An Indian Giant

Cairn’s merger into Vedanta creates India’s No 1 natural resources company
It’s another wave of ayurveda! And, this time, it’s riding on the benefits plank of ‘herbal and natural’. A new generation of ayurveda firms have whipped up a virtual tsunami in the FMCG industry, forcing even global heavyweights such as Unilever to acknowledge that these firms have resulted in slowing growth rates for the incumbents.

Toothpaste-maker Colgate, whose sales grew in double digits consistently during 2005-15 saw sales growth decelerate rapidly to 3.7 per cent in the first nine months of 2015-16. In the quarter October-December 2016, Hindustan Unilever (HUL) actually saw volume of goods sold decline by 4 per cent year-on-year. In contrast, sales at Sri Sri Ayurveda have been growing by 100 per cent y-o-y, while those at the Auroville Online store are growing by 30-35 per cent per annum. MSG All Trading International, endorsed by Dera Sacha Sauda chief Gurmeet Ram Rahim Singh, has seen demand for its products far outstrip its expectations, egging it to triple capacity in just a year of commercial operations. Patanjali Ayurved too has seen its sales soar close to double y-o-y. In fact, it is virtually struggling to keep pace with consumer demand in many categories. “In an industry that is posting flat sales growth, we are doubling our sales,” says Deepak Singhal, chief strategy officer, Patanjali Ayurved.

What’s intriguing about these Version 2 (Ver 2) ayurveda firms is that in a market that’s struggling to grow in the high single digits, these firms are posting healthy double-digit growth rates and lapping up customers so rapidly that incumbent leaders in categories as varied as toothpaste to detergents have been forced to roll out their own product offerings in the natural/ayurveda space and even revive dead brands to flank the competition. “Ayurvedic products are growing by 1.2-1.5 times the growth of the overall FMCG market,” says Rathin Shah, project manager, ValueNotes Strategy Intelligence.

“The consumer trend of moving towards the natural space is clearly visible in both the healthcare as well as personal care categories,” says Harsh Agarwal, director, Emami. “The growing consumer interest is because people are looking for a safer option to chemical-based cosmetics. Our consumer research shows that safety is an important factor for consumers looking for efficacious products”.

To be sure consumers worldwide have been gravitating towards natural products as they are fed up with the collateral damage caused by chemicals ranging from allergies to even cancer. “In India, MNCS haven’t been serious,” says Agarwal. “They have been giving consumers quasi-natural products, wherein the active ingredients may not really be natural. Gradually, consumers in India have understood this and are looking for fully natural products. Every player in the market is seeing this trend very strongly.”

“We are seeing an increasing interest in locally made natural products as there is fast growing awareness in the Indian audience of high quality products that connect with social responsibility as part of their mission statement,” says Luise Pate,
marketing head online, Auroville store. The Auroville blog gives its target consumers a peek into how the products are made and the social causes they support by buying the products. One of the key reasons for Patanjali’s success too has been an appeal to nationalism to buy its products in preference over those sold by MNCS, as a means of retaining profits within India.

Some of these Ver 2 Ayurveda firms, such as Patanjali Food products, have managed to do the unthinkable, ensure repeat customers despite frequent stock-outs and unresolved medium-term supply chain snags. “Patanjali created a new industry by creating awareness of natural FMCG products and creating a perception in consumer minds inclining them to use these products,” says Shah. “What started as word-of-mouth recommendations have now reached a halo effect.” Adds Agarwal: “Patanjali has created a big impact in segments, such as toothpaste and ghee. It has grown and been able to achieve a lot without much investment in marketing. It is a serious contender in the ayurveda space, one which managed to increase consumer acceptance and grow the category.”

Tej Katpitia, chief marketing officer, Sri Sri Ayurveda Trust, which counts its toothpaste and health drink Ojasvita amongst its lead products, has grown by 100 per cent for two years in a row on the back of increased distribution and widening of its product range to personal care and food. “Even though most of Guruji’s followers are supposed to be concentrated in North India, we have seen strong demand for our FMCG products across multiple states as far as Andaman & Nicobar Islands and even overseas,” says Ajay Insan, marketing head, MSG All Trading International. “Such rapid growth was beyond our expectation. Demand for our recently launched cold drinks itself is so much that we are not able to supply beyond the states of Haryana and Punjab,” he adds.

