FMCG PULSE

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KANTAR

A DECADE AND A HALF OF FMCG

Fifteen years ago, the world was a different place. Internet was still a luxury only a select few could afford. The first iPhone was still a concept and no one knew what a smartphone meant. Facebook, Amazon and Alphabet the most successful businesses of the last decade were all taking tiny steps in the business world.

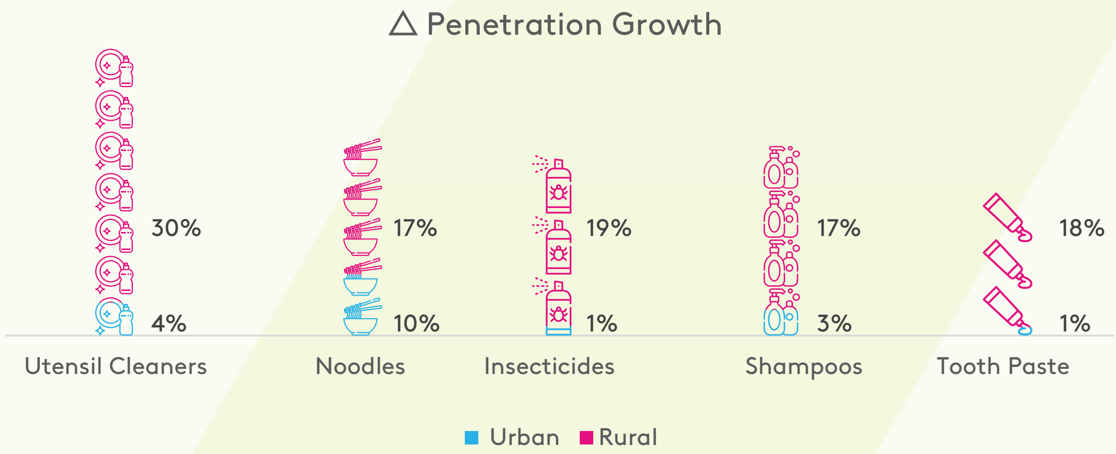
India from being a growing economy became one of the strongest economies in the world. The GDP almost quadrupled to $2.7 trillion from a meagre $0.7 trillion. As a result, India's share in the world's GDP leapfrogged from 2.9% to 7.8%. In turn, the per-capita income grew by over 10 times from a paltry Rs. 983 to Rs. 10,534. Contribution of the Services sector grew from 49% to 55% and the Agriculture share dropped from 20% to 12%.

The FMCG industry during this time underwent some overt changes, like the emergence of natural products and brands. The unorganized sector shrunk from nearly 6 million tons to 4.7 million tons. And Liquid based products like Conditioners, Fabric Softeners, Hand Wash, Dish Washing Liquids showed tremendous growth. In the end, FMCG grew 67% during this time to jump from 34 million tons to 57 million tons. Value more than doubled and the average annual spend on FMCG increased from Rs. 5,500 to Rs. 8,800 approximately.

However, underlying this larger theme are some unique geographical and behavioural stories which will be a focus of this short section. We have identified 4 such stories.

A Rural Story

When we looked at 37 categories which were tracked both in 2004 and 2018 and also those that were tracked in both Urban as well as Rural we noticed that they grew by 23 million tons. However, 74% of this growth is a result of Rural's growth and over half of these categories (57%) grew faster in Rural than in Urban.



Rural's stamp of authority is made clear when looking at the fastest growing categories during these fifteen years. The graph above points to the top five categories. Utensil Cleaners had a delta growth of 34% in penetration. A massive 30% of which is from Rural. In fact, each of these categories expanded their penetration because of high growth in rural as the numbers in the graph point out. The implication of this is quite clear - for categories that still are not highly penetrated, rural growth is imperative to achieve big growth numbers.

Contribution to Category growth isn't the only reason these past fifteen years belonged to rural. Rural beat Urban comprehensively on a slew of measures, some of which are rather surprising. The following numbers are all based on 37 categories, which are tracked both in Urban as well as Rural and were being tracked in 2004 and 2018 as well.

On an average, a rural household increased their spends on these categories by Rs. 3354. That is 27% more than Urban households spend growth. Urban households buy 47 FMCG brands of any category in a year. This grew marginally from 44 FMCG brands in 2004. Rural households meanwhile took a jump of 9 additional brands (26 to 35) in the same time frame. So, not only are rural households willing to spend but they are also experimenting.

Urban is shrinking

A more surprising phenomenon than Rural's lead in the India growth story is that Urban's consumption is thinning. For this analysis we compared the average consumption between 2004-2008 and 2014-2018.

