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Confederation of Indian Industry



CII National FMCG Summit: 2015

RE-IMAGINING FMCG IN INDIA

December 2015

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The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the development of India, partnering industry, Government, and civil society, through advisory and consultative processes.

CII is a non-government, not-for-profit, industry-led and industry-managed organization, playing a proactive role in India's development process. Founded in 1895, India's premier business association has around 8000 members, from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 200,000 enterprises from around 240 national and regional sectoral industry bodies..

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With 66 offices, including 9 Centres of Excellence, in India, and 8 overseas offices in Australia, Bahrain, China, Egypt, France, Singapore, UK, and USA, as well as institutional partnerships with 312 counterpart organizations in 106 countries, CII serves as a reference point for Indian industry and the international business community.



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Foreword

The FMCG industry has shown steady growth over the last few years and continues to deliver superior returns over most sectors. Whilst the industry has had a few quarters of muted growth, the mid- long term growth story continues to be very strong – and is also attracting private equity attention

The industry is undergoing a fundamental transformation. The combined effects of demographic shifts, rise of new consumption centers, the emergence of new channels like e-commerce, proliferation of the internet connectivity and digital media, will have a profound impact on the shape of demand over the next decade. Against this backdrop, companies will need to reimagine and reengineer the way they operate to capture this opportunity. Three priorities emerge—creating a *winning consumer offer* that starts by understanding how / why consumers choose, *engaging with the digitally connected consumer* along the purchase pathway and *re-crafting their go to market model*. Traditionally FMCG has been the source of talent for other industries. However, as FMCG companies reinvent and transform the way they operate, they would need to *build people and talent capabilities* to be ready for the future.

In this report, by the Confederation of Indian industries (CII) and The Boston Consulting Group (BCG), we identify the key trends reshaping demand, and assess the impact of these trends on the shape of consumption over the next decade. We then lay down the imperatives for companies going forward to win in this new world. We have incorporated inputs from leading CEOs on the key trends impacting the industry, and have leveraged proprietary data and research conducted by BCG.

We would like to take this opportunity to thank all the members of CII National committee of FMCG for the year 2015-16 for their valuable contribution and providing input for this report. We hope you find this report interesting and informative for your businesses.



D Shivakumar
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Executive Summary

India is a large and growing consumer market . The next decade will see breakout growth in consumption – albeit, with a fundamentally different shape of demand. Decoding these consumption patterns would be critical for companies as they reimagine themselves and build new capabilities to win in this new world.

As an industry, FMCG has consistently delivered superior shareholder returns vs most other sectors. However, there is a wide variation in performance across companies. A decomposition of the shareholder return for the top 30 FMCG companies in India suggests that growth accounts for > 70% of value created over a longer term (3 – 5 years), much higher than contribution of increase in margins . High performers (companies lying in the top quartile of share holder returns) have been able to sustainably create long term growth.

The overall FMCG market is estimated to be ~180 Bn USD of which the branded market is ~65 Bn USD (34%). The market has grown at 12% between 2005- 2015. We expect the industry growth to accelerate to 14% CAGR between 2015-2025. By 2025, India's branded FMCG market is likely to be 3.6X of its current size. i.e. 220-240 Bn. This growth would be driven by significant demographic shifts : 70% increase in income levels, 100 Mn youth entering the workforce, increasing nuclearization & 35% of Indians living in urban centers.

The growth opportunity is clearly massive. However, more importantly, the shape of demand will be very different. By 2025,

- "Affluent" and "elite" households (> 10 Lac annual household income) will account for ~48% of consumption (vs 24% today). This would result in breakout growth in several nascent categories and in specific niches
- Premiumization will accelerate - starting from unbranded to branded at the bottom end and "luxurating" products at the premium tiers . Companies will need to invest in building premium brands, delivering the superior products through packaging, design and experiences

- The next tier of towns (~600 cities with a population of upto 1 Mn) will grow by 4.5X and account for ~ 45% of consumption by 2025 vs ~35% today. These cities will add 30% of elite / affluent households and will be a key source of growth for premium products
- 150-200 Mn consumers of FMCG products will be digitally influenced. These consumers will spend ~ 40-45 Bn USD on FMCG categories (35% of the branded FMCG market in 2025)
- Conventional models of partner management would come stress. With increasing complexity at the last mile, companies need to embed intelligence into the sales process. As new channels emerge, companies will need to have greater clarity of the roles these channels would play
- E-commerce will show exponential growth and may account for as much as 10-15% of sales in select categories

To win in this new reality, companies need to re-imagine the way they operate today. There are four key imperatives (a) Creating a winning consumer experience (b) Engaging the digitally connected consumer (c) Re-crafting go-to- market models, and (d) Building people and talent readiness

Creating a winning consumer offer

How and why consumers make choices lies at the heart of understanding demand and hence unlocking growth. We believe the biggest determinants of choice are not demographics / psychographics but needs of the consumer in a given context – that is, where the consumer is, who she is with, what she is doing and hence what she needs when using the product. The same consumer behaves very differently in different contexts and makes very different choices.

