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# *The Indian FMCG sector*

## The innovation imperative



# 1

## What do the Asian and Indian FMCG markets look like?

### Rising incomes, escalating demand, new products: FMCG perspectives in Asia, including India

#### Asia's FMCG market

##### Selected FMCG trends in Asia\*



Soaps and cleansers: Market demand growth (% change pa)	2011	2012	2013	2014	2015
Asia and Australasia	5.9	7.0	5.9	5.8	5.3
China	12.0	12.7	9.7	9.3	7.3
Hong Kong	8.6	6.8	3.7	3.4	3.0
India	11.1	9.9	10.5	9.8	9.8
Japan	-0.6	2.4	1.5	1.4	1.0
Food, beverages, tobacco: Market demand growth (% change pa)	2011	2012	2013	2014	2015
Asia and Australasia	3.0	2.8	3.6	3.3	2.7
China	4.2	2.8	1.6	1.4	1.0
Hong Kong	5.1	4.6	5.1	4.6	4.7
India	-0.5	1.6	0.9	0.7	0.4
Japan	2.7	2.7	1.9	2.3	2.3

\*Source: PwC's 2012 Outlook for the Retail and Consumer Products Sector in Asia

#### India's FMCG market

##### Selected FMCG Trends in India

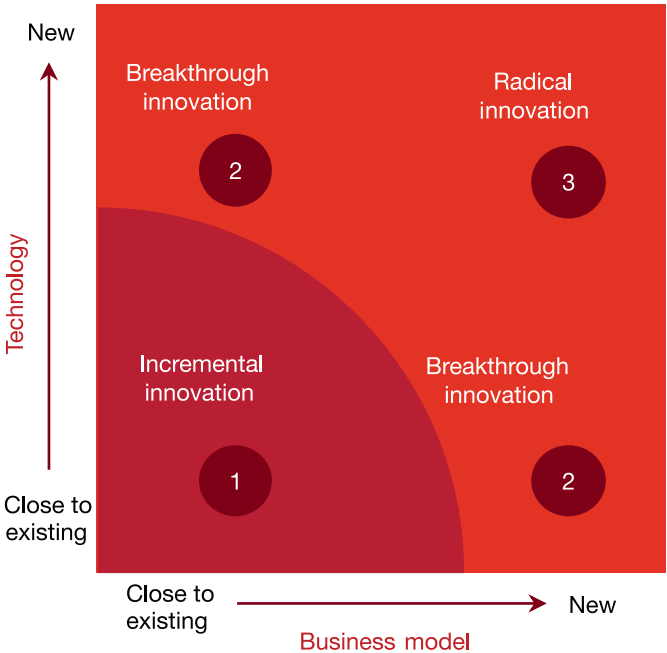


Source: PwC analysis

# 2

## Defining innovation

*Different innovation types exist to serve different objectives: Breakthrough and radical extend beyond the incremental*



Source: PwC's Innovation practice

### **Incremental innovation**

- Small changes in existing products and services via improvements in technology or changes to the business model
- Typically 5 to 25% improvements in cost, performance or customer value (i.e. speed, value, price)
- Characterised as better, faster, cheaper products and services that do not drive above average revenue growth

### **Breakthrough innovation**

- Significant change to either the technologies or business models of a product or service
- Based on entirely new components of technology or business model or new ways to organise and use existing components
- Typically greater than 25% improvement in cost, performance or customer value
- Significant new competitive advantages that drive higher than average revenue growth

### **Radical innovation**

- Substantial changes to both technology and business model
- New value to customer, new players in the value network and new technologies for making and delivering the product or service
- New basis of competition in existing markets (e.g. new technology platform or cost basis)
- Or, creates entirely new markets that provide customers with new value
- Or, creates very high revenue growth rates