**Price bands**

If Patanjali represents the price warrior brand of Ver 2 ayurveda firms then there are others that straddle the price continuum from budget to value to premium and deluxe. Firms such as Sri Sri Ayurveda (with products as Ojasvita, which has P.V. Sidhu as its brand ambassador) and Auroville straddle the top end of the market. “Our lead products such as Ojasvita are already available in modern retail outlets of HyperCity, Big Bazaar and Future group. They have also been launched in the kirana channel,” says Kaptitia. The Auroville store, which was relaunched under new management around two years ago, aims to provide an outlet for products manufactured there to reach consumers globally but particularly in India. “Our food products strategy started with offering spirulina and herbal health supplements and now includes products such as hand-crafted cheese amongst others,” explains Pate. “The biggest share of our revenues now comes from food and body care products.”

Other firms such as MSG have launched their FMCG offerings across a range of price points by addressing the budget, premium and top end of the market through categories such as standard, premium and organic respectively. “Our products are sold across states such as Punjab, Haryana, Rajasthan, Maharashtra, etc, and we see different categories garnering sales in different states and within states in their mega cities vs other areas,” says Insan. The firm now plans to launch its products across Uttar Pradesh, Delhi and Himachal Pradesh too.

One common trait of all Ver 2 ayurveda firms has been the way they have been able to build credibility and trust in their core business and transfer this brand equity to a wide range of products across their non-medicinal portfolio seamlessly. “A strategic call we took in 2001 of unifying all our products under the mother brand ‘Himalaya’ helped significantly in our brand building exercise,” reminisces Rajesh Krishnamurthy, business head, personal care division, Himalaya Drug Co.

The firm discontinued the erstwhile personal care range, ‘Ayurvedic Concepts’, and rebranded the portfolio under Himalaya Herbal Healthcare. “This helped us leverage the equity and credibility of our pharmaceutical range, especially heritage brands such as Liv.52 and Septilin. It also gave us inroads into chemists and pharmacies, where our herbal medicines enjoyed a strong presence,” he adds.

By starting their brand environment in medical stores, Himalaya leveraged credibility and trust to offer a solution problem set for its consumer products. Similarly, Patanjali...
leveraged on the trust consumers had in the yoga practises of Swami Ramdev by getting him to promote Patanjali products at all yoga camps. “We regularly use neuroscience to pre-test our ads. Our ‘Men Hate Pimples Too’ campaign engaged at a deep emotional level with our target group and it shows in the results,” says Krishnamurthy.

**Brand ambassadors**
Firms such as Sri Sri Ayurveda and MSG are leveraging the brand attributes of their founders whose spiritual aura, they hope, rubs off on the products they are selling. “Religious leaders aren’t new to branding or marketing,” remarks Agarwal. “Baba Ramdev has been branding and marketing himself for the past 15-20 years. In the process, these gurus have built a big following and credibility and trust. They can capitalise on this personal brand to sell products by monetising the trust and brand they built over many years.”

Adds Insan: “The condition Guruji gave us for being our brand ambassador was that there will be no compromise in the quality of our products. This has also helped us as we have not had to expend much effort in a mass media campaign save in January for our organic range”.

Firms such as Emami are leveraging the heritage of brands such as Zandu and Kesh King they acquired to supercharge growth rates of their FMCG offerings. “Healthcare OTC is an underdeveloped market. People are getting more health-conscious about preventing disease and disorders and I feel in segments such as hair care, ayurveda offerings will be the leader,” says Agarwal. Emami, which followed up its acquisition of Zandu by acquiring Kesh King in June 2015 for ₹1,651 crore, is not just growing its portfolio organically but is also scanning the market for more acquisition opportunities.

One discerning factor about Ver 2 ayurveda firms is their lack of reliance on ayurvedic medicines to bring in the overwhelming majority of their sales, though this was their foundation. Up until 1999, Himalaya was a pharmaceutical company. It forayed into personal care only at the turn of the century. “Today, Himalaya’s personal care portfolio offers head-to-toe wellness solutions to consumers”, explains Krishnamurthy. “It is growing at a healthy rate, and it contributes close to 42 per cent to our revenue”. In contrast, pharmaceuticals bring in 34 per cent of sales and its relatively recent baby care range brings in another 15 per cent of turnover. Categories such as wellness and animal health bring in the rest.

“Our ‘natural and herbal’ brand proposition stands true for all the products across categories,” adds Krishnamurthy. Ayurveda medicines bring in just about 30 per cent of MSG All Trading International’s revenues while cosmetics contributes another 20-odd per cent. The lions’ share at 50 per cent is derived from grocery products. “Our vision is to cater to all products used in one’s home,” says Insan. Similarly, while Patanjali Ayurved, clocked sales of ₹9,346 crore in 2016-17, the ayurvedic and herbal medicines business – Divya Yog Pharmacy – raked in just ₹870 crore in comparison.

