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HUBRIS OF FMCG COMPANIES SHATTERED BY SAFFRON ROBED MAN: A STRATEGIC MANAGEMENT PERSPECTIVE AT BABA RAMDEV'S PATANJALI AYURVED LTD

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ABSTRACT

This paper corroborates various theoretical principles of strategic management to the actual approach used by Patanjali Ayurved Ltd. (PAL). We would like to examine reasons success of Patanjali Ayurved Ltd. (PAL). We propose a model called 5 C – Model (credence, culture, consistency, contentment and cost) to understand the Patanjali Ayurved's success. There is little or no innovation in this market over last few decades which is why companies like Colgate have dominated the oral healthcare segment, HUL and P&G have dominated the homecare segment, Nestle has dominated the instant food segment for decades put together. These companies have had a long learning curve and have learnt it the hard way whether it is distribution or understanding diversity in Indian landscape. We aim to use a structured questionnaire method for our study. This is all set to change with advent of Patanjali Ayurved Ltd. (PAL). After a survey focused group of 100 respondents it was observed that credence was the utmost factor which influenced these buyers followed by the other five parameters of the proposed 5 C - Model.

Keywords: Retail and Wholesale Trade, Marketing, Agricultural Markets and Marketing

JEL Codes: L81, M31, Q13

INTRODUCTION: OVERVIEW OF INDIAN FMCG MARKET

Fast Moving Consumer Goods (FMCG), includes the products that are sold quickly and generally consumed at a regular basis such as soap, cosmetics, toothpaste, shaving products and detergents. It may also include pharmaceuticals, consumer electronics, packaged food products, soft drinks, tissue paper, and chocolate bars. FMCG industry, which offers something for everyone, is no longer as urban-

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centric as it used to be. While metropolitan and tier-I cities have been driving the consumption over the last decade or so, their share in FMCG spending now stands at around 40 percent, which indicates that the smaller towns (population of 1 million and below) have become large markets to focus on. It is the tier-II, tier-III and tier-IV cities that are expected to drive the sector growth over the next decade. The FMCG industry is currently the fourth largest sector in the Indian economy which has grown at an annual rate of about 11% over the last decade. Food products, the leading market segment (43% of the overall revenues), along with personal care (at 22%), account for almost two-thirds of the industry's revenue.

IMPACT OF BABA RAMDEV'S PATANJALI ON THE FMCG SECTOR

The traditionally stable FMCG Sector is currently facing a huge challenge from multiple fronts. Whether it is the usual last mile problem or government regulation (especially GST) or the monsoon which drives not only the rural consumption but also the raw material prices. Amidst all this there is a threat of e-retailers who are trying to eat into the distributor's margin at least in the urban market. As if this was not enough the big retail companies like Future Group's Big Bazaar are busy promoting private labels of their own like Cleanmate. The real disruption in the market occurred with unorganized regional player like RohitSurficans which overthrew HUL's popular detergent brand Wheel with its own Ghari Detergent with its volume. This was restricted to detergent market and it was a repeat of Nirma story in 80's. While they managed to deal with it by creating product differentiation and value edition; this worked to a great extent but failed when the local player expanded to other geography. While the MNC's were busy making strategies for growth the challenger in the form of Baba Ramdev's Patanjali entered the market. Nobody took him seriously due to the hubris of FMCG Company Boards. The humble beginning started picking up momentum when the Baba from Himalaya started rolling out product after product that too in various segments. When Patanjali signed up with KishorBiyani's Big Bazaar for distribution of their product. The result is seen in Patanjali posting sales of INR 3,267 crore in the ten months to January 2016, a 106% jump compared to INR 1,587 crore a year ago. This has rattled many FMCG Company Board and Management Consultants unlike the CalvinKare's Chic Shampoo or NirmaDetergent this Baba Ramdev's is not restricted to a single product or market and is riding high on one factor which the entire FMCG industry is trying to grapple with i.e. the five letter word "TRUST" that Baba Ramdev's Patanjali bring to the consumer mindset. According to Chief Strategist, Wolfzhowl Strategic Instigations, Mr K R Challapalli; "India is seeing a contrasting trend when it comes to packaged food. At the bottom of the pyramid, packaged goods represent safety and hygiene, whereas at the middle and the top, there is an undercurrent of distrust. Brand controversies, such as those around colas, chocolates and noodles, and the rise of lifestyle diseases, are augmenting these fears. Patanjali's credibility was beamed into consumers' hearts and minds via TV sets; Baba Ramdev garnered great equity for spiritual and physical well-being. One would assume the core TG for Patanjali comprises the less Westernized middle and lower middle classes, but the brand has loyalists across SECs, including LSMs (Living Standard Measurement) 11 and 12, that comprise the premium Dove/ L'Oreal and Gucci/Prada consumer who are buying the healthcare products. Mid-level LSMs 4 and 5 (Unilever's bastion) include households that are adopting personal care and food and beverage products. From ghee to shampoo to chyawanprash, LSM 4/5/6 households might just become the new 'Patanjali households'. Even Nestlé's Maggi needs to expand to and below this LSM, which will definitely be open to Patanjali noodles". It would be an interesting phenomenon to see rise of Patanjali Ayurved Ltd. as it seems to be the Black Swan Event for FMCG Sector.