Source: PwC's Innovation practice

# 3

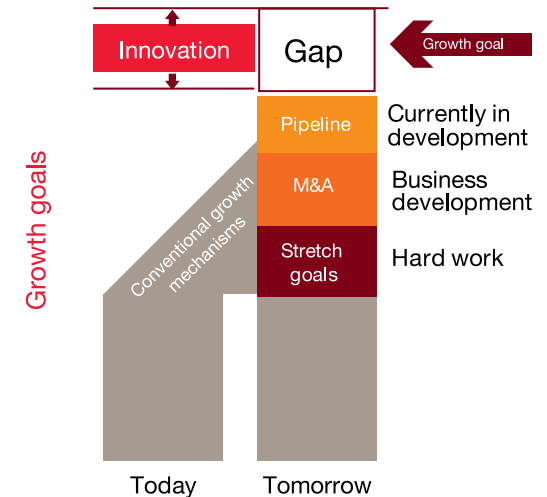
## The FMCG innovation imperative

### Innovation is more than just launching new products

Innovation is a wide concept which aside from creating, launching and marketing new products also includes improving shopping processes, providing consumers with a range of tools to purchase products as also ensuring that the entire organisation is focused on the singular goal of improving the customer's overall experience. As Indian consumers become more global in their aspirations and desires, as they travel abroad and are exposed to global products, their appetite to consume products in their home market will only increase. To meet this demand, FMCG companies need to focus on R&D and innovation as a means to grow the business. At the same time, product lifecycles are shrinking, companies across categories (e.g., consumer durables and electronics) are launching new products, and the pressure to market new products, quickly, is strong. Innovation is a survival tactic.

Most FMCG CEOs believe that long-term demand and growth are significant in markets like India, Brazil, Russia, etc. In addition, the opportunity for FMCG products is large given that per capita consumption in India is lower than in most markets. The opportunity in terms of incremental penetration and consumption is present. Most FMCG brands are rushing to design, create, test and launch new products to capture the attention of Indian consumers.

Breakthrough innovation is leveraged to fill the gap between incremental growth and the company's growth goals.



Source: PwC's Innovation practice

## Health and wellness: A lifestyle change impacting the FMCG sector

FMCG brands focused on R&D and innovation as a means of growth have a culture that promotes using customer insights to create either the next generation of products or in some cases, new product categories.

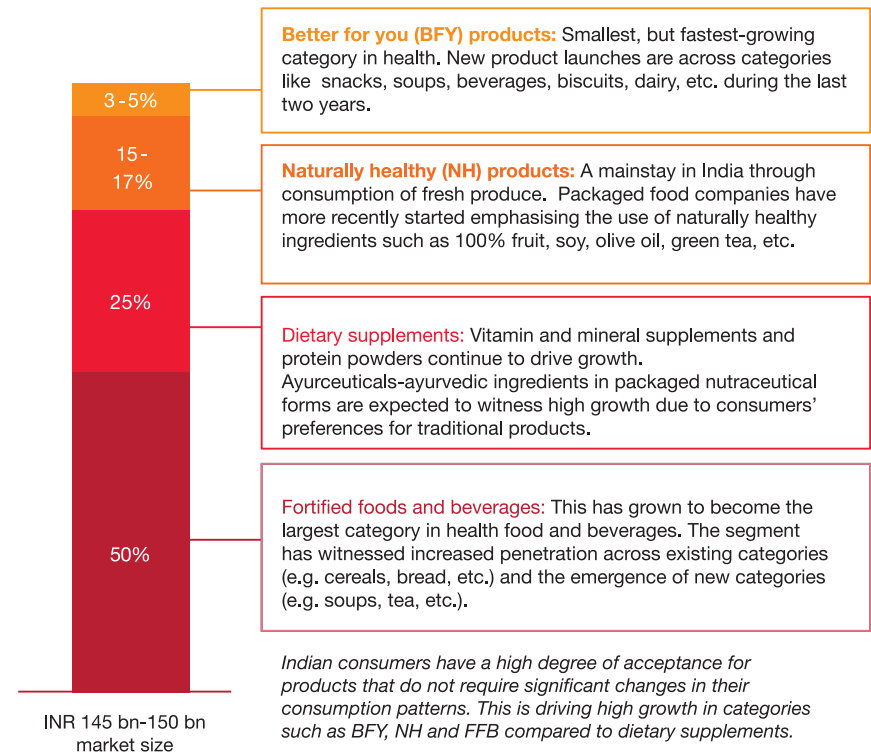
Not that creating the next 'big thing' is easy. According to a survey by *Consumer Goods Technology* and Sopheon Corporation, obstacles to the successful development and launch of new consumer products can be found in the earliest stages of the innovation process. While most companies participating in the survey had little difficulty generating product ideas, less than 20% of those ideas resulted in products considered to be highly innovative. The remainder were product revisions, line extensions or promotional ideas and packaging changes.

One area that we see global and local FMCG brands investing in is health and wellness. Health and wellness is a mega trend shaping consumer preferences and shopping habits and FMCG brands are listening. Leading global and Indian food and beverage brands have embraced this trend and are focused on creating new emerging brands in health and wellness.

According to the PwC-FICCI report *Winds of change: the wellness consumer*, nutrition foods, beverages and supplements comprise a INR 145 billion to 150 billion market in India, growing at a CAGR of 10 to 12%.

