MARKETING MANAGEMENT

"IS 'INNOVATION' THE NEW AGE MANTRA, FOR FMCG IN INDIA ?"

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The Rs 130,000-crore FMCG (Fast Moving Consumer Goods) industry, which accounts for 2.2 per cent of India's national income, was not exactly known for introducing new products or "INNOVATING" and used the regular tried and tested methods. But not anymore !

10 years ago, a product like "FAIR AND HANDSOME" for MEN, would be blasphemy but today, it is a REALITY. India is changing and changing fast. With 60% of population tending towards being "BELOW 30 YEARS OF AGE", the age of INDIAN CONSUMERISM has arrived.

Hence, it isn't difficult to note that in the year 2010 alone, 10,000 SKU's were leashed into the market by the FMCG companies. **Stock Keeping Unit's (SKU's) are : ANY INNOVATION EITHER IN CONTENT OR PACKAGING RANGING FROM A MINOR TWEAK TO A COMPLETELY NEW PRODUCT OFFERING.**

If one sees the level of consumerism around us these days, it is difficult to comprehend that the per capita consumption of almost all FMCG products in the country is amongst the lowest in the world. But that is changing and changing real fast. The demand or prospect could be increased further if these companies can change the consumer's mind set and offer new generation products. Earlier, Indian consumers were using non-branded products, but today, different brands are available and the same consumers are willing to pay more for branded quality products. It's the quality, promotion and innovation of products, which can drive these Companies and Sectors. As a foundation for overtaking their competitors in the current competitive scenario, FMCG companies in India are using these trends to their advantage. Economic down turns provide opportunities to come out ahead of the pack and requires using recessionary trends to build and innovate.

But it's important to have a clear and comprehensive strategy and in the race to introduce new products to serve changing consumer needs, it's important to be selective. Each new product a company launches has the potential to increase its operating complexity. Those added costs could reverse any revenue gains. Any time is a good time to introduce new products for a changing consumer, it's also important to reduce complexity by pruning unprofitable product lines or to reconsider the need for high-end products at a time when shoppers want better value. Consumer-products company Marico is trying to get consumers to use its Parachute brand of hair oil more frequently by promoting the traditional habit of oil massage, hoping to gain from category expansion. There are lessons here for other traditional product sectors like toothpaste, soaps, and shampoos, which have witnessed modest volume growth in the past.

As part of it's PRICE REDUCTION (an INNOVATION INDEED, STRATEGICALLY), Hindustan Unilever did what was unheard of before with Lifebuoy, its leading soap brand, which is particularly popular in rural India. In January 2009, the company reduced the price from 13 rupees to 12 rupees on 90-gram bars. Even a 1-rupee price cut can be significant in a country like India. Meanwhile, companies such as Godrej Consumer Products, P&G are taking other steps that will allow them to reduce prices aggressively while making sure margins aren't eroded—moves such as improving supply chains by shifting suppliers, ensuring they're not caught with excess inventory as consumer demand fluctuates, and looking for ways to reduce operating costs. Costs become even more critical in case of PREMIUM PRODUCTS. India's consumers just aren't willing to pay high prices.

There are three routes for companies hoping to avoid overpriced goods :

Acquire a less expensive brand

Price products more carefully

Launch new value-focused brand extensions, such as different package sizes

Dove shampoo in India successfully introduced a 3-rupee sachet in 2007 that now accounts for more than 30% of the brand's hair-care sales. The sachet was launched before the downturn, as part of a strategy to reach lower-end consumers. Winning companies are doubling down on traditional trades in rural areas, too.

Right now consumer demand for fast-moving consumer goods is holding up well in rural India—and the regions represent a major opportunity. More than 40% of all purchases of biscuits, a household staple in India, take place outside of urban areas, according to research done by BAIN & CO. Success in rural areas starts by establishing the right product mix for local stores, adapting promotions, and ensuring a tight focus on route-to-market management. That's why Clinic Plus, Hindustan Unilever's leading shampoo brand, is aggressively targeting its half-a-rupee sachet to rural consumers through extensive trade promotions.