LITERATURE REVIEW

Vijayraghavan, (2004) article in where is described the attempts made by FMCG giant Hindustan Unilever Ltd (formerly known as Hindustan Lever Ltd) to tap the Ayurved market by pushing its brand Ayush in both dealer network as well as the direct marketing route. He says; "Consumer goods major Hindustan Lever (HLL) is likely to market its ayurvedic power brand, Lever Ayush through its Rs 100-crore direct selling business, HLL Network. Currently, the brand is being marketed through the traditional dealer network. The company had targeted annual sales of Rs 200 crore in 2-3 years since its launch in '00. However, according to market estimates, HLL's turnover is not more than Rs 30 crore. By marketing the brand directly to consumers through the HLL Network, the company is hoping to lift Ayush's sales through the 'push' route of direct selling rather than the 'pull' one, which would call for more advertising spends. Currently, the Rs 1,700 crore direct selling industry is growing at around 15-20%. HLL Network sells home and personal care products to consumers through a network of direct selling agents, whom the company refers to as consultants. Personal care products are available under the Aviance brand. The company had launched cough syrup, headache roll-on, shampoo, hair oil and soap under the Ayush umbrella. It had tied up with the Coimbatore-based Arya Vaidya Pharmacy to provide technical know-how and authenticity to the new brands given that HLL did not have any background in ayurvedic products. HLL hoped that the brand would be able to cash in on the double-digit growth rate recorded by the Rs 2,000 crore Indian healthcare market."

According to Vijayraghavan, (2006), consumer heavyweight Hindustan Lever (HLL) has pulled out its ayurvedic brand — Lever Ayush — from the traditional retail channel following a recent brand review. The existing inventory of the brand has been largely exhausted through 'buy one, get one free' promotions during the recent months. Launched in '02 to take on competitors like Dabur, Himalaya Drug Company and Ayur in the growing ayurvedic and herbal segment, the brand did not catch the fancy of consumers. The Lever Ayush range included shampoo, hair oil, cough syrup and Headache Roll On. Its direct selling arm — HLL Network — currently markets the Ayush Spa range of products, which, the company claims, are completely different from the Lever Ayush profile. Earlier, Aviance was another brand which was shifted from the traditional channel to HLL's direct selling business. Confirming this, a company spokesperson said that HLL found that consumers needed to experience the benefits of the product which would be done through its services, the Ayush therapy centres. The company has tied up with the Coimbatore-based Arya Vaidya Pharmacy to provide technical know-how and authenticity Ayush needs, given that HLL did not have any background in ayurvedic products. HLL hoped that the brand would be able to cash in on the double-digit growth rate recorded by the Rs 2,000-crore Indian healthcare market.

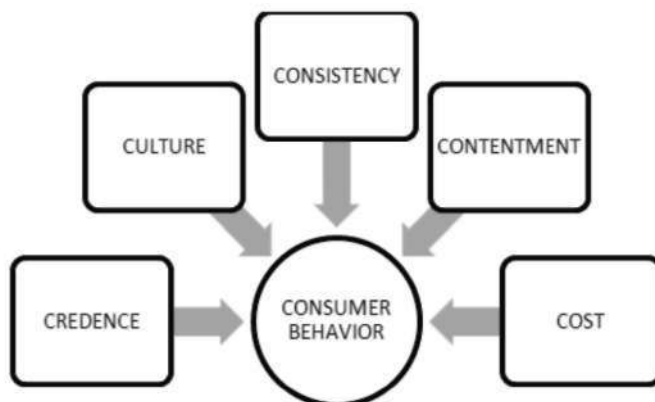
Das (2009) in their paper discuss dynamics of retail business, ensuring customer satisfaction in delivering the right product and service to the end-users is the major concern for the future growth of the organization. In the present work an attempt is made to model the customer choice in FMCG product design during purchase in retail outlets based on customer survey. Since the behavior of customer cannot be predicted easily due to association of fuzziness involved, fuzzy reasoning is adapted for modelling such uncertainty along with generation of rules towards product design preference using statistical principle. The results found from this work would be beneficial to the retail management, in general, about customers' profile and would help in planning retail business for FMCG items.

