# PROGRESSIVE GROCER

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INDIA EDITION

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## CITY WISE

**My operating principle: Right Behaviour, Right Price, Right Quality**

**Mohammed Azim**
Owner, Metto Supermarket, Cuttack

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PROGRESSIVE GROCER INDIA

AHEAD OF WHAT'S NEXT

July 2014 · Volume 8 · Number 7



## Editor's Note

# Route to Rural Markets

Rural India houses ~70% of the Indian population and contributes ~50% to the GDP. Historically, revenues of FMCG companies in Rural India have shown a rapid growth. Though nearly 40 to 45% of Emami Ltd's sales comes from here, director Mohan Goenka feels that penetration in these clusters is still quite low, and there is huge scope for improvement.

Giving competition to nationally present brands are the regional brands, which are finding increasing acceptance in Rural India. Avinnash Gorakssakar at Miintdirect.com recently wrote: "Though as a broad structural trend, we are witnessing greater brand awareness in Rural India, rural consumers are also willing to try out regional brands if they offer good quality at affordable prices." The observation was based on the firm's survey of the rural supply chain, mainly FMCG distributors, to gauge consumption trends. They also found that regional players offer better credit terms and higher margins to retailers (15-20% higher versus national players).

Experts opine that the rural RTM (route to market) model can help create a long-term sustainable advantage for FMCG companies; they not only become more effective in serving their customers, but also control cost and complexity. Our story 'Rural Reach' discusses the competitive advantage of the RTM model. Also read about Emami's direct distribution channel Swadesh for increasing penetration in rural markets; Mohani Tea's 75% revenue coming from here; and Taaza Plaza's unique farm to fork mobile retail concept.

Amitabh Taneja
Editor-in-Chief

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Ramesh Aggarwal, Managing Director, Mohani Tea

# *Brewing* **Success**

Ramesh Aggarwal, Managing Director, Mohani Tea, talks about new developments in the company and growth plans in a fast evolving tea industry

**By Annie Johnny**

**Growth plans**

Mohani Tea plans to double its growth in the next five years. Having established a strong presence in Uttar Pradesh, Uttarakhand, Madhya Pradesh and Punjab, It has entered Delhi, Bihar and Jammu & Kashmir, and is set to extend its reach to Rajasthan, Himachal Pradesh and Haryana. "We want to cover the Hindi belt by 2015 and then focus on Maharashtra and South India. For the West and South we will be bringing more differentiated products that suit local tastes and preferences," informs.managing director Ramesh Aggarwal.


Since Delhi and J&K are relatively new markets, the company is keen to increase its distribution here. Competing with the likes of Tata Tea and Brooke Bond and strong regional players like Marvel, Today and Sugandh is not an easy task, but Aggarwal is prepared to take on the challenge. After all, their products are of superior quality, offer value for money, and are affordable. In fact, the company plans to have a national presence in the years to come. "We don't really think the challenge is big or unachievable since the market for branded tea is growing and is ready to accept new products that offer quality and value for money. We offer best value products, which are as good as or better than many of the established brands," he claims.

**Private Label supplier**

The company is a supplier to several big retailers. It has an exclusive 'contract manufacturing' with entities like Bharti Walmart, Future Group, and others to supply its tea products to retail chains in India. It is also a supplier to various government/ semi government institutions like the Indian Defence, Kendriya Bhandar, and other state-owned organizations. "Such association with chain retailers and organizations gives us brand visibility

> **“The key to the success of a supplier-retailer relationship is customer service and the spirit of partnership. Wal-Mart honoured our customer orientation with the Supplier of the Year award in 2012**

and a wider reach. Moreover, it also proves the brand's credential and enhances its reputation in the market," says Aggarwal.

He informs that the private label segment contributes significantly to the company's overall volume and is growing faster than general trade. “We are market leaders in this segment, and are constantly endeavouring to tap more organized retailers as we see a huge potential for private label in India in the next few years.”

The company's PL business started in 2009 has seen 30 percent year on year growth. “We follow the quality standards given by the retailers (many of which are international chains), and they all stress on 3 things: no complaints from customers, competitive price, and on time fill rate. (Our fill rate is ~98%). We will be having more tie-ups in the coming months with brands such as Gaia (for supplying flavoured tea); Himalaya Company, and Apollo Pharmacy (for green tea, flavoured and functional tea like anti-aging tea).