We advocate that companies embrace a "demand centric" approach that will allow them to

- Demystify the consumer decision making process
- Develop portfolio strategy: Identify where brands lie, optimize portfolio for maximum coverage & minimum overlap, address white spaces

- Define 'relative investment' in the demand space portfolio
- Communicate the brand positioning, drive innovation agenda and execute in a commercially superior manner

'Demand centric growth' has delivered substantial impact: growth uplift upto 10% , profit increase by upto 500 basis points for some marquee FMCG companies.

Engaging the digitally connected consumer

While digital is a buzz word today, most FMCG companies are unclear on the opportunity and the stance to take. Companies need to create a top-down view of the opportunity : revenue (& associated profit pools) and degree of digital influence for that category to assess the role of digital and the strategic position they wish to take. Based on the trajectory they want to follow on the digital maturity curve, companies can win with digital through three moves

- Influencing digital consumers and building deeper consumer connect and advocacy ,
- Creating a profitable e-commerce business,
- Digitizing their core operations

These moves would need to be supported by recasting old world capabilities for the digital world as well as creating completely new ones

Re-crafting Go To Market Models

With conventional go to market models under stress, last mile execution at retail witnessing a wide variation, and emergence of new channels (e-commerce, vertical specialists & Modern trade), companies would need to rethink their Go-To- Market approach. Imperatives include

- Creating scale, capable partners with strong governance

- Taking a segmented approach to retail execution : invest differentially in service elements, trade spends, consumer offers and assortment
- Embedding intelligence (and analytics) into the sales call process by leveraging IT
- Expanding rural distribution based on a bottom up market view with an optimal, cost effective distribution model
- Taking a structured, strategic approach to new emerging channels: win with winners, supported with strong execution measures
- Enhancing effectiveness and efficiency of trade spends

A successful intervention can improve cost effectiveness and quality of coverage, reduce gross-to-net leakages and develop the platforms to drive the next wave of growth. This can translate to an incremental revenue growth of upto 500 bps and incremental margin of upto 200-300 bps.

Building People and Talent Readiness

Traditionally, FMCG has been a net exporter of talent to other sectors. However, the changing landscape requires companies to re-think elements of their organization model to become "future ready". Companies would need to build a whole new set of people and talent capabilities across different levels in the organization. Core people and organizational imperatives for FMCG companies include

- Adopting smart simplicity principles - leaner structures, eliminate bureaucracy and build capabilities specific to individuals
- Enabling transition of line managers to business leaders through a structured intervention
- Re-thinking the value proposition for entry positions in the light of the increasing dichotomy between old & new economy career path

