EYEING GROWTH

Marico increases distribution network by 60% in top 6 metros

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MUMBAI

Marico Ltd, the maker of Parachute and Saffola oils, has increased its distribution network by 60% in the top six metros over the past six months alone.

In December, the company started testing a new go-to-market strategy to generate demand in Mumbai, which will be rolled out nationally in the next six months. Marico is also trying to double the growth in its portfolio of youth brands like Set Wet, Livon and Zatak which it acquired from **Paras Pharmaceuticals Ltd** two years ago.

All this as the company looks at chasing volume growth in the urban market at a time when urban spending is expected to improve.

"I believe that urban consumption is expected to move up. A combination of factors— food inflation is under control, GDP (gross domestic product) growth has started to happen and then there already is a feel good in consumer sentiment," says Saugata Gupta, managing director and chief executive officer, Marico who expects overall volume growth to be in the range of 8-10% in the coming fiscal year, up from 5-6% in the current fiscal.

Close to 70% of Marico's domestic revenues come from urban India. Following the slowdown in urban consumption demand in the economy, Marico's volumes dipped from an average of 14% during fiscal year 2011-2013 to 6% in fiscal year 2014 and 5% in the September quarter of fiscal 2015," said a 4 February report by ICICI Securities Ltd.

The increased focus will see urban growth catch up with rural growth, says Gupta while explaining that urban growth could catch up with rural growth. In the December quarter, rural markets grew 32% for the company, outpacing urban markets, which grew at 25% .

Not everyone is convinced about the effectiveness of the strategy.

"What we are seeing is a strategy for incremental growth. This will help the company grow a bit faster, but it isn't enough," says Percy Panthaki, an analyst at IIFL Institutional Equities.

Hindustan Unilever Ltd (HUL), the country's largest consumer packaged consumer goods company by sales, saw its volume growth dip to 5-6% in the past year from an average of 11.6% for fiscal year 2011-12. In the September quarter, volume growth came in at 4% for HUL.

"The next couple of quarters will be a challenge for rural," said Vivek Gambhir, managing director, **Godrej Consumer Products Ltd** (GCPL) and added the urban growth pick-up has started. To be sure, "rural will continue to grow, but not at the pace which rural should be growing," he added.

Meanwhile, Marico has added chemist, cosmetic and food outlets to its network diversifying its mix which was skewed towards groceries. "In the next two years we will increase our direct reach by 30%-40% across India," said Gupta.

As the company looks at future growth it has identified five areas of transformation— innovation, go to market transformation, talent value proposition, IT and analytics and cost management. "Everything else is non-core for us," says Gupta, whose new strategy is to focus on improving the core competencies and outsource the rest.

In December, the company signed a contract with a global firm to outsource its bookkeeping and supply chain processes. It believes this automation will reduce inventory days with its suppliers, thereby increasing their return on investment. Moreover, its salesforce can be engaged in more productive work of demand generation resulting in better demand projection and increased throughput as the order taking system gets automated.

In the coming years, Marico is looking to turn itself into an emerging markets MNC. It has identified emerging markets of Asia and Africa to expand into.

In markets where it is already present, Marico is looking at increasing its portfolio and getting into adjacent markets. For instance, in core markets like Bangaldesh, the company has just one strong brand Parachute coconut oil. In Vietnam, it's male grooming. Similarly, there are adjacent markets. In the past year the company has expanded its operations to Myanmar, Cambodia and North Africa.

"We have now started diversification," said Gupta, adding that international margins have risen to 16% from 10% since April 2013.

Nearly, a fourth of Marico's revenue comes from its international operations. For peers, GCPL, the maker of Cinthol soaps and Hit insecticides, international revenue accounts for nearly 48% of its consolidated revenues.

The company has also revised its strategy for the Paras portfolio of brands to focus on hair gels and conditioners as opposed to deodorants—a highly competitive category.

The change in strategy will see the Paras portfolio's growth more than double from current 7% to 15%, in the coming year, said Gupta.