### Strengths

Established in 1992. Mohani Tea is considered a pioneer amongst regional packaged tea brands in India. Apart from its in-house tea tasting, buying and blending facility, and a packaging unit, it has a laboratory for post-production quality checks. With a wide portfolio of skus that cater to different tastes and price points, the brand produces 100 MT of tea per day at .its facility in Kanpur where it has two factories, and plans to set up another in Rania, (25 Km from Kanpur) with a capacity to produce 200 MT of tea daily. In addition, the brand has a storage capacity of 20,0000 sqft to procure premium quality tea.

The company was awarded the Most Promising Brand award by Assocham in 2013. Aggarwal informs that the winning factors were the company's continuous volume growth, focus on meeting requirements of rural and suburban consumers, consistent quality and affordability, supply chain management, and customer service. “The key to the success of a supplier-retailer relationship is customer service and the ‘spirit of partnership’ which has been our biggest strength. Wal-Mart recognized our ‘world class’ customer orientation and honoured us with the ‘Supplier of the Year’ award in 2012.”


## Mohani's Reach

**15% in Uttar Pradesh**
**20% in Uttarakhand**
**5% in Madhya Pradesh**
**8% in Punjab**
Annual turnover: **~Rs 275 crore**
Growth rate: **CAGR of ~20% over the last 5 years**
Targetted revenue: **Rs 400 crore in the next two years**
Distributors: **~ 1,000 distributors, C&F , super stockists covering ~3 lakh retailers**

### New developments

New developments in the company include establishing an export division for the value added as well as bulk tea segments; catering to the HoReCa sector with a special classic blend of tea with a moderate flavour; developing new teas like jasmine, chamomile, and fruit flavoured, introducing tea bags, green and other premium teas in the near future. It will soon be opening tea lounges in tier 2 and 3 cities.

“Our export division started 3 months ago, starting with West African countries like Niger, Mali, and Nigeria to which we will supplying black tea, Assam tea and flavoured tea. Since pre-Independence, these countries have been associated with Indian tea and they are familiar with our flavours, and there is demand for them. After Africa we will concentrate on Russia, China, Bangladesh, Middle Eastern countries, and Kazakhstan.

As regards the tea lounges, Aggarwal opines: “The younger generation is drifting more towards coffee due to aggressive marketing by coffee companies to promote a café culture. We want to promote tea consumption, particularly among the youth.”

He informs that the tea lounges will be designed as places for relaxation over a cup of tea and light snacks. Facilities for the young target audience will include a free wi-fi and an iPad on each table. “Our idea is to make the space creative so that young people can come and have fun here,” and adds, “We will open our first tea lounge in Noida, then move on to Kanpur, Banaras, Ludhiana and Jalandhar. We are focusing on tier 2 cities where there are not many options for eating out.”

It Mohani Dhaba Hotel brand of tea is primarily catering to the conventional trade with focus on local teashops, dhabas and smaller restaurants that are frequented by truck drivers who prefer strong flavored tea. The blend is crafted keeping in mind the needs of these consumers.

### Markets

Mohani Tea has a strong presence in rural markets with 75 percent revenue coming from here, and the rest from urban markets. In Kashipur village in UP, the company enjoys almost 50 percent market share. “We will keep rural markets as one of our prime focus area as there is a huge growth potential here. The rural market is changing; people here are becoming aware of products that offer value for money, and are more discerning of brands. Our teas start from Rs 54 for a 250 gm pack, and give complete value for money,” claims Aggarwal.

He adds, “When entering a new market, we do an in-depth market research to learn about regional benchmarking, quality, and taste preferences. For

# *Brand* **Impact**

Brand equity plays a major role in a volatile business milieu as consumers generally buy trusted brands rather than trying out new ones, observes Mohan Goenka, Director, Emami Ltd

**By Namita Bhagat**

### Foundation

Kolkata headquartered Emami Ltd (the flagship company of the Rs 6,000 crore conglomerate Emami Group) manufacturers and markets personal and healthcare products, and has a marked presence in India and internationally. Co-founded by childhood friends R S Agarwal and R S Goenka in 1974, the venture was initially registered as Kemco Chemicals. The company that operated from a small office in Kolkata, began manufacturing cosmetics and Ayurvedic medicines under the brand name Emami. It launched various products such as talcum, vanishing cream, cold cream and glycerine soap. The products became popular with consumers through the mid 1970s.

Four years into operations, Kemco, in 1978, acquired a sick unit of Himani Ltd (the 100 year old cosmetic producer was incorporated as a private limited company in 1949). Although the business was in dire straits, it enjoyed trusted brand equity, especially in Eastern India.