Urban's average consumption slipped 33KGs during this period. In the same time frame, Rural's average consumption improved by 29 KGs. This is a result of Urban reducing the size of packs being bought sharply compared to Rural. The average drop in Pack Size is approximately 170 Grams in Urban, whereas in Rural it is a meagre 40 Grams. In fact, Urban's Packs were 225 Grams bulkier than Rural's in the 04 period. Now, they are just 100 Grams bulkier.

However, Urban's drop in pack sizes is not all doom and gloom as this is a phenomenon occurring on the back of faster premiumization. Urban households are paying 33% more now for the same 1KG of FMCG product compared to the 04 period. Rural households are only paying 26% more. Costlier product but lesser volume allows the Urban buyer to keep the per pack price constant (about Rs. 25-26 across). Rural households however are paying more per pack as they are both buying costlier products and buying more of it too (Rs. 15 to Rs. 19)

The implication of this is again clear. The Urban buyer is more calculative. While they do not fear premiumizing they seek value by trading that extra buck with cutting some weight off their purchase. A business application is that when increasing prices in urban always offer them something for that extra buck.

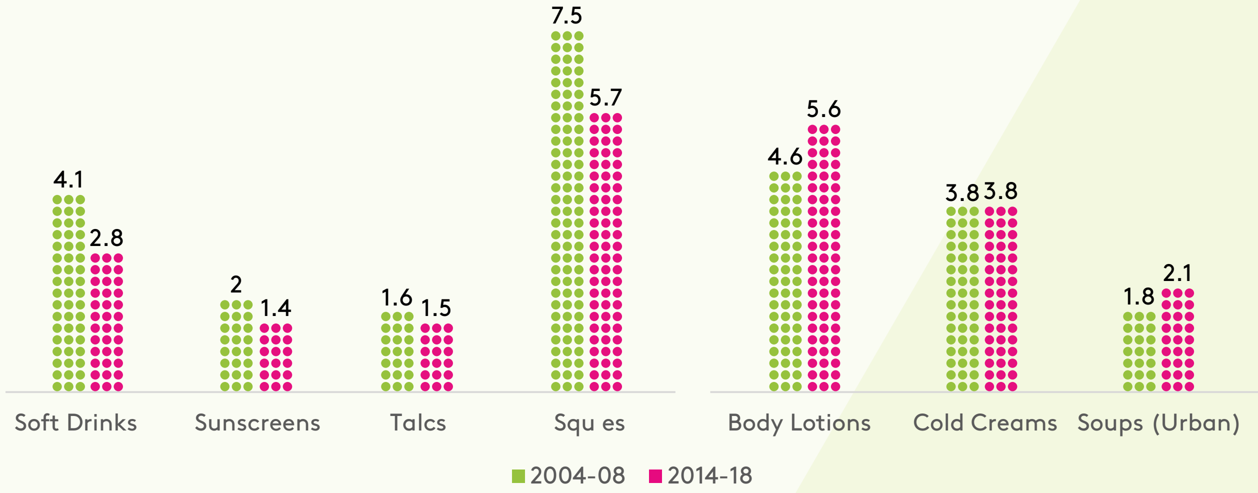
Seasonality is Reducing

There are three kinds of seasonal spikes in the country. Summer Seasonality; Winter Seasonality and Festive Seasonality. Soft Drinks, Sunscreens etc., are evidently categories with summer seasonality while Body Lotions, Soups etc., are categories with winter seasonality. Agarbatti, Ghee etc., tend to see an uptick during the festive season typically starting from September to November. However, festive seasonality is kind of muted to begin with, so this exercise is not including that aspect of seasonality.

For this exercise too we have compared 2004-08 vs. 2014-18. The reason for selecting a set of years for comparison and not a single year is to nullify any affects of an abnormally performing year.

In the 2004-08 period, Bottled Soft Drinks had a Seasonal Volume boost of 4.1x. That means, volume during the peak season jumped 4.1 times compared to the rest of the year. However, in the latest time frame this reduced to just 2.8x.

Average Volume Boost (Nx) in Seasonal Period



As the above graph points out for all Summer Categories that are on the left side we see seasonality reducing. Nevertheless, for winter categories we do not see the same phenomenon. Seasonality has increased or has remained the same here. The reason is obvious – as summers extend, usage of the summer products outside of the generally defined peak season increases. This causes the volume to be more evenly spread across the months. Extending summers means shrinking winter months and the reverse happens for winter categories.

If you are operating a brand in one of these winter categories, be aware that your window of opportunity is very limited. If you are not going to capture the buyer's attention within that short span you will have to wait another year to get your chance.