Another recent INNOVATION has been seen in recent times in the way CHANNELS have been passed on commission or discounts. Marico, HUL and DABUR, all have programs that give LOCAL RETAIL stores in India's cities, the same type of discounts on branded goods that are commonly provided to modern retailers. In exchange, the consumer-goods companies get point-of-sale visibility and dominant display—the goal is to tap the large loyal customer base that's typical of big-city local outlets. For consumer-products companies in India, moving up in the downturn means focusing on selling only the right products, becoming more strategic about pricing, following consumers to where they shop, and investing ahead of the competition to strengthen a core market segment or help make the most of a new one.

INNOVATING means INVESTING for the future—ahead of the competition. Marico has built its core business of healthy foods based on its core product, OIL. Marico has expanded its Saffola cooking oil brand to include extensions such as Saffola foods for diabetics and Saffola Zest baked snacks. While the Indian company began the brand-extension strategy before the downturn, it hasn't let the economic turbulence curtail its efforts. The moves also help detract newcomers from establishing strong positions in the downturn and is an effective and able step AND that is “INNOVATION”. The reasons for the change are obvious. The just-concluded decade of high growth, raising per capita consumption to Rs 52,800 in 2010, has instilled a new confidence and boosted consumption.

According to a McKinsey estimate, average household income in India is set to grow from Rs 113,744 in 2005 to Rs 318,896 by 2025. India's gross domestic product, or GDP, is even expected to overtake that of its former colonial master Britain in the coming decade. The demographic pattern - 59 per cent of India's 1.2 billion people are below 30 - encourages innovation too. The same people who earlier set curd every night to consume the next day now buy it readymade from the store, where they have the option of the probiotic variety, as well as flavoured yoghurt. "This is the next stage, where a large segment of the population has moved up the value chain to becoming aspirants and thereby finicky in its choices.

Every year, FMCG companies are getting into new product verticals. In 2008, FMCG giant Hindustan Unilever moved into consumer durables by launching a water purifier, PUREIT. Dabur's innovations include OXYLIFE BLEACH - for which it is awaiting a patent - that claims to release oxygen into the skin. It is aimed purely at the 20,000-odd beauty parlours in the country. Marico has launched a branded rice, SAFFOLA ARISE, which has a low glycemic index, or reduced carbohydrate content. Dabur was equally enterprising too, when it tweaked it successful Chyawanprash brand - a health tonic whose formula is based on an ancient Ayurvedic text - to provide it in different flavours. It did the same with its HONEY line of products and introduced COUGH SYRUP with honey as it's base, which was easy to use with children.

However, it must be noted that INNOVATIONS COST MONEY. Every time, launching a new SKU costs between Rs 8 crore and Rs 10 crore and could go up to Rs 15 crore in some cases. This includes the cost of research trials, promotions and marketing budgets. Despite the expense, relatively smaller companies have not only launched innovative products but also carved out new niches for themselves with these, as well as forced multinationals to follow their example. Multinationals like HUL and L'Oreal were forced to follow suit when health and personal care products major Emami launched a new fairness cream exclusively for men, Fair and Handsome. Multi national companies are doing it too. Apart from its water purifier, HUL has expanded its chain of Lakme salons and even experimented with laundry services in the past. Research and development centres are the flavour of the season at focus group meetings. Marico's Parachute Hot Oil was borne out of a discussion on giving away a heater with its coconut hair oil as consumers faced the problem of the oil-congealing-during-winters. Ways to reduce the costs of a heater, MARICO came up with the idea of hot oil instead. The innovation bandwagon is also driving ACQUISITIONS. Companies are getting into new segments by acquiring brands.

The new game in the FMCG space is “INNOVATION” and the companies that accept this fact with this game changer rule in mind, will be here to stay longer.