Reminisces Mohan Goenka (son of R S Goenka) and Director, Emami Ltd, "Buying a sick unit and turning it around into a profitable venture was a considerable financial risk for the founders, as they were a very young organisation at the time. But they also realised the opportunity it offered for the growth of the company; acquiring Himani Ltd proved to be a real turning point." Under the Himani umbrella, flagship brand Boroplus Antiseptic Cream was launched in 1984. In later years, Boroplus Prickly Heat Powder and other products and brands were launched.

> **Manufacturers should be dynamic enough to quickly and suitably respond to market changes. Identifying gaps for differentiated products, remaining focused on innovation, and being aggressive with new launches and brand extensions, are also effective in addressing market challenges**
>
> **— Mohan Goenka, Director, Emami Ltd**

### 1990s onwards

During the1990s, a flagship brand Navratna Cool Oil was added to Himani's kitty. Also, to increase production, the company opened a second factory in Pondicherry. A key milestone was achieved in 1995 when Kemco Chemicals was converted into a public limited entity, and rechristened Emami Ltd followed by a merger with Himani Ltd in 1998. In the following years, the company began to focus more and more on innovation, and began adding more brands and products to its product basket. It also widened its distribution network and increased its customer base.

"In 2005, Emami created marketing history in India by launching Fair and Handsome – the first fairness cream for men in India. The product was a unique outcome of marketing research based on consumer insight, suggesting that 30 to 35 percent users of fairness creams in India were men with a growing interest in personal grooming," Goenka apprises.

The company achieved yet another milestone when it acquired the century old Zandu Pharmaceuticals (a household name in India) with an investment of Rs 730 crore. Goenka points out that it was one of the biggest acquisitions in the history of FMCG business in the country at that point of time. The deal brought Zandu Balm, Zandu Chyawanprash, Zandu Kesri Jeevan, Zandu Pancharishta, Sudarshan, and Nityam Churna brands under Emami's fold.

**Present scenario**

Currently, Emami Ltd has 7 manufacturing units in India and one in Bangladesh. Its brand portfolio consists of power brands such as BoroPlus, Navratna, Fair and Handsome, Zandu Balm, Mentho Plus Balm, and Fast Relief. Goenka informs that Emami produces over 250 products in personal care and healthcare categories, many of which are market leaders.

The company's international footprints span more than 60 countries. With a current market share of 74 percent, Boroplus is not only the largest selling Antiseptic Cream in India, but also in Russia, Ukraine, and Nepal. While Navratna with 55 percent is a leader in the cool oil category, Fair and Handsome also rules its category with a current market share of 63 percent. The brands offer varied sku sizes at multiple price points, including sachets. The company has also brought forth packaging innovation by introducing Rs 1 sachet packs for Navratna Cool Oil and Navratna Cool Talc.

Emami has been pursuing innovation, product launches and extensions quite aggressively. In recent months, it has launched Zandu Vigorex (an energy and vitality product), Boroplus Anti Pollution Face Wash, and Fair and Handsome Instant Fairness face wash (the first brand extension of Fair and Handsome). Emami 7 Oils in One (hair oil) is a new addition.

The company has ventured into the deodorant market with the HE brand deodorant for men, and has roped in Bollywood superstar Hrithik Roshan as its brand ambassador. A pan-India rollout of the product is currently under way, beginning with 23 top cities including metros and mini metros, tier I and II cities in the northern, western and eastern markets in the initial phase. The company is confident that HE will carve a significant consumer mindshare and establish itself as a dominant player in the next few years.

More recently, Emami has entered into an agreement with Mumbai-based Royal Hygiene Care Pvt Ltd (RHCPL) to acquire the 'She Comfort' brand of sanitary napkin. This marks Emami's foray into the Feminine Hygiene space. She Comfort, considered one of the top five brands in its category in India, will add a new dimension to Emami's existing portfolio and strengthen its presence in the personal and healthcare segment. The acquisition is a part of the company's inorganic growth strategy and is being funded through internal accruals.

Emami will further the benefits of feminine hygiene by offering best quality products at affordable prices, and use its well entrenched distribution network to reach both rural and urban markets. Sanitary Napkin with a current market size of over Rs 2,100 crores is a growing category with low penetration and is growing at 19 percent. Although a relatively new entrant, She Comfort with its differentiated positioning of 'rash free', has been able to make its presence felt in a market dominated by multinationals and garner a good consumer base and trials due to excellent product

**"By 2015, we plan to extend our reach to about 20,000 villages via our Swadesh project**

## Facts

- **Founded in 1974 in Kolkata**
- **Active in personal care and healthcare**
- **Listed as India's Fortune 500 company (by profitability)**
- **Manufactures & markets 250+ products**
- **Footprint in 60 countries**
- **Pan India network of 3,000 distributors**
- **Present in 40 lakh retail outlets in India**
- **FY14 PAT growth: 27.9 %**
- **FY 14 Topline growth: 7.2 %**
- **FY 14 Sales: Rs 1,821 crore**

