THE HINDU Business Line
INTERNET EDITION
Financial Daily from THE HINDU group of publications
Thursday, Sep 15, 2005

Catalyst - Brands

The rise of regional brands

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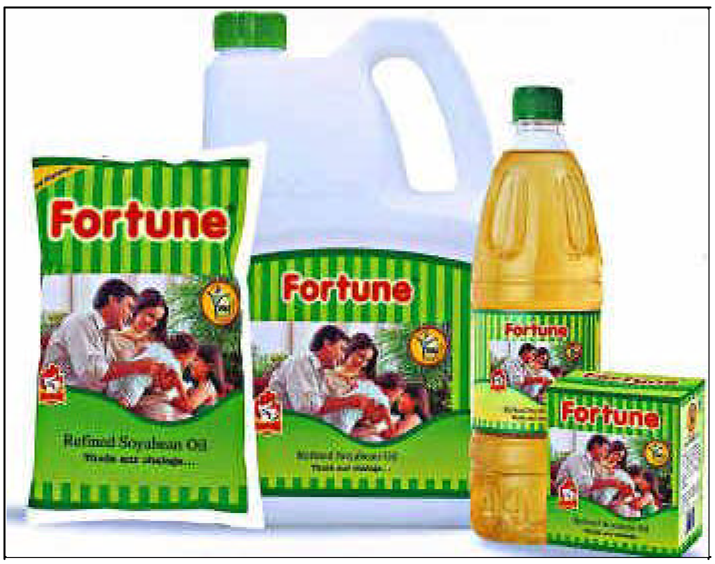
Small and regional brands score because they are often close to the market, respond faster to changes and are willing to learn from mistakes.



HINDUSTAN Lever Ltd (HLL), India's largest FMCG company, has struggled to grow in recent times. Many of its brands are no longer the stars of the past. HLL's experience is symptomatic of the kind of challenges faced by established brands today. The new threat comes from smaller players who have embraced a different kind of business model with a different value proposition. These include regional brands and private labels.

While HLL has been struggling, the regional players seem to be doing well. For example, CavinKare has been giving HLL a run for its money in the shampoo market. Anchor, one of the fastest growing FMCG companies in recent times, is hotly challenging HLL and Colgate in the toothpaste market. Jyothi has dislodged Reckitt Benckiser's long-time leader Robin Blue with its Ujala fabric whitener.

Regional brands typically take on well-known, established brands by pursuing a flanking strategy which can be of two types - geographical or need-based. In a geographical attack, the challengers identify regions where the opponent is underperforming. The other flanking strategy is to serve unfulfilled market needs.

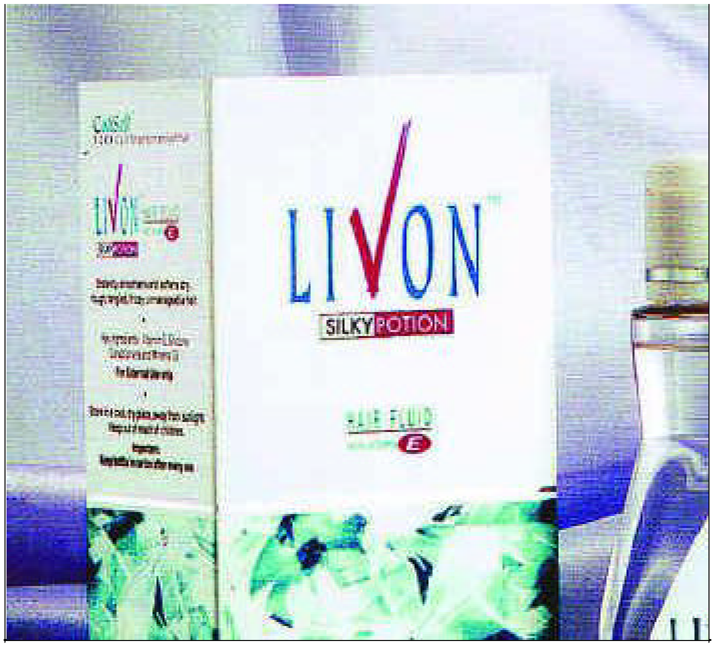
The essence of a flanking strategy is identifying shifts in market segments that are causing gaps to develop, moving into the gaps and developing them into strong segments. Flank attacks make excellent marketing sense and are particularly attractive to challengers with fewer resources than their opponents. This is how Nirma has become a national brand, even though no one gave it a chance when it took on HLL.

Various factors have contributed to the rapid emergence of challengers in the past decade. In many product categories, technology is easily available. It is no longer the exclusive preserve of established players. Moreover, many entrepreneurs today are qualified tech-savvy people, if not technologists themselves. They understand the importance of technology.

Earlier, resources were a constraint. So established brands created high barriers to entry. But today even if the entrepreneurs don't have money to back their plans, angel investors and venture capitalists are around to fund them.

The smaller brands have also started delivering on the quality front. No longer can national brands pose as the sole guardians of quality.

Probably the biggest strength the smaller brands bring to the table is that they are often close to the market and respond to changes faster. They are typically managed by more entrepreneurial teams which are flexible and willing to learn from mistakes. Indeed, one of the main points of criticism against HLL is the management hubris, that has grown out of years of experience in brand management and the comfort level that comes when a huge parent company's backing (in this case, Unilever) is available.