“Traditional ayurvedic companies didn’t focus on regular products that were natural,” says Shah. “Instead, their focus was on products such as a Chyawanprash, which is an ayurvedic tonic. By focussing on ayurveda medicinal products, erstwhile ayurveda leaders such as Baidyanath, Dabur, etc, have ended up addressing a small segment of the potential FMCG market and also created remarkable seasonality in their sales, as products such as Chyawanprash don’t sell well in summers. In contrast, even relatively recent entrants such as Sri Sri Ayurveda already derive half their revenues from non-medicinal products.

“Our focus has been on innovation, on how one can get the benefit of herbs in a way that’s convenient to consume,” says Katpitia. “We are addressing the mainstream wider audience through health drinks such as Ojasvita and our toothpaste that has a natural, herbal USP; made by people who meditate.” Adds Shah: “The promotion of natural, herbal concepts for daily use products such as shampoo, toothpaste, biscuits, dishwash bar, etc, has allowed these firms to do very well for themselves.”

Himalaya was the first brand to launch a herbal face wash in India with its flagship product – Himalaya Purifying Neem Facewash. “The brand has achieved success in urban and rural markets and has become the leader in the face wash category with a 24 per cent market share,” claims Krishnamurthy.

The ability to reinterpret the ayurveda/natural plank in the context of wider living rather than disease has helped spur growth of these Ver 2 firms. “We are leaders in the face wash segment,” says Krishnamurthy. “Other key categories for us include shampoos, where we are growing at over 36 per cent, toothpaste with a growth rate of over 23 per cent and body lotions, growing at 43 per cent.” The Auroville.com online store too has been seeing its revenues grow by a healthy 35 per cent. “Of this, our food revenues are growing at 100 per cent a year, making it our fastest growing category, as we keep adding items like handcrafted chocolates and cheese shipped in cool boxes,” says Stefan Himmer, CEO, Auroville Online store.

“We closed our first year of operations with revenues in excess of ₹500 crore,” says C.P. Arora, managing director, MSG All Trading International. “Market demand is much
Trade channels
Another characteristic of Ver 2 ayurveda firms has been their ability to straddle multiple trade channels including establishing their dominance in organised distribution networks such as modern trade, with e-tailers such as Amazon or health sites and mobile apps. Indeed, some such as Patanjali started their own distribution network, while others such as Himalaya Drug Co used their own Website to build up a proprietary database of customers whom they engage with meaningfully through regular newsletters and free offline personalised consultation programmes across multiple cities in India. MSG too follows a dual distribution strategy. In Punjab and Haryana, it has a chain of over 400 MSG Shoppes where all its products are available under one roof. While in other states it is addressing the market by supplying to kirana stores via its network of over 100 super stockists and 400-plus distributors.

“E-commerce is a significant channel for us and we are expecting revenues of ₹100 crore by 2018,” acknowledges Krishnamurthy. In addition to its own web store, the firm also has a Himalaya Store App and has tied up with Amazon, Snapdeal and Flipkart to vend its products.

“Modern trade constitutes about 10 per cent of the revenues for FMCG firms on an average. For us, we are much stronger here as we are present in 90 per cent of all modern trade outlets. This is why it contributes a fifth of our turnover,” says Krishnamurthy. Dominating modern trade channels has allowed Ver 2 firms to build a dominant share of emerging product categories such as face wash.

“When we started with our pilots in Reliance Retail outlets in Mumbai, we were allotted space in a corner of the five chosen stores as we had over 100 products and the retailer couldn’t replace another brand to give us space for trials,” says Aditya Pittie, CEO, Pittie group, which is the distributor for modern trade of Patanjali products. “As a result, we came up with the idea of Patanjali free standing units, where all Patanjali products across categories were displayed in a single area.” The pilot, which started in five stores in September 2012, was so successful that, by January 2013, Patanjali products were already in 40 Reliance stores. The unique display assortment of Patanjali helped it grab eyeballs and shelf space at a time when Patanjali was just a ₹1,000 crore minnow.

“Retailers stocked the products because Patanjali products are always sold at the maximum retail price and sales of our products didn’t take away sales of other brands they stocked, thus leading to additional revenues for retailers,” claims Pittie. By having a policy of no price-offs, Patanjali ensures adequate margins both for itself and for its retailer partners.

