

'In emerging markets, the focus should be on scale, not profit'



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There has been turmoil all over, with the stock markets crashing on Monday, and sentiment, both investor and consumer, taking a hit. Is it easy to do business in such an environment?

There will be a temporary weakness on account of China's woes. But India's insulation factor is relatively higher vis-a-vis other BRIC nations. If food inflation is controlled, our crude import bill remains on the lower side and our fiscal deficit is reined in, then even if we have a GDP growth of about 6.5 per cent, I think we should be relatively insulated from what is happening around us. The only concern is the monsoon. In some states, rainfall has been really bad. Now



SAUGATA GUPTA, managing director and chief executive officer, Marico, feels the slowdown in rural areas has not caught up with fast-moving consumer goods yet. Gupta, 47, who is among the newer, younger crop of FMCG CEOs in India, believes that in emerging markets, it is scale and not profits that businesses should be after. In this exclusive interaction with **Viveat Susan Pinto**, Gupta throws light on his business plans for Marico and how a commodity deflation is the best time to pursue innovation. Excerpts:

rainfall is linked to some crop or the other. If monsoon is deficient, it impacts the output of that crop, pushing up food inflation. And food inflation impacts domestic consumption. For FMCG companies, domestic consumption is important. So, if food inflation is brought under control coupled with some other factors I mentioned above, the medium term will not look so bad after all.

Low commodity prices have come as a bonanza for FMCG companies. How are you utilising the gains made on that front?

That is a bonanza, yes. But for any emerging country, we should be chasing growth, not profit. Profits are fine, which low commodity prices aid, but the focus should be on volume growth. The question is: Are you acquiring more consumers? Or are your existing users consuming more? Those should be the questions companies should be preoccupied with. It is a question of scale versus profit. And in emerging markets, the focus should be on scale, not profit.

What is Marico doing to acquire scale? Your sales growth in the June quarter was 10 per cent, with domestic volume growth at six per cent...

I would be happier with an 8-10 per cent volume growth.

There are two things that have happened to the FMCG sector in the last few years. One is a lot of premium discretionary categories have slowed down. Packaged foods, for instance, was the first to feel the slowdown, followed by top-end personal care such as premium skin care and hair care. In consumer staples, the consumption basket has tightened. So a mother may put one spoonful of a milk food drink in a glass of milk for her child rather than the earlier two.

So if you look at it, rural consumption hasn't gone down, it was urban consumption that was hit. Technically, urban consumption should pick up now. In rural, it is the discretionary categories such as durables and automobiles that have been impacted, not items of daily consumption.

But how are you ploughing back the gains made on lower commodity prices?

We have passed some of these gains on to consumers. Some of it is being utilised in innovation. This is the best time for innovation. The sweet spot is when inflation is down and you are in recovery mode. This is the time to kickstart consumption by investing in innovation, advertising and promotion, and pricing. This is because consumption needs a stimulus. So the sector will see incremental advertising, a lot of categories will see pricing action, which has already happened. And I am reasonably confident of urban consumption picking up.

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