Manrangoz et al., (2014) in their paper discussed the demand of organic products as well as trade volume is increasing. The most important factor on the increased production and consumption of organic products is the change in consumer preferences. Because today's teenagers will become buyers of organic foods in a near future, their perception is important for marketers. The purpose of this study is to model the factors affecting consumer attitudes and behaviors towards organic products. In this context, the attitudes of age group of 12-19 is modeled through Structural Equation Modelling with using self-identity, health consciousness and food safety concern measurements. A self-managed survey implemented at region of Turkey to 845 adolescents. According to the results of the study, health consciousness has the highest impact on the attitude towards organic products among examined variables. Sahoo & Kumar (2016) in their paper discuss the hair care market in India is estimated at around US\$ 200 million. Hair care products consist of hair oils, shampoos, conditioners and hair colors. The shampoo market is the fastest growing item within personal product category. The India shampoo market is estimated at around US\$ 550 million. As per the industry estimates, the urban market penetration of shampoo was about 40% whereas in the rural market usage was of the order of 10 % of the total population. Thus, there is a considerable scope for expansion by converting non-users. This paper examines various factors affecting the consumers' buying behavior for various shampoo products in Indian rural market; and attempts to assess the perception of rural consumers for them. The findings and the implications of the study would not only help the shampoo producing companies and marketers but also set guide lines for future research.

RESEARCH METHODOLOGY

We use convenient random sample for our research, where we interviewed around 140 customers who purchased PAL products. We covered major locations where either PAL outlets were there or outside Big Bazaar, D Mart and other supermarkets in Mumbai. Our finding corroborate with most reports published in secondary sources like newspapers, research reports etc. Based on this our finding can be extrapolated to pan India consumer buyer behaviour. We used a structure questionnaire comprising of demographic details like age, gender etc; along with questions to probe correlation and regression for our 5 C – Model shown in figure 1.

Figure 1: Proposed 5 C – Model of Strategic Consumer Behaviour



RESEARCH FINDINGS

A self-administered questionnaire was used a tool to collect the data from the pharmacy students. The questionnaire was distributed to the students by one of the author responsible for data collection. The same author was also assigned the responsibility of providing an explanation to students regarding the questionnaire. We interviewed 140 customers from of various outlets either PAL outlets were there or outside Big Bazaar, D Mart and other supermarkets in Mumbai we had to discard 40 responses as they were incomplete. The balance 100 responses were analyzed using SPSS 21 software for various tests. The reliability coefficient or Cronbach Alpha was found to be 0.77. This indicates that our questionnaire captures measurement for all five variables.

Table 1: Descriptive Statistics for Personal Care Products of PAL

		WHICH CATEGORY OF PERSONAL CARE YOU BUY EVERYTIME?			
		SKIN CARE (UBTAN, FACE-WASH & OTHERS)	DENTAL CARE (TOOTH PASTE, TOOTHBRUSH & OTHERS)	HAIR CARE (OIL, SHAMPOO & OTHERS)	BODY CARE (SOAPS & OTHERS)
IS THIS THE FIRST TIME YOU ARE BUYING PAL PRODUCT?	YES	10	0	0	22
	NO	8	35	16	9
Total		18	35	16	31

The table 1 indicates that DantKanti the toothpaste is the most bought item amongst the personal care category and all are regular user. This is very interesting observation as MNC's and FMCG companies have spent decades to penetrate this market. With PAL trust factor drives the consumer buying behaviour and the product also seems to be of good quality and appropriately prices based on the survey which is why it is a runaway success.

Table 2: Descriptive Statistics for Nutrition and Supplement Products of PAL

		WHICH CATEGORY OF NUTRITION AND SUPPLEMENT YOU BUY EVERYTIME?			
		BADAM PAK	GHEE	HONEY	HEALTH DRINKS
IS THIS THE FIRST TIME YOU ARE BUYING PAL PRODUCT?	YES	0	20	12	0
	NO	11	27	22	8
Total		11	47	34	8

The table 2 indicates that Ghee which is a commodity product is the most bought item amongst the Nutrition and Supplement category and majority are regular user along with many first time buyers. This is very interesting observation traditionally Ghee has come a long way from being a commodity. However there is little or no significance of brand in this segment except the product distinction like Normal Ghee and Vanaspati Ghee. The dairy and MNC's have spent decades to penetrate this market. With PAL trust factor drives the consumer buying behaviour and the product also seems to be of good quality and appropriately prices based on the survey which is why it is a runaway success.