Branding is a risky business. While investments are heavy, the chances of success are small. But some of the entrepreneurs behind the challenger brands are showing a healthy appetite for risk. For example, Paras Pharmaceuticals (which has brands such as Moov, Dermicool, Krack and Livon) has a Rs 10 crore-12 crore annual advertising budget. Of course, some of these brands are also well-endowed and have the support of established business houses. Anchor toothpaste has the backing of a Rs 1,000-crore business group. Parakh Foods, which shot to the top of the growth league tables with its Gemini oil, is backed by a business group with a similar turnover. Adani Wilmar's Fortune oil comes from the Rs 10,000-crore Adani Group.

Some of these business groups have assets they are willing to leverage. The Parakhs have piggybacked on the Samrat brandname, a market leader in Mumbai in processed wheat and gram flour, to launch refined oil. Bhaskar Salt has been launched by the Dainik Bhaskar newspaper group, which has its own print publications and cable TV network.

The 40-year-old Anchor group made only switches during the first 30 years. Later, it diversified into lightings and luminaries, miniature circuit breakers, PVC wires, fans, mixers and irons. Realising it had a strong retail network, Anchor decided to enter the toothpaste business. The company went about identifying a unique selling proposition (USP) and found one which would never have occurred to an MNC - vegetarian toothpaste. Some of the standard ingredients in toothpaste are obtained cheaply from animal sources. Anchor found an alternative in vegetable oils.

The vegetarian theme has paid off with the company making inroads in States such as Gujarat and Rajasthan. Anchor has now started to look beyond toothpaste. It has big plans to launch soaps, talcum powder and confectionery. It is pretty confident about repeating the toothpaste success in soaps and shampoos.

The Parakhs started with a *dal*-and-*besan* mill in 1964. In the '90s, the business reached saturation point. Sensing little scope for expansion, they looked at new commodity-based businesses. With the Samrat brand for gram flour, semolina and wheat flour already established, the company launched Samrat edible oil, keeping its price low, while maintaining quality. Soon, another brand, Gemini, was introduced for refined sunflower oil. At Rs 36 a litre, it was 30 per cent cheaper than the price of Rs 52 charged by established players.

The Adanis formed a 50:50 joint venture, Adani Wilmar Ltd (AWL), with Wilmar Trading, Singapore. Fortune became the leader in the edible oil market by December 2003, with 17.25 per cent market share (pushing Agro Tech Foods to second position with 12.9 per cent), riding mainly on its strength in soyabean oil. Though Fortune has held on to its position over the past one year, it has realised the need to get into the largest-selling oil segment: sunflower. It currently has 22 per cent of the edible oil market, followed by Parakh Foods (Gemini) with 13 per cent, Kaleesuwari Refineries (Gold Winner) with 11 per cent and Agro Tech with 10 per cent (according to a report in Business Line dated March 3, 2005.). Fortune wants to overtake Sundrop by December 2005 and become the second-best selling sunflower oil brand in the country, behind only Gold Winner. With this goal in mind, the company is holding a price-line that is on par or lower than its competition by Rs 1-1.5 a litre.

The Dainik Bhaskar group entered the salt business to leverage its strengths in distribution. Bhaskar salt has targeted housewives with its catchy advertising campaign that describes the salt as natural, free-flowing, iodised, super-refined and hygienic. Bhaskar salt's USP is "India's first taste-enhancing salt." The company's message to customers is "Bhaskar salt is the purest, whitest and most consistent salt.

So when you buy Bhaskar salt, you are buying health and happiness for your family." The brand is being promoted using outdoor media, point-of-purchase displays, print ads and cable television network. In the rural areas, Bhaskar is trying to expand its market by eliminating the use of unbranded salt.

A second threat on the horizon for the established brands is the store brand or the private label. Many large retail chains are sourcing items from original manufacturers and in some cases making them on their own. They don't have to bear heavy advertising and promotional expenses. The store label signals quality and consumers are attracted by significantly lower prices. These are not regional brands in the sense that they are sometimes found all over the country. But their strategy closely resembles that of regional brands.

The store brand is not a big problem in India as yet. But it will be when the retail industry takes off. As organised retailing gains momentum, private labels can be expected to become more popular, going by the trends in developed countries. Already, brands such as Nilgiris, FoodWorld and Trinetra have started making an impact in the grocery segment.

Private labels are already a big business in the US. According to the US Private Label Manufacturers' Association (PLMA), store brands now account for one of every five items sold everyday in US supermarkets, drug chains and mass merchandisers. That works out to sales of more than $50 billion.

Private labels are less likely to work when they are competing with a lifestyle brand. But in recent times, even lifestyle brands like Coca-Cola have found themselves under threat from private labels. Wal-Mart's Sam's Choice is causing major worries for Coke. A 2-litre Sam's Choice bottle sells for 50 cents compared with $1.25 for Coke. Store brands now account for more than a quarter of soft drink sales at Wal-Mart.

The established brands cannot afford to sit idle in the face of this threat from regional brands and private labels. They need to do a lot of soul-searching and keep reinventing themselves so that they do not leave any flanks uncovered. That calls for both smartness and hard work on the part of the owners of these brands to segment markets carefully. While the upper end of the market can be targeted in the traditional way, at the lower end, they must come up with an innovative business model that can break even at much lower prices.

Obsession with mainstream markets and inadequate attention to the bottom-of-the-pyramid markets will create serious problems for today's market leaders. The leaders need to wake up quickly if they do not want their lunch to be eaten by the challengers.

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