With a large number of repeat customers, it was no surprise that soon Patanjali products were being stocked by Reliance Retail stores pan India starting April 2013 itself. “We had sales of ₹5 lakh a month in the pilot period. Last October, we did monthly sales of ₹75 crore across channels,” says Pittie. Tie-ups with other retailers who too now stock Patanjali products have helped sales take off. Pittie claims that retailers get the same margins as that which Patanjali offers small kirana owners. “The rupee gross margins retailers make with us is higher than other brands because our inventory turnover is higher,” informs Pittie. “For the same shelf space, our sales per square foot are high due to overwhelming consumer demand. This is why even though our percentage margins are two to three percentage points below that of rival brands, retailers don’t block us.”

This of course runs contrary to popular wisdom where new entrants have to offer higher margins to entice retailers to stock their products. By generating enough consumer pull, these Ver 2 ayurveda brands have taken away the pain and additional effort involved in pushing their products by retailers. “As a result, not a single retailer has told us that we won’t stock Patanjali products, if you don’t give us extra margins,” says Pittie. He claims they closed 2016-17 with a run rate of ₹100 crore sales per month of Patanjali products. For supplies to kirana shops, he offers no credit; it’s either cash on delivery or advance payment.

In fact, several e-tailers such as 1mg.com amongst others or Just Relief, etc, often flaunt a 10 per cent discount on Patanjali products as a hook to attract customers to their platforms. This works because, “Patanjali is the only product sold at maximum retail price sans discounts even at supermarkets such as D Mart,” says Pittie.

Part of this pull is because of the unique positioning that these firms have made for themselves. For instance, Himalaya has positioned itself on the plank of research backed
“We have used price points to expand the category and drive consumption. We were the first brand to introduce a ₹15 pack for face wash to build penetration in small towns. We’ve also introduced value packs at ₹170 and ₹230 to cater to the demands of heavy consuming segments,” says Krishnamurthy. While Patanjali largely occupies the value segment of the market and brands such as Himalaya and Zandu the popular segment, brands such as Sri Sri have positioned themselves at the premium end. But even Patanjali, which has a price challenger reputation, counts its premium-priced cow ghee as one of its top grossing products.

Challenges ahead
The success of Ver 2 ayurveda companies hasn’t gone unnoticed by the MNC heavyweights and other incumbents, who are loathe to lose their leadership positions in segments, which they have dominated after enduring keenly contested battles. “Not only is every single MNC launching their own herbal brands, but people too are ready to buy herbal brands of incumbent MNCs. As a result, firms such as Colgate have regained market share in toothpastes,” says Shah. This isn’t surprising when you consider that Patanjali is aiming for a ₹20,000 crore turnover in 2017-18, while Himalaya hopes to clock revenues of ₹1 billion worldwide by 2020.

“To sustain their market share, the MNC incumbents have to enter the natural/ayurveda segment even if it’s not part of their global offerings or strategy,” says Agarwal. How far they will be able to sustain their product offerings in these segments is something that is still too early to guess. What is clear is that the MNCs are fighting this battle on the home turf of Indian firms that have an inherent experience and head start in the category.” If the Ver 2 firms can take the right initiatives for the next few years, then it will be difficult to dislodge them from the market.

At the same time, Ver 2 firms too are upping the ante, boosting advertising and promotional spends behind top sellers thus gaining maximum bang for their buck. “In the next six months or so, we will start advertising in print, electronic & outdoor media in the regions where we are already present,” says Insan. Patanjali, which had abhorred advertising as wasteful expenditure, is now a heavy advertiser in certain genres of electronic, print media and is even present in outdoor media from time to time.

What helps these firms keep budgets under check is that in many cases the brand ambassador is someone who believes in the cause and hence the associated endorsement costs are low to zero as is the case with Baba Ramdev for Patanjali or Gurmeet Ram Rahim Singh for MSG. “Since firms such as Patanjali don’t have to pay royalty on brand endorsements they can use Baba Ramdev for promoting all their products. This is unlike a conventional brand ambassador, who would charge a large amount and may not evoke the required association across different consumer categories,” says Shah. Gurus such as Sri Sri Ravishankar, Baba Ramdev and Gurmeet Ram Rahim Singh have the ability to address a large number of followers, who idolise them and trust them implicitly. “Our brand proposition is much higher than our MNC competitors because the origins of Patanjali lie in life care and preaching. From yoga for inner healing to easy to use and handle ayurveda products for external body applications for a good life has been the journey of Patanjali,” says Singhal.