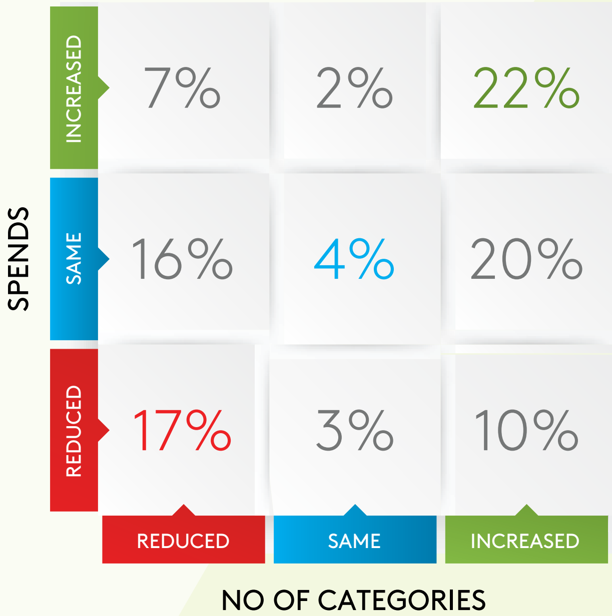
To get a hold on the fourth trend, which talks about how West Zone has become rusty, write to us at fmcgpulse@kantarworldpanel.com.

DECLUSTERING SEGMENTS

One of the strengths of Worldpanel is the presence of an exhaustive repertoire or raw data. Using raw data we have been able to understand consumer preferences, how they switch between brands, how they tend to shop, what kind of clusters they fall into behaviourally, what role does SKUs play etc., During the Consumer Connections we showcased one example of creating clusters using raw data.

We looked at two measures – number of categories purchased and spends. We created as 9-Cell matrix as depicted here based on whether they have increased, remained same or reduced with regards to either of these measures.

Despite some tough economic situation, we see that the biggest group is of those who have increased both spends and the number of categories bought. They corresponded to 22% of the total households. We are calling them The Splurgers.



On the opposite end of the spectrum are 17% households that have both reduced the number of categories bought and reduced the spends. These seem to be affected most by the slowdown. We are calling them The Laggards. In general the Splurgers grew in volume across categories while the Laggards reduced their volumes.

A Premium Connection

When deep diving into Splurgers, we noticed that Premium Brands often work with this set. For example, the volume growth among splurgers for Surf Excel Matics is 98%, which is over 5 times the growth rate of the brand overall. Similarly, Colgate Max Fresh grows at 12%, but among splurgers the growth rate is 3 times faster at 35%.

Something Natural

Natural brands also appear to be doing well among splurgers. Lever Ayush grew at 232% among Splurgers, nearly 1.5 times the rate it grew generally. Vicco's growth rate doubles among the group (30%), whereas Patanjali Hair Oil which declines overall sees redemption among splurgers by growing at 4%.

Promotion Driven

Just because these buyers are splurging does not mean they skip a good deal. Across categories we see that splurgers have been adopting to promotions more than others. For example, in MFD, consumer promotions have grown by 51% overall. However, among Splurgers buying MFD the growth rate more than doubles to 110%. Similarly in Washing Powders promos have grown by only 2%, but among splurgers by a massive 17%.

What do we understand about the Laggards similarly?

Laggard Contribution a risk

Brands that have a higher skew of penetration amongst Laggards slipped in volume growth significantly. For example, Tide has 48% overall penetration. However, when it comes to Laggards it has 51% penetration. Tide lost 11% of its volume in this year. Pepsodent similarly has a 13% skew in penetration among Laggards (27% vs. 24%). It too lost by 11%.

Having a high penetration among Laggards therefore is detrimental to brands.

Small Packs work well

As the definition says, Laggards have been reducing spends. They've been doing so on the back of adopting smaller packs. For instance, Red Label small packs grew by 8% among Laggards. Coincidentally, the Large packs dropped by 23% - the net is an 18% drop in the brand's volume. Likewise, Vim small packs grew by 11%, but the big packs dropped by 25% pulling the brand down by 8%.

So, while small packs work well with Laggards it is happening at the expense of the Large Packs.

Does your brand have a high Laggard presence? Or do you focus more on promotions that seem to be attracting the Splurgers? To know more about this work you can write back to us.