FMCG: A NEW REALITY



India's branded FMCG market estimated to be ~ USD 65 Bn, growing at 12%

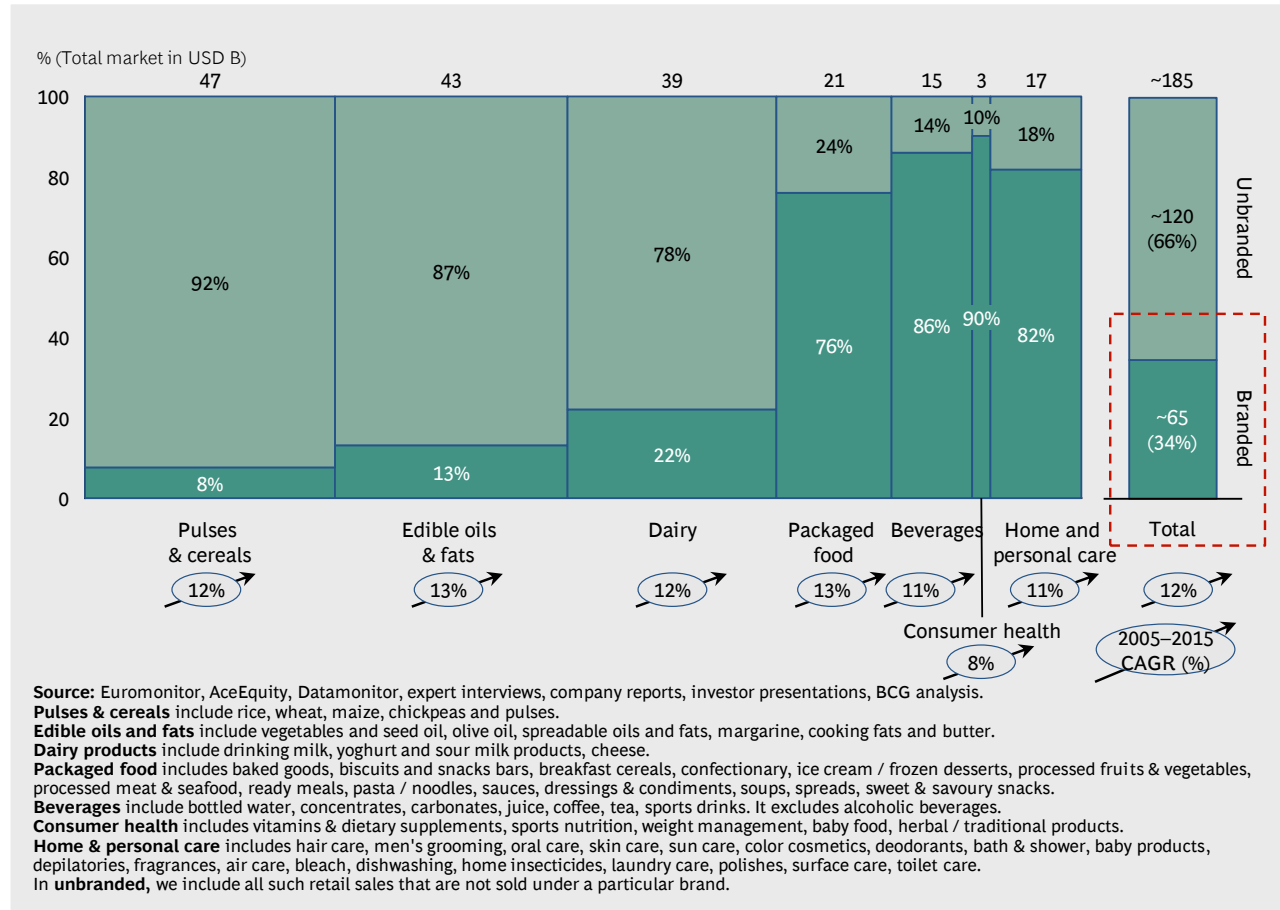
India's FMCG market is estimated to be ~USD 185 Bn. We have defined FMCG to include the following categories:

- Staples (pulses, cereals, dairy, edible oils and fats)
- Packaged food
- Beverages
- Consumer health
- Home and personal care

34% of this market i.e. ~ USD 65 Bn is branded with its salience varying quite substantially across categories.

For the purpose of this report, we have focused on the branded FMCG market. All references in subsequent pages would be to the branded component.

Historically, between 2005- 2015, the FMCG industry has grown at a CAGR of 12%. The fastest growing sub- categories are packaged food (e.g. salty & savory snacks, bottled water, confectionary, juice drinks, ice cream etc.) , edible oils and selected segments of home and personal care (e.g. skin care).



FMCG industry has delivered superior returns, growth largest driver of performance

FMCG has been among the best performing sectors relative to other sectors. As can be seen in the exhibit it has delivered higher returns than most sectors – both in the short as well as the long term.

However, there is significant variation in the TSR (total shareholder return) across FMCG companies. We have seen the top quartile companies returning 3X the returns versus the bottom quartile ones.

Our analysis suggests that growth accounts for > 70% of TSR in the mid – long term. Hence, the variability in growth separates the winners from the rest of the industry. High performing companies have been able to sustainably create long term growth with little variability – that is the secret behind long term value creation.

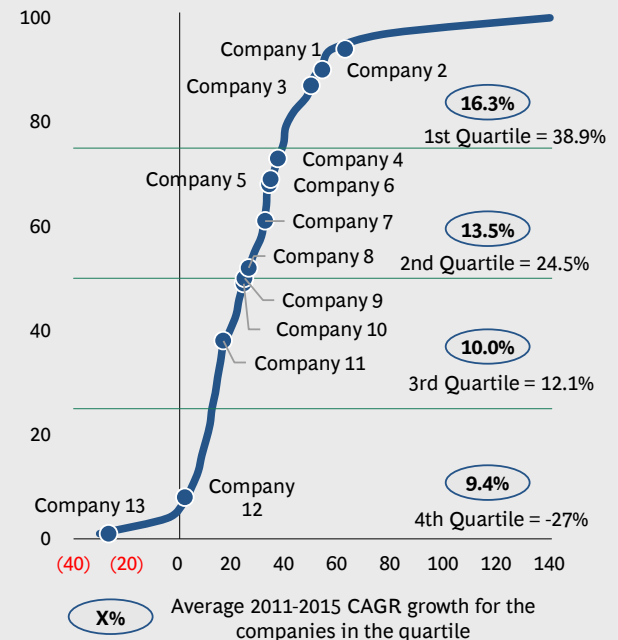
FMCG sector has consistently delivered superior returns vs most other sectors

Top 10 sectors in India by TSR (total shareholder return)

2 year view	6 year view
Healthcare	Healthcare
FMCG	FMCG
IT	Auto
Auto	IT
Telecom & Media	Finance
Finance	Telecom & Media
Industrial goods	Industrial goods
Capital goods	Energy
Energy	Oil and gas
Oil and gas	Basic materials

Companies in top quartile TSR performance have shown higher growth

Total Shareholder return (2011 – 2014)



Source: Capital IQ, BCG Analysis.