Product propositions in the FMCG food and beverage category: Good for you, healthier for you	Health and wellness brands are based on several product propositions:
	Positively impact the consumers' overall health
	Made with natural ingredients, no artificial preservatives
	Contain less sugar, cholesterol, zero trans fats, etc.
	Dairy-based and contain cultures with health benefits
	Baked instead of being deep-fried
	Infused with vitamins and nutrients
Help minimise or reduce cholesterol	

Source: PwC analysis



Source: PwC-FICCI report *Winds of change: the wellness consumer*

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**While there are several products targeted to urban Indian consumers, the sweet spot lies in serving the 700 million-strong group of consumers in rural India.**

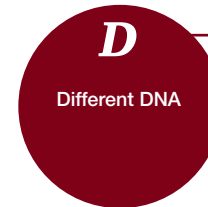
Opportunities abound in India's FMCG market given the high annual growth rates and low penetration levels, across categories. For some categories, such as home care and personal care products, urban and rural consumers will have the same purchase drivers:

- Personal care: "It makes me feel good to wear this lipstick," "I buy skin cream to have soft skin," etc.
- Home care: "It's important to keep my home clean," "I like to have a clean home since I am house-proud," etc.

That said, while FMCG marketers see the importance of strengthening their presence in urban areas, many are turning to rural markets for the next wave of growth. FMCG marketers need to keep the following aspects in mind when serving rural consumers:

- What are the right products that will appeal to this target group?
- How can the products be better marketed using the right communication platforms (e. g. self-help groups, plays, skits, etc.), etc. in order to tailor the key message?
- Which channels are the best to move products quickly (e.g. agricultural formats, online, m-commerce)?

Our thought leadership report *DNA model for inclusive financial services: Driving profitability* indicates that in order to build a model for a profitable business, banks have to become more inclusive in their approach towards consumers using the DNA model. We feel that this perspective is also valuable and applicable to India's FMCG industry as consumer goods companies step up their efforts to serve this group of large and under-served consumers.



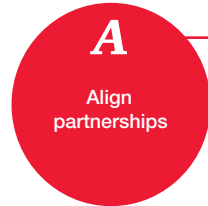
Invest resources in devising a USP that is innovative and radically different.

Don't approach under-served consumers in the same way you would approach target consumers: their needs vary!



Offer under-served consumers a product which is new and transformational.

Determine the best way to source, create, procure, partner with and deliver the product to under-served consumers.



Create strong distribution networks and skills to deliver to the last mile.

Enter into partnerships that help you reach your market, such as those with farmers, self-help groups, microfinance, NGOs, etc.

Source: PwC's *DNA model for inclusive financial services: Driving profitability*, PwC analysis



# 4

## How does FMCG innovation differ between China and India?

### China vs India: In which market are FMCG brands more innovative?

Innovation in China is occurring both in the B2B as well as the B2C sphere. Most Chinese companies believe that innovation is critical to the following:

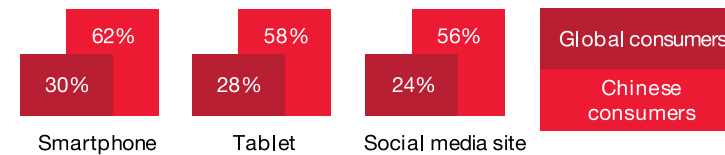
- The ability to compete in overseas markets
- The longevity and continued growth of the company
- Remaining competitive and surviving market forces

Related to producing innovative products is how to best retail them to consumers. PwC's research of online shoppers globally suggests that Chinese consumers are willing to use the online channel as a means to research and buy from. This is a valuable insight that companies serving this market need to keep in mind, as they look at being innovative in not only the products they offer but how they're offered. PwC's *Demystifying the online shopper: 10 myths of multichannel retailing*, a survey of 11,000 online interviews across 11 countries, reveals the following:

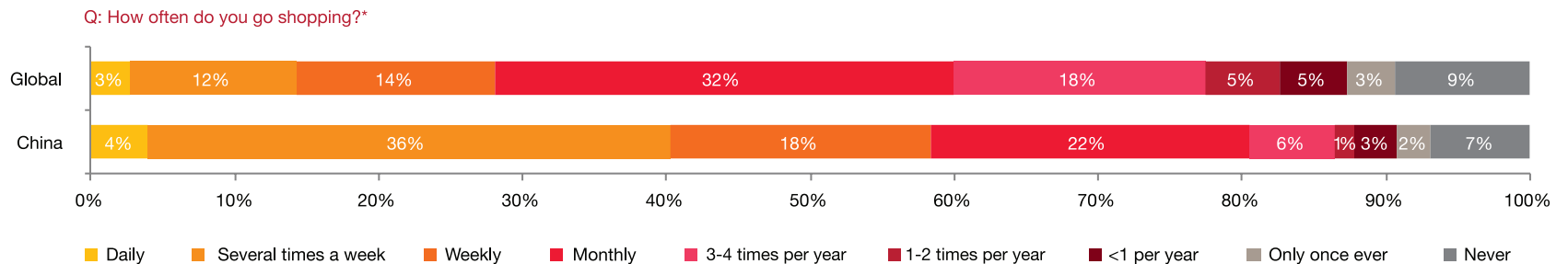
- Demographically, China's online consumers are the youngest and most employed (i.e Chinese consumers are young and relatively affluent as compared to online shoppers in developed markets who are aging and have shrinking purchasing power)

- Chinese consumers have adopted the internet as a retail channel earlier than their global peers
- Chinese consumers shop online more frequently than the global average
- Chinese shoppers are ahead of the curve when it comes to using new devices and social media

Q: How often do you go shopping? Online via tablet PC? Online via mobile phone or smartphone? Online via social media platform?\*



Note: Respondents who say they are shopping daily, weekly, monthly or less than once a month. Sample: Global: 11,067 online shoppers, China: 900 online shoppers



\*Source: PwC's *Demystifying the online shopper: 10 myths of multichannel retailing*  
 Sample: Global: 11,067 online shoppers, China: 900 online shoppers

# 5

## Concluding comments

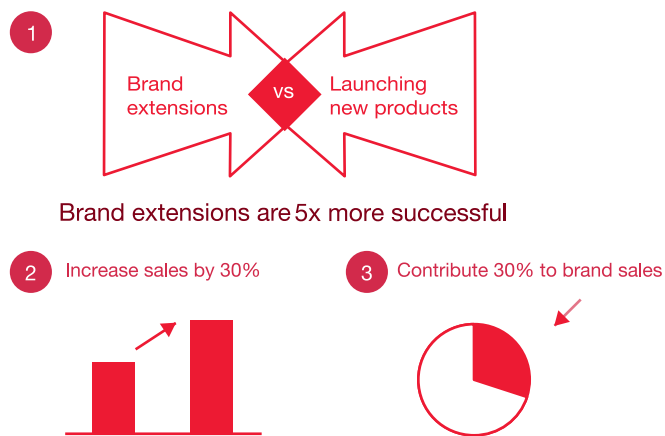
### Perspectives in FMCG innovation

**FMCG CEOs' challenges: Acquiring companies and stretch goals will only get my organisation so far...**

- How do I get my team to think about the next big game-changing innovation?
- Should I set up an R&D lab/innovation cell? How much funding should I allocate to it? How do I identify and hire the best talent ?
- Do I need to reshape the organisational culture so that we encourage breakthrough ideas and thinking, without instilling a fear of failure?
- Are my priorities for innovation and development clear?
- What kind of time to markets are reasonable for a large innovation?
- Do I need to convince the board of how imperative it is to focus on innovation? What kind of a budget do I have?
- What are the current pain points in time to market and how do I reduce these?

Source: PwC analysis

Did you know that FMCG brand extensions...



Source: Nielsen

India's FMCG market is mature, competitive, and crowded with local and global brands. In this market, innovation is critical for:

Market	<ul style="list-style-type: none"> <li>• Remaining competitive</li> <li>• Generating new avenues for sales and profits</li> <li>• Driving growth by entering new categories through relevant innovation</li> <li>• Increasing market share and moving towards market dominance positions in:               <ul style="list-style-type: none"> <li>- Brand share</li> <li>- Overall FMCG market share</li> <li>- Category share</li> </ul> </li> <li>• Growing product and category penetration</li> </ul>
Consumer	<ul style="list-style-type: none"> <li>• Creating products that match consumers' evolving tastes, preferences and needs</li> <li>• Reaching new customers</li> <li>• Growing the share of wallet from current customers</li> </ul>
Product	<ul style="list-style-type: none"> <li>• Launching new products and keeping the product portfolio fresh</li> </ul>
Channel	<ul style="list-style-type: none"> <li>• Leveraging new distribution channels to boost revenue and penetration (e.g. social media, multichannel, omnichannel)</li> </ul>

Source: PwC analysis



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\*PwC refers to PwC India and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see [www.pwc.com/structure](http://www.pwc.com/structure) for further details.

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