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Sent: Monday, September 4, 2017 6:35 AM
Subject: Week 196 Learnings

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Dear Friend and Colleague,

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At the Town hall and webcast, I showed the FMCG performance for the last quarter of listed companies. I got a lot of questions on whether this is a trend to stay or will growth come back to FMCG.

I personally believe that this is an aberration and things will get back to growth in FMCG. I say this because FMCG is a daily consumption business in most categories impacting the household like food, soaps, detergents, milk, Atta, oil etc. I believe that growth will come back as confidence gets back.

Consumer Confidence is low at this point for a number of reasons. People see no creation of new jobs, people see automation taking away jobs and people are unsure what skills they need to pick to meet the job needs of a future world.

What are the triggers for FMCG growth and how are we placed against those trends?

a. A trend to move from unbranded to branded for safety, quality and time saving reasons. We have a number of brands here that do this, specifically in potato chips, in collet, in packaged water, in packaged juices. All these categories will grow and Lays, Kurkure, Himalayan, Aquafina and Tata water plus, Tropicana will have a significant role to play in the conversion of commodity or unbranded offerings with low grade packaging to brands.
b. A move to a healthier range. At this point , this trend is more in the premium range and our offerings in water brands, in Juice brands , Quaker and and Quaker value added dairy are good entries to catch this trend.
c. A trend to proliferation of brands in every category. India has the maximum number of brands in every category. New competition is coming up in every category thanks to access to technology and also capital. Look at brands like [redacted] My prediction is that India will see more local brands in the next decade and fewer MNC brands.

d. Premiumisation in every category thanks to modern trade and E Commerce. We have entries in Doritos, Lays Maxx, Himalayan, value added water , Tropicana Essentials etc. Here consumers want a distinct and superior benefit – in product terms and also in emotional terms.
e. More master brands. I see the trend of master brands growing as social media and digital allows people to understand master brands and their offerings much better. I see a lot more master brands in the last decade than I have seen before. A confluence of modern trade, e commerce and digital is making this work. We have nine strong master brands whose size perception in consumers mind is far bigger than the actual size, that offers us potential to stretch them.
f. Winning in Distribution: India has an outlet for every 126 people. Servicing an outlet with an average value bill of anything below Rs 400 will become a big challenge as cost of people and freight to deliver that low sized package will be unprofitable. The average cost of transporting a kilogram of goods in India is about Rs 60. So a brand has to first win the weighted distribution game before it embarks on expanding numeric distribution. Category leaders should expand numeric distribution. When I look at our portfolio, a water brand in the right pack size can be sold in any outlet! Water and Milk, value added milk products have the potential to be sold into every outlet.

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All the best

Wr,

Shiv