Note: 6 year view based on years 2009 to 2014. 2 year view based on years 2011 to 2013.

Volume growth in FMCG is less vulnerable to economic cycles

Our analysis suggests that variability in volume growth has very limited correlation with variation in GDP growth rate. As a result, growth in the FMCG industry tends to be less dependent on macro-economic factors when compared to some other sectors. As an illustration, for categories like laundry care, oral care, biscuits, the overall volume variability in growth has remained in a very tight band of < 1% while there has been a wider variation in GDP growth rates over 2010-2015.

Contribution of volume growth to overall category growth depends on degree of penetration. For the low penetration categories e.g. deodorants, volume contributes as much as ~ 80% of growth. For high-penetration categories e.g. haircare, biscuits, volume contributes ~50% to the overall growth. The remainder growth is driven by pricing and uptrading.



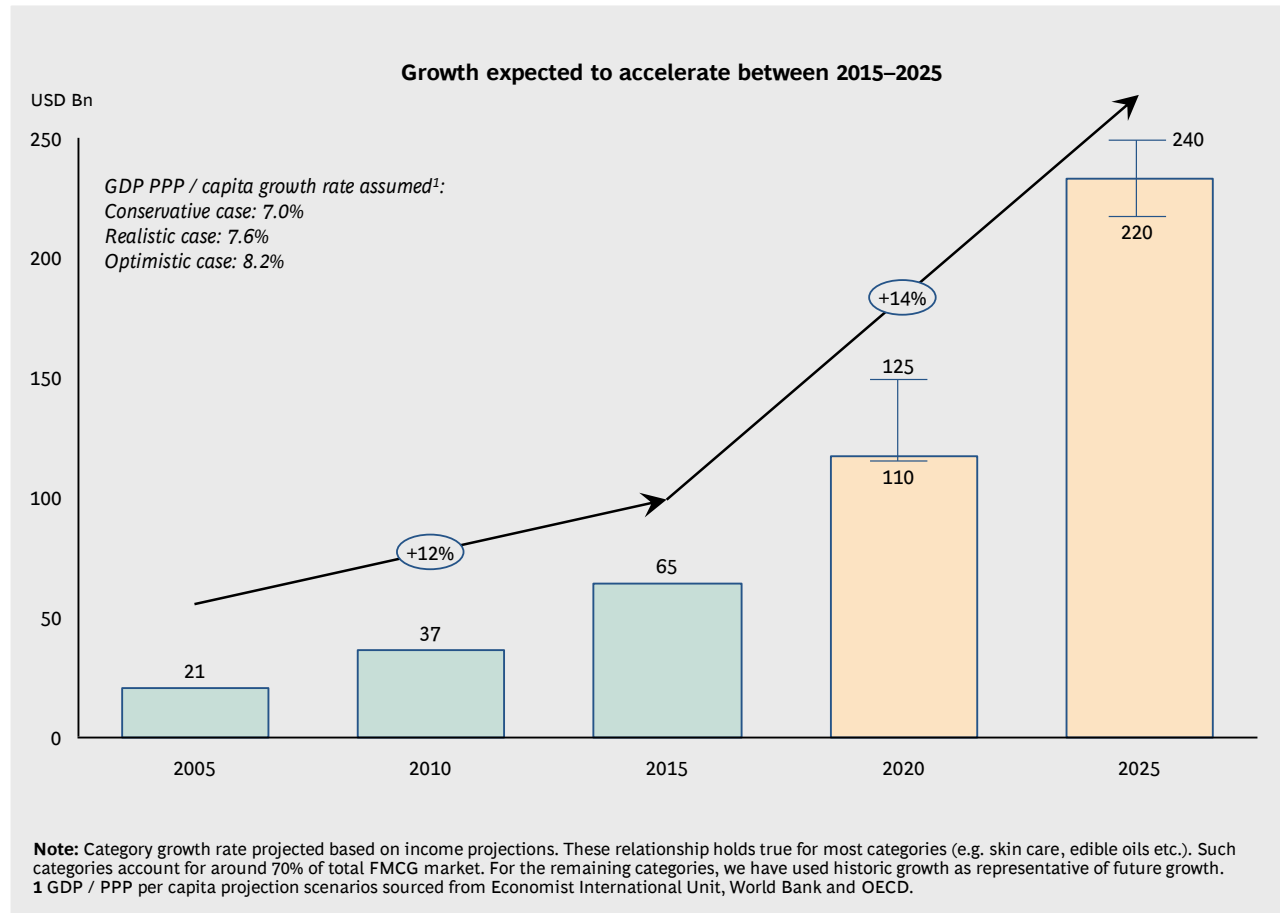
FMCG industry expected to be 3.6X (220-240 Bn USD) by 2025

