV commercial by Nestle is one such move in this direction.

There are many important factors that consumers keep in mind while making a buying decision regarding chocolates. These include the flavour, type, perceived quality and packaging of brands. Considering this, chocolate manufacturers have now begun to produce different flavours and varieties, such as fruits, dried nuts, liquor, mint, and so on.

Introducing different varieties of chocolates has helped brands achieve product differentiation in the market. Consumers in the premium chocolate category are not price sensitive. They instead give priority to taste, quality and richness of experience. Serving products which appeal to their tastes and sensibilities help





The Milkyway

Dairy majors are betting high on flavoured milk because of changing consumer preferences

By Devna Khanna

Flavoured milk is not a new concept in India. For centuries, Indians have been flavouring their milk with condiments. But now to make this tedious task easy, ready-to-drink flavoured milk has stormed the market.

Increasing health-consciousness among people and other global trends have increased the demand of milk-based drinks. Milk has now got a face-lift from being a boring drink to a tasty and healthy beverage. Flavoured milk is a sweetened milk beverage with added sugar (sucrose or high fructose corn syrup), colourings and artificial or natural flavourings. Usually flavoured milk is pasteurised under ultra-high-temperature (UHT) treatment, which gives it a longer shelf-life than plain milk. It often consists of flavanols, acidulants, colouring agents, minerals, soluble fibres, non-caloric sweeteners, flavouring agents, preservatives,



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