

'It's not a doomsday scenario for FMCG cos'

One of the things that the top executive of the fast-moving consumer goods (FMCG) firm Marico drives is 'boringly consistent' in terms of growth in volumes and profitability. **Saugata Gupta**, managing director and chief executive officer, Marico Ltd. In conversation with **Ashish K Tiwari**, speaks about the overall market scenario, consumption slowdown, positive growth initiatives and so on.

■ **The market environment for the FMCG sector looks very different for some players versus others who have shown positive growth. What's your take on it?**

I think there are two elements to it, one is the consumption part and the liquidity crunch in the distribution channel. The holding power of the system be it the distributors or wholesalers has reduced. So, it's basically the combination of A + B that has led to this market situation. Having said that I don't think it is a doomsday scenario or something like that in FMCG. It's just that if 8-10% volume growth was good, now that has become 6-8%.

In my view, there are 3-4 opportunities and 3-4 risks. If you look at it, two changes have happened. Post demonetisation and goods and services tax (GST) whatever little compliance is there, I think companies with direct rural distribution are more likely to benefit than people who would depend on wholesale. Secondly, large players have also got the benefit of network optimisation and other things which are in a post GST scenario, which they can plough back to better the service level. So, yes, while the category growth has gone down in rural due to consumption stress, large brands with direct rural distribution may be consolidating market shares.

■ **Wasn't increasing direct distribution by the FMCG players aimed at enhancing business prospects?**

A steady trend has happened on that front actually. A lot of

mass categories have grown in market share not necessarily in category growth. So there has been some consolidation happening in the market. The smaller players are also affected by the liquidity crunch more compared to the big FMCG companies that are cash-rich.

For direct distribution also it's a concept of quality of distribution and it need not be just the numerical reach. If you have been investing in rural distribution, maybe compared to in the past, that incremental sale versus incremental return of investment payback period, I think I would say the payback period in relative terms has reduced a bit.

The impact is not that drastic, but it's a very slow trickle-down effect that's happening. Secondly, as I said, because of this liquidity issue, the holding power of wholesale is reducing. Number three, there is this cash and carry channel interplay that's happening. However, even if category growth is an issue there is an opportunity for growing market share.

At the top end, growth in some of the premium categories that were growing at a rapid pace has come down. However, there is still an opportunity to drive premiumisation through modern trade and e-commerce channels.

Additionally, other dynamics like stress in the urban general trade (GT) wherein they are losing business to modern trade and e-com. Secondly, there would be some channel interplay because if one channel is giving high discounts there will be a movement of consumers happening. Then there could also be stock flows happening, wherein a GT retailer is buying from modern trade. So, because of all these pressures, the general distribution is also stressed.

■ **There will be a little bit of down trading happening and there could be a case of a slowdown. In near-term, it is a little challenging**

■ **Why do you think the slowdown is not that stressful?**

I'll give you one reason. Unlike durables or auto, which is more discretionary, all said and done, because of the direct benefit transfer and other things, at the very bottom end the impact on the consumption is not that high. I mean it's not like an auto or any other thing that has completely fallen off the cliff. So there is a slowdown but it's a little less in terms of the quantum than in other sectors.

■ **It's been building up sequentially considering the commentary from various consumer businesses...**

Yes, but some of the growths were a little artificial as it had the GST quarter. So in the first quarter of fiscal 2018-19, all the growths were artificial because it had the previous year's low base. Then there was one more year of a high base because of the price cuts that happened when the GST rates went up. What the market is seeing in the last two quarters is the actual like-to-like growth, which is at least 2-3% lower than what it should have been.

■ **This real growth will continue in the coming quarters?**

We'll have to wait and watch what happens in the second half of the year. Normally, after the rains, it is the festive season. We have to see, if it doesn't pick up, then there's a problem. But we are hoping things will turn around a bit.

■ **That's after considering the current scenario with job losses and liquidity crunch that hasn't eased out yet?**

In the near-term, it is a little challenging. As I said, if in a bread and butter cat-

egory, if the outlay is not that high it's not going to... See what happens, in this case, is that discretionary part gets impacted. But I'm not going to stop washing my hair or take a bath without soap. There will be a little bit of down trading happening and there could be a case of a slowdown in premiumisation. In other sectors like auto, pharma, etc., the impact is far more compared to FMCG.

■ **There are also talks of a possible recession knocking at our door and the coming quarters could get more challenging.**

There are certain issues like job creation and things like that, that needs to be addressed. It's difficult to call it a recession, I'd still say it's a slowdown as of now. Even if looked at the periods between 2000 and 2008, the volatility in the consumer packaged goods (CPG) industry is much lower. But, yes, I think it's important that the consumption situation improves.

■ **How will this happen?**

There has to be more investment by both the government and the private sector. The liquidity

■ **While we are investing in both e-commerce and modern trade, we'll have to see how it pans out in the coming years**

situation and the issues in the non-banking financial companies (NBFC) space need to be eased up significantly. I'm sure the government will now have to take steps in that direction. We should start seeing some of the trickle-down effects of the direct benefits transfer on rural consumption and the deficiency in rainfall has been made up too.

■ **As a company, Marico has diversified its business significantly.**

It was a conscious decision to diversify from the core but into adjacencies. So, we have grown the value-added hair oil space, identified male grooming as a category (by acquiring Beardo) not only for the Indian market for international markets as well. We have now picked up foods and are also into skincare. At the same time, there's enough opportunity at the bottom of the pyramid. So yes, Parachute and Saffola dependence have gone down.

■ **How's this plan panning out?**

We have to now get critical mass in some of the new things, some we are getting already and others we are yet to get. The diversification of the portfolio and getting critical mass is very, very important for the next three to four years. Categories like premium hair nourishment, male grooming, skincare, and foods, etc., in addition to existing categories where we can have a far bigger play at the bottom of the pyramid with Rs 10 and Rs 20 packs. We are investing significantly in rural distribution. Currently, the contribution from rural is 34-35% compared to other companies that have over 40%. That's also because some of our products like Saffola is 100% urban.

■ **Is e-commerce proving to be a friend or a foe for FMCG companies?**

E-commerce is a friend if you drive premiumisation and assortment. It won't be a foe but will be a long-term dilutive if you just do cannibalistic sales. Online players also want to drive new categories. If I just sell Parachute and Saffola online, I am not getting any new consumers. But, if I use that channel to premiumise, to test new products then it's a different thing altogether. The e-commerce channel currently contributes around 4% to our overall revenues and this number should progress well in the near future. It's a fair trade but definitely ahead of the curve for us. While we are investing in both e-commerce and modern trade, we'll have to see how it pans out in the coming years.

■ **How has the inorganic growth strategy played out for the company?**

Some have worked, one or two haven't. We haven't had such a great experience in South Africa, where we acquired the hairstyling brand of Isoplus. We have had success with one of the acquisitions in Egypt. In India, I think we struggled a little bit with the Paras (over-the-counter personal care products) but it's doing well. Nihar was a brilliant piece of acquisition. Vietnam has also done well. In all, we have done seven or eight acquisitions, of which four are a definite success, one somewhat successful and two are failures. We had acquired a soap business in Bangladesh, which has been closed down. So two definite failures I would say, one middling and four successes.

■ **Do you have more inorganic growth plans going forward?**

It all depends on opportunities and valuations. As I said that in some markets, we want to double up or say, in a place like Indonesia or somewhere where we are not present. Based on our experience, we'd like to look at leader brands as there is no point in looking at a number two or number three brand as it doesn't give us the required distribution.