We expect the FMCG sector to grow at a CAGR of ~14%. This implies FMCG is expected to increase to 1.8X by 2020 (~110-125 USD Bn) and 3.6X by 2025 (~220-240 Bn USD)

This growth is driven by

- **Increasing income:** Real average household incomes expected to grow by 70% by 2025.
- **Urbanization:** 35% Indians to live in urban areas by 2020 (versus 32% in 2015)
- **Nuclearisation:** We expect to have 10 Mn additional households by 2020 due to reducing household size - independent of population increase
- **Growing work force:** 95 million more people to be added to the work force by 2020

The growth projections have been carried out bottom up based on the premise that consumption increases with income. This holds true for most categories (e.g. skin care, edible oils etc.). These categories account for around 70% of total FMCG market.



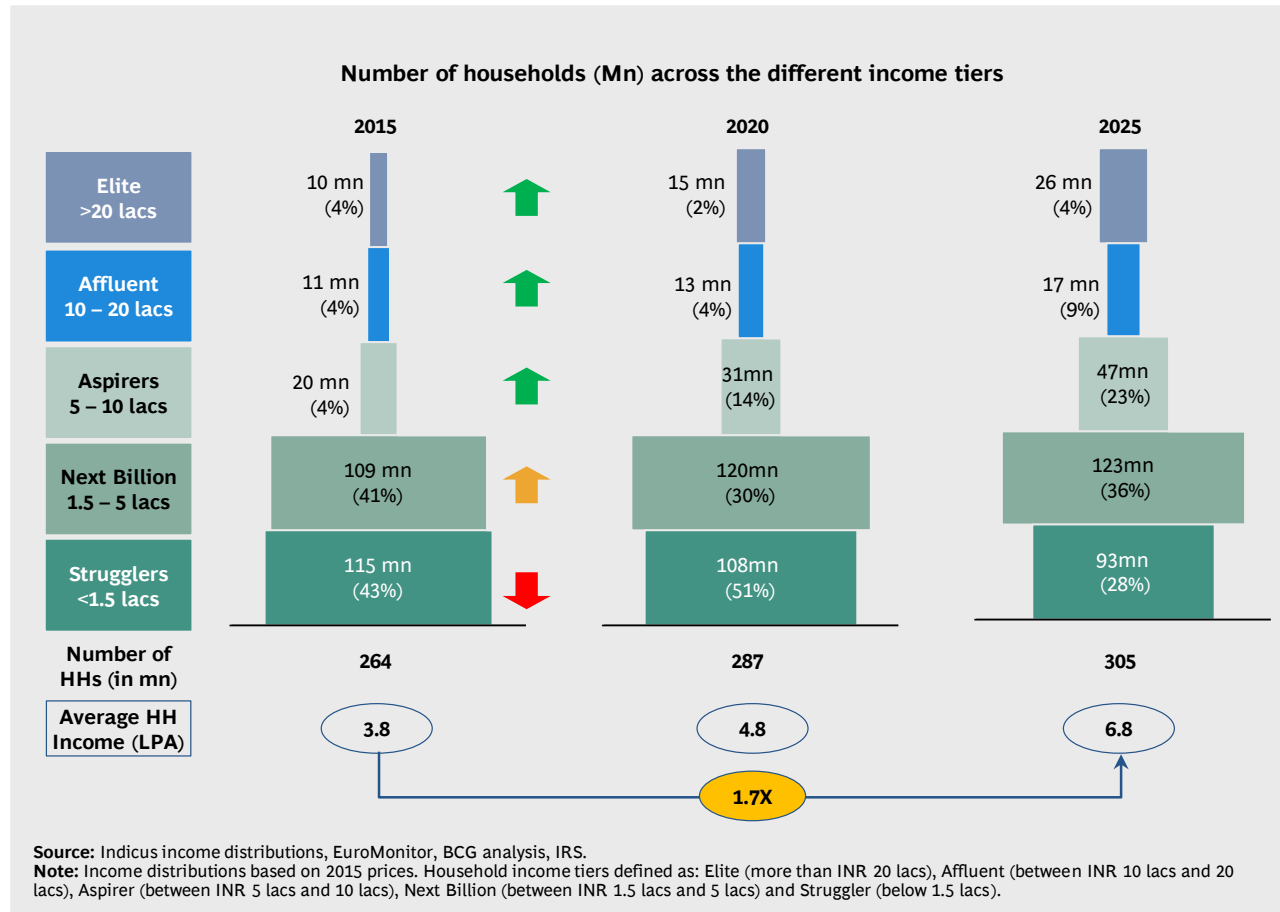
Consumption growth driven by a 1.7X increase in household income

India's income distribution is poised to see a significant change over the next 10 years. The increase in absolute income and the change in distribution would be a big driver of growth.