The other challenge Ver 2 firms face, as they move from umbrella brands to product or sub brands, is
that they will have to spend larger sums for specific products rather than the amortisation effect of all products being supported by general advertising powering the mother brand. To some extent, we can see this with Sri Sri’s Ojasvita health drink or Patanjali’s Kesh Kanti hair oil and Dant Kanti toothpaste receiving specific advertising support but this will need to be significantly intensified, if any of these challengers hope to make a bid to emerge as the leader in any category that’s dominated by an incumbent MNC giant.

The larger challenge for the Ver 2 ayurveda firms is to get mass distribution in traditional kirana stores, which serve consumers across the length and breadth of India. “Of the sample of six to eight million stores in the Nielsen sample, we are present in about 1.5 million. Over the next four years we hope to double this to between 2.5-3 million outlets,” says Krishnamurthy. To do this, the firm expects to double or triple its spend for sales staff, advertising and distribution. With its existing infrastructure the Bengaluru-headquartered firm manages relationships with 800 distributors, which it claims allows it to cover all Tier I and Tier II towns. MSG All Trading International too hopes that it can ensure pan India availability of its products over the course of the next year or so. “We plan to increase our network of clearing & forwarding agents (C&F) from 10 per state to 30. We will ensure that every state has C&F agents to super distributors. We are piloting a hybrid model which we believe will redefine the FMCG supply chain in India,” says Singhal.

While firms such as Sri Sri Ayurveda, MSG, Auroville and Himalaya may find it easier to convince kirana owners to stock their products, those such as Patanjali would face a tremendous challenge because their model is an exclusive franchisee store model rather than an inclusive one. Similarly wherever firms such as Himalaya and MSG have their own exclusive outlets even if run by franchisees, the general trade may be a tad circumspect about stocking their products.

“Our focus this year is on the direct reach model for rural and urban areas. In metros we are looking at bigger visibility via in-store branding and ideation through modern retail formats,” concedes Singhal.

Agarwal feels that firms such as MSG and Sri Sri will find it tougher to replicate the success of Patanjali, because the latter already has the first mover advantage. “The other firms don’t have the novelty cachet. Also, remember that Swami Ramdev’s image as a yoga guru helped him sell his products. The other leaders have more of a spiritual persona,” says Agarwal. Indeed Baba Ramdev’s imagery has helped the firm garner significant share in mustard oil, hair oil, toothpaste and get good growth in consumer staples such as aata and pulses. This year edible oil will be a big category for us as we expand our offerings to include sunflower oil, groundnut oil, rice bran oil. Similarly aata will become a big segment as we weren’t being able to supply enough but now with our own expanded production capacity and third party tolling arrangements and new variants catering to lifestyles we expect ₹1,000 crore sales from here too in 2017-18,” says Singhal.

**Broadening range**

MSG’s Insan concedes that dealers get meaningful earnings once the throughput of MSG product sales pick up. “We give our distribution partners average margins of the category. For the retailer ayurvedic medicines/specialty products such as hair oil, shampoo and toothpaste, which are based on a proprietary formulation and have given results, compensate for the lower margins on other products,” says Insan.

Firms such as Himalaya are working this challenge through a multi-pronged approach including choosing products that play to their strengths. By focussing on products such as face wash, which are largely sold through channels other than traditional retail, Himalaya claims to have secured 95 per cent distribution for its range of face washes. Using this product as its lead, the firm has managed to get shelf space in other categories such as shampoos, winter care and toothpaste in modern trade channels. The Auroville store, which retails a large number of products, has opened two boutique stores in Pondicherry and is looking to replicate this model in other cities in India.

The Auroville click and bricks model aims to cater to their target socially conscious upper middle class customers in Tier I and Tier II cities such as Ahmedabad, Pune, Chennai, Kochi, Hyderabad and Mumbai, in addition to states such as West Bengal. “We are aiming to double our turnover in the next three years as we expect to maintain our annual growth rate of 30-35 per cent over the next three-five years,” says Himmer. But, with over 3,000 products on their Website, it remains to be seen what kind of focus they can give to slower growing categories.

Patanjali, which may have tasted success with its consumer staples offerings, too will face challenges as it attempts to broaden its offerings to more premium products such as cookies and cream biscuits and even more so in beauty and personal care products where it plans to do ingredient based advertising rather than use suitable celebrity endorsements to build instant brand recall.

All these firms face one common challenge, getting the systems and processes right when they are scaling up big and fast for hyper growth. Ensuring that the slack in the infrastructure is tended to in time will be crucial in ensuring that growth remains strong and the foundation can support further rapid expansion. How well they fare on this, time will tell and the MNC behemoths will be watching.

**Feedback**

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