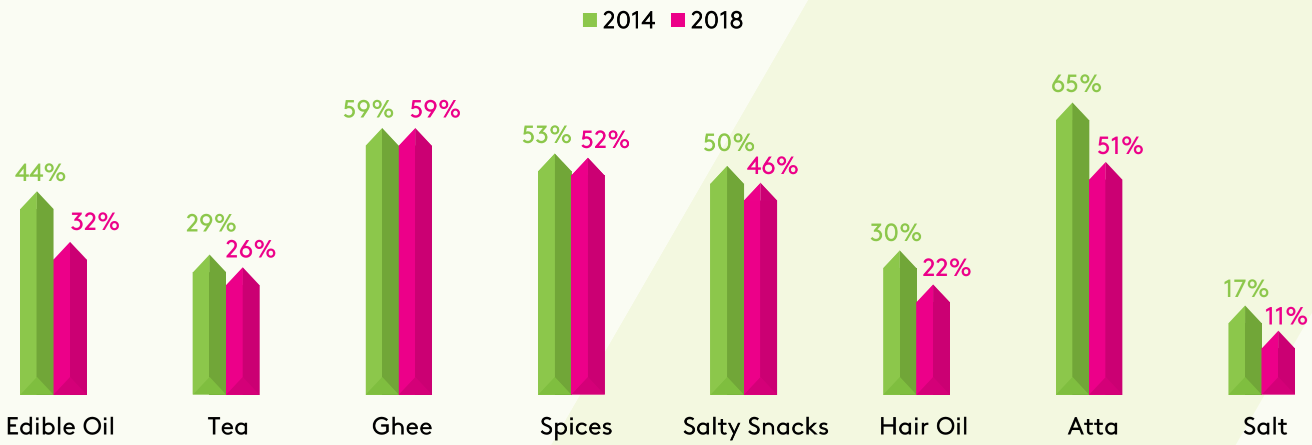
SIMPLE ANSWERS TO HARD QUESTIONS

As researchers we constantly keep asking new questions of our data and the data always delivers compelling answers. We compiled some of these questions in the presentation Four Incisive Queries during Consumer Connections. This article pulls a couple of those questions and presents them here.

How successful have brands been to totally flip an unbranded buyer?

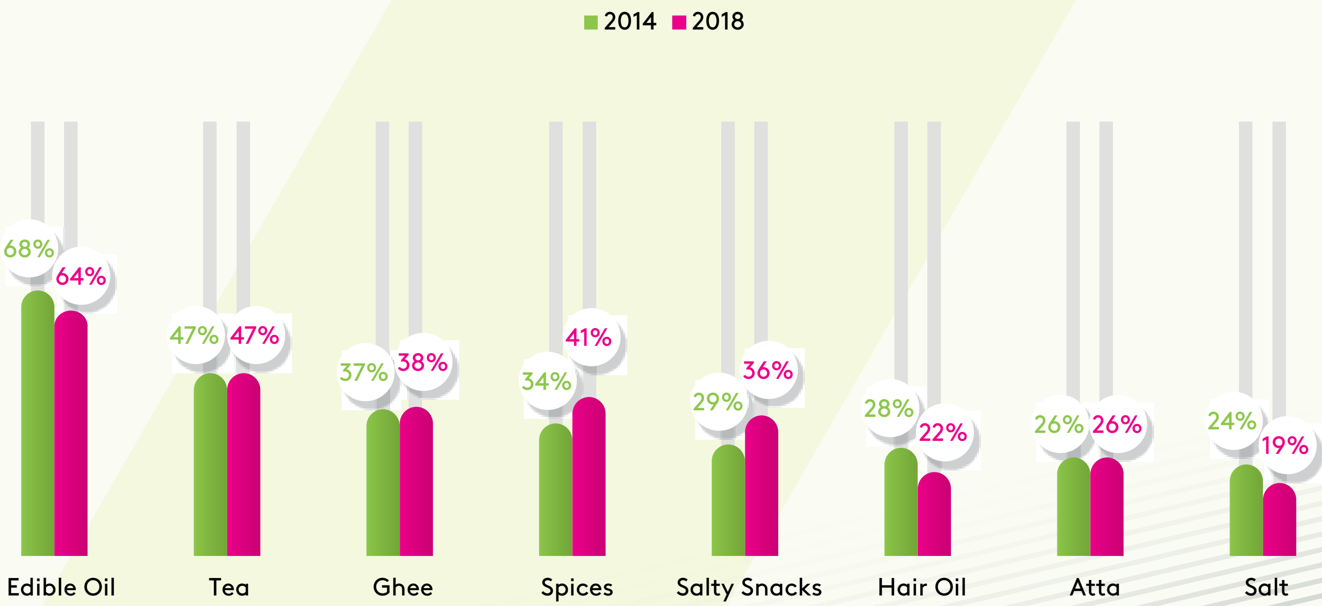
We often hear the statement, converting an unbranded buyer; or we often measure the movement from unbranded to branded. By their own these are interesting analyses. But does an unbranded buyer become a solus branded buyer? That's the crux of this question.