By 2025, 22 million additional households will be added to 'Elite' and 'Affluent' class (i.e. households with income over Rs 10 lac p.a.). Strugglers (i.e. households with income less than Rs 1.5 lac p.a) currently account for 43% of the population. By 2025, they will comprise just 28% of the total population.

As a result, India's average household income is likely to increase by 1.7X by 2025.

This increase in household income presents an attractive growth opportunity for Indian FMCG companies.



The new reality: 6 key trends that would reshape FMCG industry

FMCG industry, today, is witnessing a transformational change.

India is seeing a fundamental demographic shift. The rapid adoption of internet (>600 Mn consumers expected to be online by 2020), proliferation of smart devices & increase in consumption of digital media could disrupt how consumers make purchase decisions.

As new channels e.g. e-commerce / vertical specialists emerge, companies would need to strive for greater clarity on the role these channels would play for them.

To realize this opportunity coming from consumption increase, companies would have to fundamentally reimagine and reengineer the way they operate.

Significant shift expected in the growth profile of the industry

- 1 Share of consumption of affluent / elite households set to double to 48% by 2025
- 2 Share of premium portfolio to increase significantly
- 3 ~ 600 cities (Tier 2, 3 and 4) would be 4.5X their size today & would account for ~45% of consumption by 2025
- 4 150–190 million consumers would be digitally influenced in FMCG by 2020. These consumers would spend ~USD 40-45 Bn (35% of the market)
- 5 Traditional models of GTM would need a rethink
- 6 E-commerce would grow and could account for > 10% in some categories

Share of consumption of affluent / elite households to double to ~50%

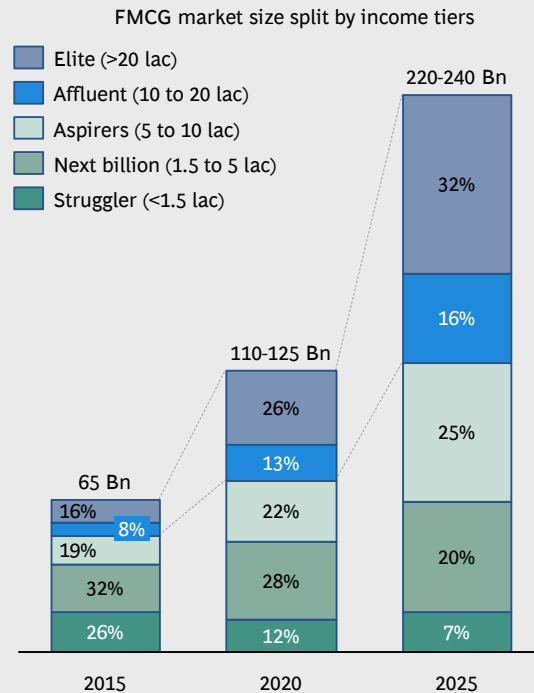
By 2025, 'Elites' and 'affluent' together would account for ~48% of the total consumption, doubling their share from ~24% today. This shift would have a far reaching impact on consumption patterns.

The exhibit demonstrates Elite / Affluent households consume 3-4 X more than aspirers in some discretionary categories while 1.5-2X for basic categories. They not only consume more, but consume more premium products.

As the share of consumption of affluent (& elite) household rises, it would lead to a take off in discretionary categories (e.g. juices, deodorants etc.) which are currently niche.

This would also result in premium products taking off across categories.

As share of consumption of elite / affluent household grows, it would result in breakout growth in some categories



Average household consumption

Category	Aspirer	Elites/Affluent
Discretionary categories (e.g. breakfast cereals, noodles, vitamin supplements)	X	3-4X
Basic categories (e.g. hair oil, biscuits, oil)	X	1.5-2.5X

Source: Indicus income distributions; Euro Monitor; BCG analysis; IRS.

Note: Income distributions on 2015 prices. Elites correspond to household income more than 20 lacs, affluent between 10 to 20 lacs, aspirers 5 to 10 lacs, next billion between 1.5 and 5 lacs and strugglers below 1.5 lacs.