Table 3: Descriptive Statistics for Grocery Products of PAL

		WHICH CATEGORY OF GROCERY YOU BUY EVERYTIME?			Total
		BISCUIT & COOKIES	STAPLE FOOD(RICE, DAL & OTHERS)	NOODLES	
IS THIS THE FIRST TIME YOU ARE BUYING PAL PRODUCT?	YES	10	22	0	32
	NO	21	12	35	68
Total		31	34	35	100

The table 3 indicates that Noodle is the most bought item amongst the Grocery category and all are regular user. The ready to cook market is under tremendous pressure since the Maggi Episode. This is very interesting observation as MNC's and FMCG companies have spent decades to create this market. With PAL trust factor drives the consumer buying behaviour and the product also seems to be of good quality and appropriately prices based on the survey which is why it is a runaway success.

Table 4: Descriptive Statistics for Health Care Products of PAL

		WHICH CATEGORY OF HEALTH CARE YOU BUY EVERYTIME PAL ?		Total
		DIGESTIVES	DO NOT BUY	
IS THIS THE FIRST TIME YOU ARE BUYING PAL PRODUCT?	YES	8	24	32
	NO	12	56	68
Total		20	80	100

The table 4 shows this category is the slowest moving in PAL portfolio and it corroborates with secondary date.

Table 5: Descriptive Statistics for Home Care Products of PAL

		WHICH CATEGORY OF HOME CARE YOU BUY EVERYTIME PAL ?			Total
		DISH WASH BAR	OTHERS(AG ARBATI,GU LAL & OTHERS)	DID NOT BUY	
IS THIS THE FIRST TIME YOU ARE BUYING PAL PRODUCT?	YES	1	0	31	32
	NO	9	10	49	68
Total		10	10	80	100

The table 5 shows this category is the slowest moving in PAL portfolio and it corroborates with secondary date.

Table 6: Descriptive Statistics of Consumer Attribute for choosing Products of PAL
WHY DID YOU CHOOSE PAL OVER OTHERS ?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid TRUST IN BABA RAMDEV	39.0	39.0	39.0	54.0
GOOD QUALITY	15	15.0	15.0	15.0
REPORTS OF ADULTERATION NEWS IN OTHER PRODUCTS	18	18.0	18.0	72.0
NATURAL - NO CHEMICALS	28	28.0	28.0	100.0
Total	100	100.0	100.0	

The table 6 shows that the consumers decision of buying PAL product is mainly because of trust that the Brand Ambassador Baba Ramdev. The second most important criteria is distrust created in other product due to news of adulteration and chemical seen in FMCG Companies Products like Maggi, Cadbury etc. The third and fourth factor are multiplier i.e. good quality at low good price makes PAL product even more attractive. Thus we can conclude that Baba Ramdev's Challenger Strategy coupled with the 5 C's (credence, culture, consistency, contentment and cost) have tremendous impetus to Patanjali Products.

STRATEGIC MANAGEMENT BY BABA RAMDEV'S PATANJALI AYURVED LTD

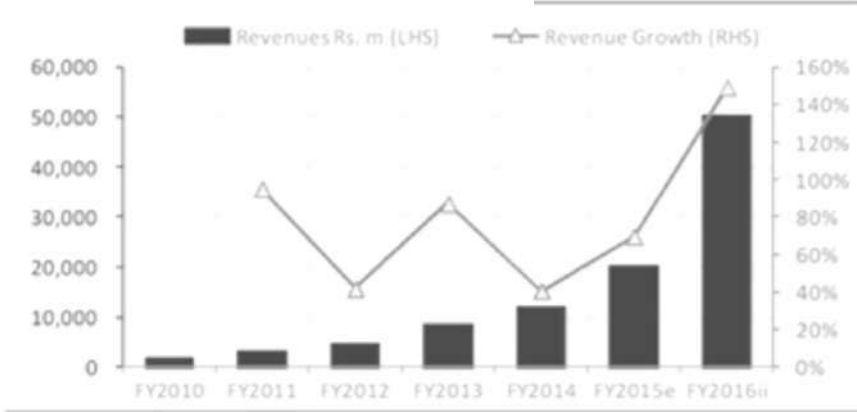
Patanjali remains perhaps the only company in the FMCG space that didn't rely on advertising for its scalability during its nascent years. Word of mouth publicity and powerful endorsements by Baba Ramdev via his yoga camps helped build scale. Moreover, an exclusive store network proved a winning strategy. There are nearly 10,000 consumer touch points as “Chikitsalayas” (Dispensaries) and “Aarogyakendras” (Health centers). These are operated by third party vendors as exclusive Patanjali stores. In October 2015, Patanjali partnered with the Future Group, to offer the whole range of products through Big Bazaar outlets across the country. Patanjali toothpaste DantKanti sales are estimated at Rs. 450 crore, and has been able to shave off 1.5 percent of Colgate share in the dental care market. Word-of-mouth publicity for the efficacy of PAL products has led to repeat buys which is a giving MNC's a sleepless night.