Volume Share of Unbranded



The above categories have the highest unbranded penetration. Edible Oils has an Unbranded penetration of 68% and Salt 24%. Between 2014 and now we see that across all these categories unbranded has either reduced in volume share or has remained the same in the odd case of Ghee and spices. At some level therefore, there is a movement from Unbranded to branded.

% Penetration of Unbranded



Nevertheless, when we put the penetration numbers barring Edible Oils, Hair Oil and Salt the rest of the categories have seen a growth or a stable penetration for unbranded. For example, though Unbranded Atta has fallen in volume share from 65% to 51%, which is massive, the penetration of Unbranded Atta remains at 26%.

This is because Unbranded products are losing occasions in households, not households themselves. Continuing with the Atta example from above, Unbranded Atta was bought 16 times on average in 2014, in 2018 however, it was bought only 10 times. In effect this means that unbranded products are still playing some role in the household which is why though they are being bought less often they continue to be bought.

Taking this example a step further, about 16.2 million unbranded edible oil households tried a branded oil in 2015. When they tried, in 2015 branded had an SOR of 20%. In 2018, four years after branded SOR in these households is 46%. In other words, even after 4 years of continuous branded presence these households haven't become "core" users of branded.

So, to answer the question we began with – it is tough for brands to totally flip an unbranded buyer into a branded buyer. It is a process that often takes years. What brands need to focus on therefore is on that **one occasion** that they can steal away from unbranded. Understanding what prompts unbranded buyers try branded products would go a long way in helping your brand with the right strategy.

How many successful variants does it take to make a strong brand?

When we first did the Launch Litmus study in 2016 we understood that less than 5% of the launches annually go on to reach 1% penetration in the year of launch. This is irrespective of whether these are brand or variant launches. While it is important to have an offer for all kinds of consumers of the category, a long tail of variants often ends up as dead weight.

For example, the top 2 variants of Clinic Plus, the highest penetrated brand in India contribute 98% of the brand's volumes. Take the case of any of the top 10 penetrated brands in the country and the top 2 variants of these brands contribute between 90% to 99.5% of the brand's volumes. For a brand like Maggi which has 16 variants (some may not be active) also the top 2 variants contribute 98% of the brand's volumes.

Maintaining a successful array of variants is a tough ask in marketing. It is so tough that when big brands launch targeted variants (variants targeted for a specific demography), they too tend to underperform. Take the case of Junior Horlicks – it has an annual penetration of 1%. That is a far cry from the 15% annual penetration Horlicks has. In fact, Junior Horlicks contributes just 7.6% unique households to Horlicks.

However, it is not impossible to launch successful variants. We found out that a long tail of variants exists in 3 conditions.

Solve a Problem

Brands like Junior Horlicks, Women Horlicks, Vicks Baby and Fair & Lovely Men couldn't really take off as they were largely focused on demographic varianting rather than a problem-solution varianting strategy. Take the case of Dove or Tresemme. The top 2 variants of Dove add to only 63% of the brand's volume. In fact 4 variants have over 10% contribution to Dove's total volume. Likewise, the top 2 variants of Tresemme also contribute to 64%.

These brands have a problem-solution strategy. For example, Hair Fall Rescue from Dove, or a Smooth & Shine from Tresemme. Create and position your variants in such a way that they solve problems that exist in the market.

Make Clear Partitions

Some brands among the Foods space had successful 3rd and 4th variants – for example, the top 2 variants of Haldirams contributed to 30% of the brand's volumes; for Lay's it is 67% and for Britannia it is 71%. In each of these examples there is no overlap of flavours. Cream & Onion, Lay's' top variant is vastly different in flavour from Spanish Tomato the second ranked variant. Likewise, Britannia Marie which is the biggest variant is a totally different flavour from Good day.

So, when brands appear to have clear differentiation between variants they tend to work better.

Be Innovative

72% of Good Knight Roll on households were new to the brand. 98% of Domex Toilet Cleaning Powder were also new to the brand. In fact, 39% of these buyers are new to the Category itself. When variants typically cannibalize on the core variant or do not typically add new households to the brand, the success of these variants is refreshing.

The common thread in these variants and other successful variants like Indica Hair Color Shampoo is that these are innovative. Good Knight Roll on brought a Household Care category like Mosquito Repellants into a Personal Care space by asking the consumers to apply it on themselves. Likewise, Domex came out with a new format of cleaner altogether.

To sum up and answer our question – just 2 variants are often enough to make a successful brand, but if your strategy demands to have a long tail of variants remember the three guiding parameters while formulating one.