How Marico is readying itself for disruptions in the FMCG segment

Company to rejig its distribution and supply chain to streamline operations

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With the growth in the FMCG sector slowing down to 6-8 per cent from 10-12 per cent, Saugata Gupta, MD & CEO, Marico, is looking at a multi-pronged strategy to make the company adapt to the changing business environment.

To start with, Marico is looking to reorganise its distribution and supply chain as part of its efforts to streamline operations and take advantage of the digital platforms.

"We see a change in the traditional supply chain network. For example, 3-4 years from now, we may not need a distributor salesperson to take orders because there could be an app that does the job. Similarly, there are these supply chain logistics providers who can do the fulfilment. There are professional logistics who have economies of scale to do the last-mile delivery," Gupta told *BusinessLine*.

Currently, most FMCG players manage their distribution network wherein their respective sales executive visits stores across the country for booking orders and supplying them. Globally, there are companies such as DKSH, which does everything from sourcing, market analysis and research, marketing and sales to distribution and logistics and after-sales services. Gupta reckons that similar players will start scaling up in India, too. "I think the distribution system will change. I can use that same logistics courier system which the Amazons of the world operate. It's not about just margin any more. It is about rotation, stock rotation. So, therefore, if you are No 4 and No 5, in today's world, you will be much more at a disadvantage," said Gupta.

No slowdown worries

Marico's chief is not unduly worried about the slowdown in consumption, saying that it was not a structural issue. "Maybe, 10-12 per cent was good earlier, now 6 per cent is good. We are recalibrating our aspirations. There is a problem in rural, but we are not seeing a situation in our segments where people do not have money to buy biscuit for ₹5. The slowdown, in FMCG, which really started in February this year, is temporary," said Gupta.

One of the concerns is that in rural areas, the wholesale market is stocking less because there is a cash crunch.

"I would think that it would be okay by January-March quarter. However, this quarter (July-September) is going to be perhaps the slowest. The recovery and everything should be better in Q4," he added.

However, despite the confidence, Marico is not sure if it will touch its target of becoming a ₹10,000 crore company by 2020-21. "It's an aspiration; there could ups and downs. Let's wait and watch because it's something which is three years from now. Moreover, even if you hit 95 per cent of the target, it's okay. So we are staying on course on the medium-term strategy," Gupta said.

New business models

One of the things Marico is doing to stay on course is to invest in start-ups to learn about new business models. For example, it picked up a 45 per cent stake in the Ahmedabad-based start-up Beardo, which plays in the mass-premium-to-premium men grooming category.

"There is an untapped demand there which large players are unable to tap into because that requires high-velocity innovation. For example, for Beardo, their innovation cycle is at 60-90 days compared to 8-9 months for a traditional FMCG company. They are happy to put 5,000 pieces on an e-commerce site and check if it works or not," said Gupta. "So you are now going to have clear 2-3 business models, emerging — there is a premium, niche model, there's an urban hybrid model, and there is a rural model. So it's no longer that one-size-fits-all, which also means different capabilities. To give you an example: To sell some of the premium niche new things which we launched, I don't think I need a capability of mass marketing," he explained.

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To cater to the changing business models, Gupta is also changing the way he hires. "I find MBAs extremely risk-averse. Also, if you see, the new set of entrepreneurs are all undergraduates. So I like to push my system to recruit non-MBA. A person who scores well at colleges like St Stephens or SRCC is much brighter than some of the MBAs," he said.

On international markets

Marico is also reviewing its presence in some of the international markets. The company is looking to consolidate its existing footprint instead of investing in new markets. "There could be some expansion, but what I am against is adventurism there. You can be far more experimental in markets where you are already active. For example, we are going slow in Africa, especially in South Africa, because I think there is a fundamental economic issue there."

One thing that Gupta doesn't want to do is to engage in price cuts like some of the other FMCG players. "We now have a reasonably sophisticated pricing model to avoid bleeding on margins. So unlike a multinational, who sometimes have pressure because of their home markets, we have no such pressures," said Gupta.

Product innovation

Marico is using technology to develop products that cater to real issues such as shortage of water. "All products in the cleaning, washing, laundry segments that consume less water would be a big driver. I may have a range of oil, shampoo, conditioner, body wash but if it requires much water, then it may not do well," Gupta explained. Similarly, Saffola, which started as a premium edible oil brand, is being turned into a health food brand as consumers start using less oil.

Marico is concentrating on new verticals including male grooming, premiumisation of its hair nourishment business, health foods and skincare. "We hope at least 2-3 of them will attain critical mass. Today, if they contribute to the overall revenue in single digits, they should be at least 14-15 per cent of sales. Each of them should become ₹300-500 crore brand," said Gupta.