# Rural Reach

Indian rural markets have strong headroom for growth across most of the large FMCG categories thus necessitating the need of a powerful Rural Route to Market (RTM) platform

By Vikash Agarwalla, Kingshuk Sanyal & Kamal Kant Sarda

**Headroom for Growth**

India has the largest rural population in the world – 850 million, which is also around 25 percent of world's total rural population. Rural India houses around 70 percent of Indian population and contributes to around 50 percent to the gross domestic product. Historically, revenues of FMCG companies in rural India have shown a rapid growth, reaching a market size of Rs 54,000 cr in 2010. In 2025, this market is expected to reach Rs 600,000 cr.

Though, there has been significant rural uptake across all of the FMCG categories, the rural penetration levels for many of the FMCG categories are still very low compared to their urban levels, for instance, Glucose, Deodorant and Perfumes, Hair Color, Floor/Toilet Cleaners, Household Insecticides, Skin Creams, Instant Noodles, etc. It would not be too far-fetched to state that Indian rural markets have strong headroom for growth across many of the large FMCG categories.

Also, the rural household income in India is expected to rise at a rapid pace, allowing rural citizens to earn more and in turn spend more. With more money in their hands, currently rewarding rural markets would be even more lucrative to target. Other social indicators like literacy have improved from 58.7 percent (2001) to 68.9 percent (2011) and this is expected to go further up. This will allow rural consumers to make more informed buying decisions, in turn helping brands garner more market share.

**Challenges in Targeting Rural Markets**

Though there is still a very high untapped potential in rural markets, there are few key challenges to successfully tapping the rural potential. Key challenges are:

High cost to serve: From a FMCG company perspective, the cost to reach and serve the rural markets is high, in comparison to urban markets because of the sheer nature of rural markets, which can be described as highly fragmented with respect to spending, earnings, density, etc.

Seasonal demand: Rural markets depend directly or indirectly on agricultural harvest. Demand increases when agricultural produce is available for selling in the market. Also, better crops lead to higher demand and vice versa. On top of that, the monsoon is very difficult to predict, therefore, high seasonality makes the overall scheme of things more difficult than visualised.

Limited reach of traditional media: Owing to a plethora of issues, traditional media like TV, radio, print, etc, does not properly reach the rural markets. Hence, it renders the traditional media/ marketing approximately ineffective in capturing the rural market.

Heterogeneous consumer: Even in a very small village, consumers are widely different in terms of their occupation, caste, religion, and region - leading to completely diverse preferences for products. This makes it very difficult for brands to capture the rural market share sustainably.

**Four pillars of a Powerful Rural RTM Platform**

We believe that for developing a holistic rural strategy, considered choices around right product segmentation, tailored marketing and effective and efficient RTM are required.

In our view, the winning recipe of RTM must contain prioritized markets, a well defined RTM model, aligned channel partners, and the right set of focused capabilities to sufficiently energize the organization. In our opinion, there is no "one silver bullet" to win the rural markets. Key to success is getting lots of small things right and managing the execution perfectly.

**Market Coverage**

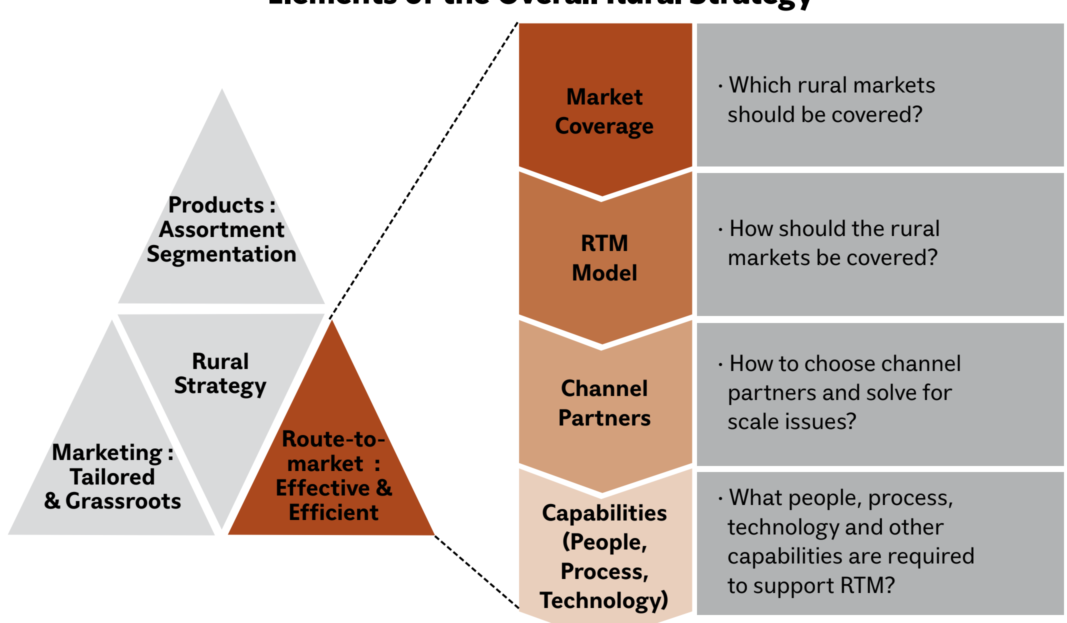
The world 'rural' lacks a proper definition. Companies have different way of defining rural and that basically causes confusion within the organization as to what rural exactly is. Without clear definition of rural, it becomes even more difficult when a company has to define its rural strategy and everyone in the organization has to imbibe it!