Having already built up scale via non-conventional distribution, it now has the funds to make a big push towards traditional distribution. Distributors are more than willing to stock PAL products looking at their traction with consumers. As the Patanjali brand continues to make headway into the consumer market, large multinationals that previously sat pretty on handsome margins, have been forced to stand up and take notice. Market leader Colgate is already sensing a shift in tectonics in the oral healthcare segment. Due to several category overlaps, Dabur is also likely to face the music. According to a report by IIFL Institutional Equities, Patanjali is likely to touch a net turnover of Rs. 200bn by FY20, resulting in ~1-1.5% impact on sales CAGR for the sector. The highest market shares of Patanjali are likely in categories such as Ayurvedic Medicine (35%), Honey (35%), Ghee (33%), and Chyawanprash (30%).

Patanjali's objective is to make products available to the consumer at the most reasonable price, and therefore most of its products come at a substantial discount to existing alternatives Malaviya & Tyagi(2016). The price differential itself may be enough for some consumers to make the shift and for those in the low income class to become loyal customers of the given product category. For example, Chyawanprash, one of Dabur's flagship product is nearly 25% more expensive than that of Patanjali's. Similarly, Honey is priced at 43% lower than Dabur. The company is now aiming to uproot Maggi from its 'numeroun' status in the snacks segment, with Patanjali's Atta noodles being offered at 36% discount to the Maggi's atta version. The story of how Patanjali got into noodle making is fascinating, to say the least. The company was never serious on this front, not even when the Maggi controversy was dominating the headlines.

Figure 2: Revenue of PatanjaliAyurved Ltd.

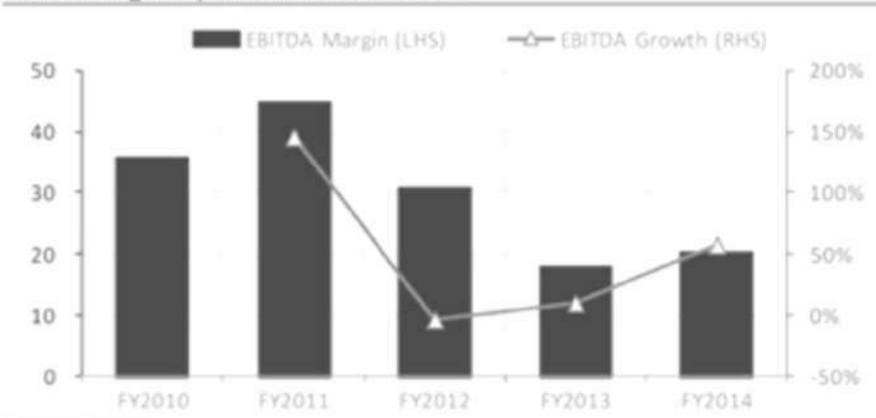
Pntanjall Revenue Growth Has* been Strong m Strong



Source: Company, IIFL Research

Figure 3: EBITDA Margin of PatanjaliAyurved Ltd.

EBITDA Margins Expanded in FY2014 n FY2014



Source: Company, IIFL Research

Patanjali maintains high profit margins on several of its products, thanks to the phenomenally low overheads compared to the competition. Neither does Patanjali hire management professionals with fat pay checks, nor did it spend much on distribution until recently, operating solely through exclusive shops. No wonder, the company has managed to maintain lower prices despite the pressure of inflationary trends on its popular products.

CONCLUSION

The present study illustrates that the key factors influencing the attitudes and purchase intentions of the FMCG products. Positive attitudes regarding willingness to switch from existing FMCG Product to Patanjali Product is highly correlated with purchase intention. The study can enable marketing managers to plan the pertinent marketing strategies on marketing mix elements so as to satisfy the prospective target market. The research would be of great help to the companies in FMCG sector as they get an idea about the best marketing strategies that they can adopt to understand the consumers' attitudes and purchase intentions. Our study shows that there are three winners which drives 60% of revenue i.e. Ghee, Toothpaste (DantKanti) and Noodle are the most popular products. With Patanjali Ayurved Ltd. trust factor drives the consumer buying behaviour and the product also seems to be of good quality and appropriately prices based on the survey which is why it is a runaway success.

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