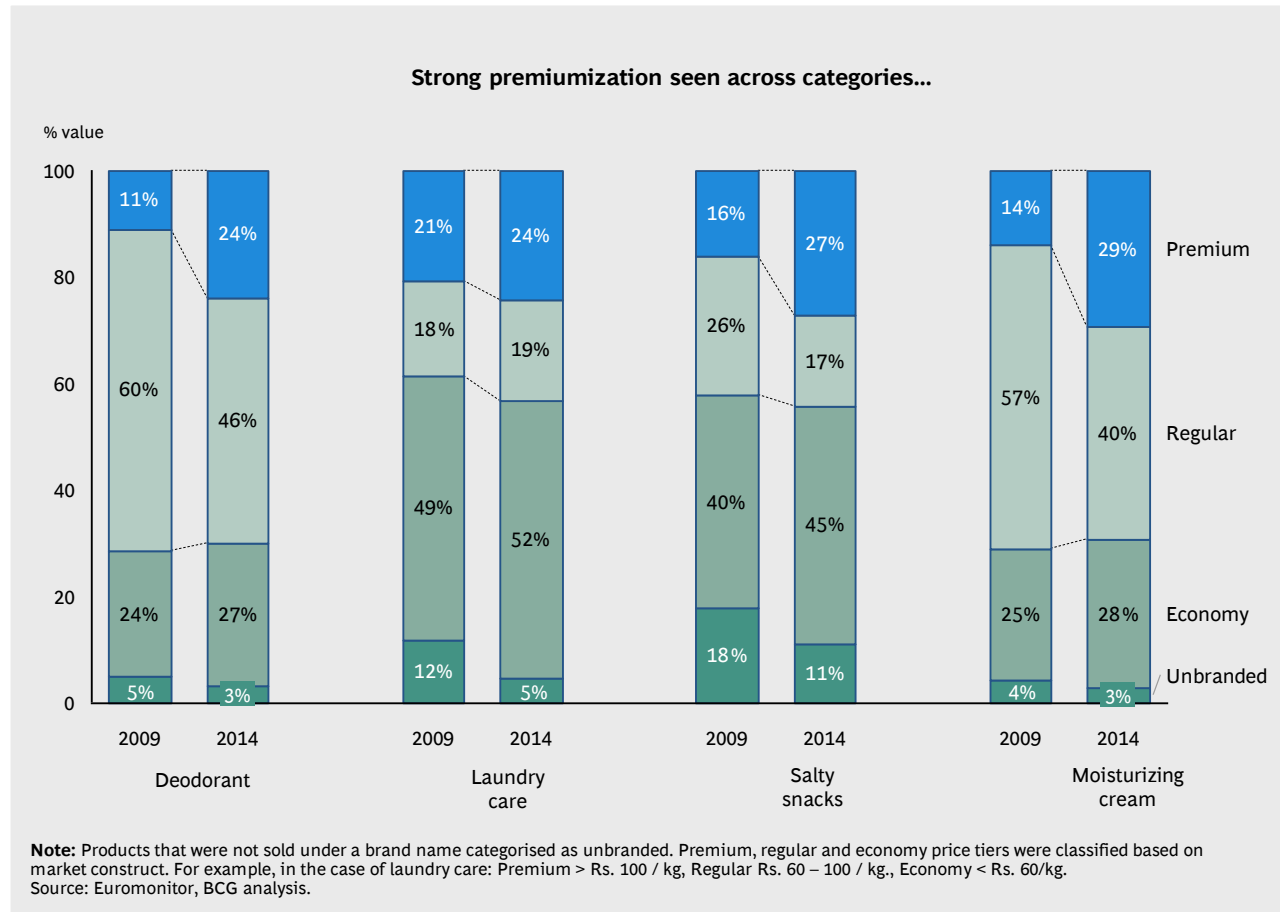
Share of premium portfolio to increase significantly

Over the last 5 years we have seen premiumization across categories. As can be seen in the exhibit, premiumization is happening across tiers: starting from unbranded to branded at the bottom end and "luxurating" products at the premium tiers.

This trend is also manifested in BCG's Global Consumer Sentiment Study which assesses consumer behavior and attitudes including tendency to trade up. This study shows that relative to other countries, Indian consumers shows a higher trading up behavior. As an illustration, across categories, over 35% Indians prefer to trade up (compared to 20% in USA, 15% in France, 18% in Japan and 16% in Canada).

With the addition of 22 Mn new affluent / elite households over the next 10 years, we expect this trend to accelerate even further.

The key question for FMCG player is how can they convince consumers to pay a premium for their products.