A clear and simple definition of rural is the very first step in designing the appropriate RTM model. As per the Census, rural is defined as all areas not classified as urban (and a few more caveats)! However, this definition is relatively difficult to understand and also, it is relatively easier to have a uniform population cut-off for all RTM planning perspective. Different companies choose different population cut-offs, depending on their category penetrations (example, < one lakh population, < 50,000, < 25,000) as well as current RTM coverage.

Companies can have their own definition of rural but that definition needs to be used consistently from the CXOs (C-suite executives) who define the rural strategy, to the front end sales officers/salesmen, who cycle/drive to the rural shops, distributors and their sales force.

**The winning recipe of RTM must contain prioritized markets, a well defined RTM model, aligned channel partners, and the right set of focused capabilities to sufficiently energize the organization**

**Elements of the Overall Rural Strategy**



# *Liquid* **Assets**

Growing health concerns amongst consumers is driving brands to introduce value added, functional, flavoured waters. But is the market ready? Juhi Sharma speaks with industry leaders in the segment

Consumers lifestyle choices in most areas have shifted from necessity to value-addition and benefit based. This now includes their choice of bottled water as well, given the availability of natural mineral, sparkling, fortified, functional, and value-added water. In keeping with the trend, brands, marketers and retailers are creating space for such so called new generation of waters. But the segment is still minuscule.

According to a report 'Bottled Water in India, July 2013' by Euromonitor International, functional water is slowly gaining presence on supermarket shelves. New launches in 2012 were mainly in the functional/fortified bottled water space, but these have yet to emerge more visibly in India. Spring or natural water constituted less than one percent of volume sales in 2012, and due to its high unit price, is growing at a slow rate.

The report also refers to the yet another 'new age' sports water, which will take some years before it is accepted.

Says Anjana Ghosh, Director, Business Development, West and East Region at Bisleri International, "Spring/natural mineral water implies source of water such as springs, glaciers, and aquifers, which are very pure and have balanced natural minerals, without any contamination. Water from this source is not processed or passed through reverse osmosis (RO), is bottled at source, and transported from one point to other. Hence, it's high pricing."

However, experts are of the view that flavoured and functional waters should not be clubbed with normal drinking water. They are being promoted as a healthier option to carbonated, synthetically coloured, flavoured drinks, and since they are priced almost the same as the carbonated drinks, the switching cost would not be felt by the consumers, thus increasing their attractiveness.

**Opportunities in full flow**

Finnish premium water brand Veen Waters has launched Veen Classic (natural sparkling) and Veen Still (natural spring) in the Indian market. The waters, according to the company, are alkaline in nature, rich in calcium and magnesium, and perfect for daily consumption.

In November 2013, Veen has purchased the new mineral water source (with a flow capacity of 25 million litres of water per year) in the Himalayan Kingdom of Bhutan. With this strategic investment, Veen has established a stable base in the Indian subcontinent, which, besides catering to the Indian market, has the potential to enter other markets such as Vietnam, Cambodia, Nepal, and Sri Lanka, informs Aman Gupta, Chairman and CEO. Established in 2007, Veen Waters is currently distributed in 12 countries.

In 2012, NourishCo (a JV between Tata Global Beverages and PepsiCo India) launched nutrient water Tata Water Plus. According to the company, it looks and tastes like normal water but is enriched with nutrients that are bio-available, which implies that nutritional inputs are in a form that can be easily absorbed by the

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