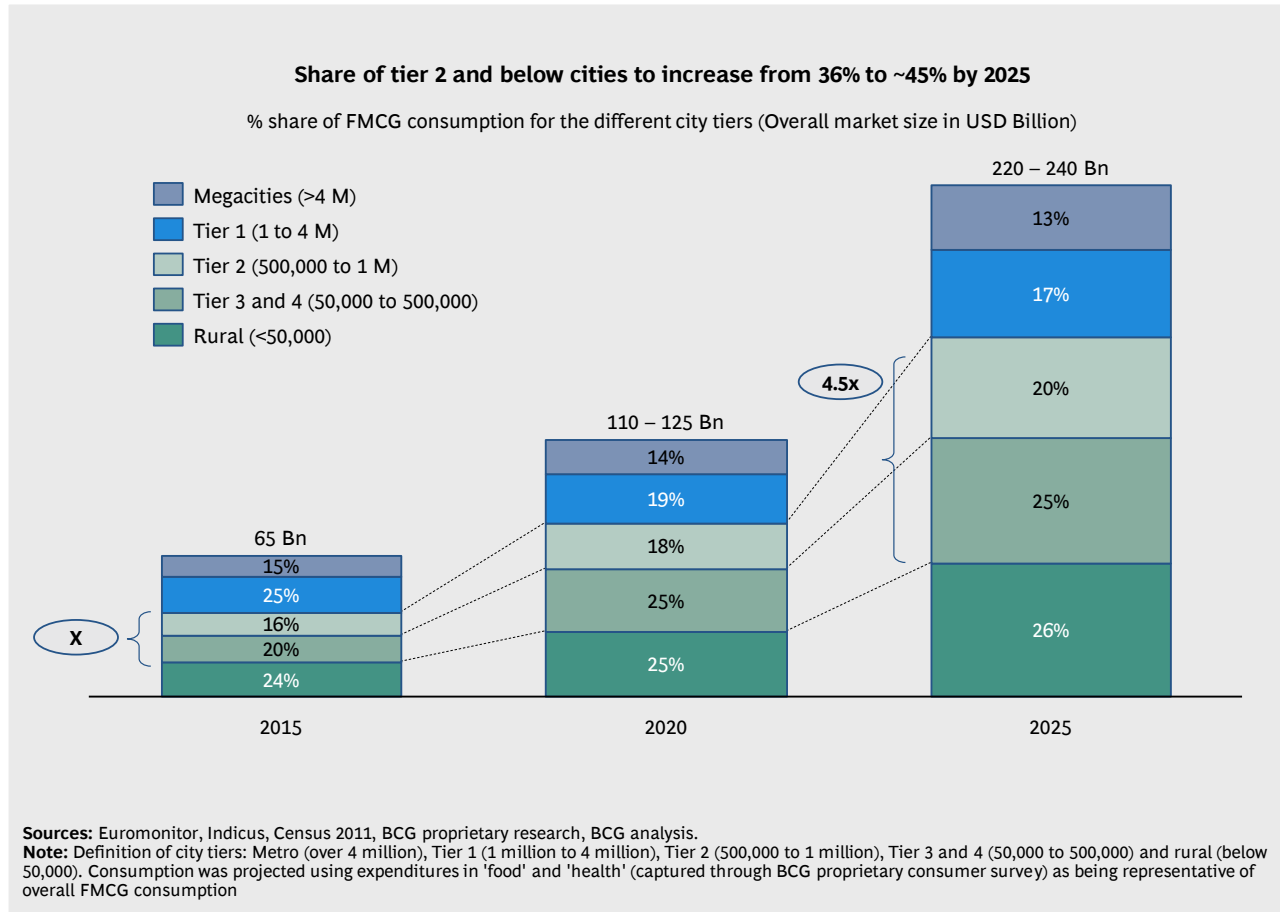
Consumption of tier 2, 3 & 4 cities would be 4.5X their size today

Tier 2, 3 and 4 cities (~600 in number), i.e. cities which have a population below 1 million, would be the next drivers of growth. There are a total of 93 tier 2 cities (e.g. Allahabad), and 494 tier 3 & tier 4 cities (e.g. Jhansi).

We expect these cities to be the next drivers of growth

- Today, they account for 36% of total spend on FMCG (~23 Bn USD). We expect that by 2025, the spend on FMCG in these cities will increase by 4.5X (~104 Bn USD). This would correspond to ~45% of the total spend on FMCG and ~50% of the total growth between 2015 and 2025.
- These cities would add ~7 Mn additional affluent / elite households (i.e. 30% of total). Hence, we expect these cities to be the new sources of growth for premium products in addition to being the new drivers of overall consumption increase.

To capture this opportunity, FMCG companies need to rethink their Go To Market, portfolio strategy and brand communication with a lens on tier 2, tier 3 and smaller cities.



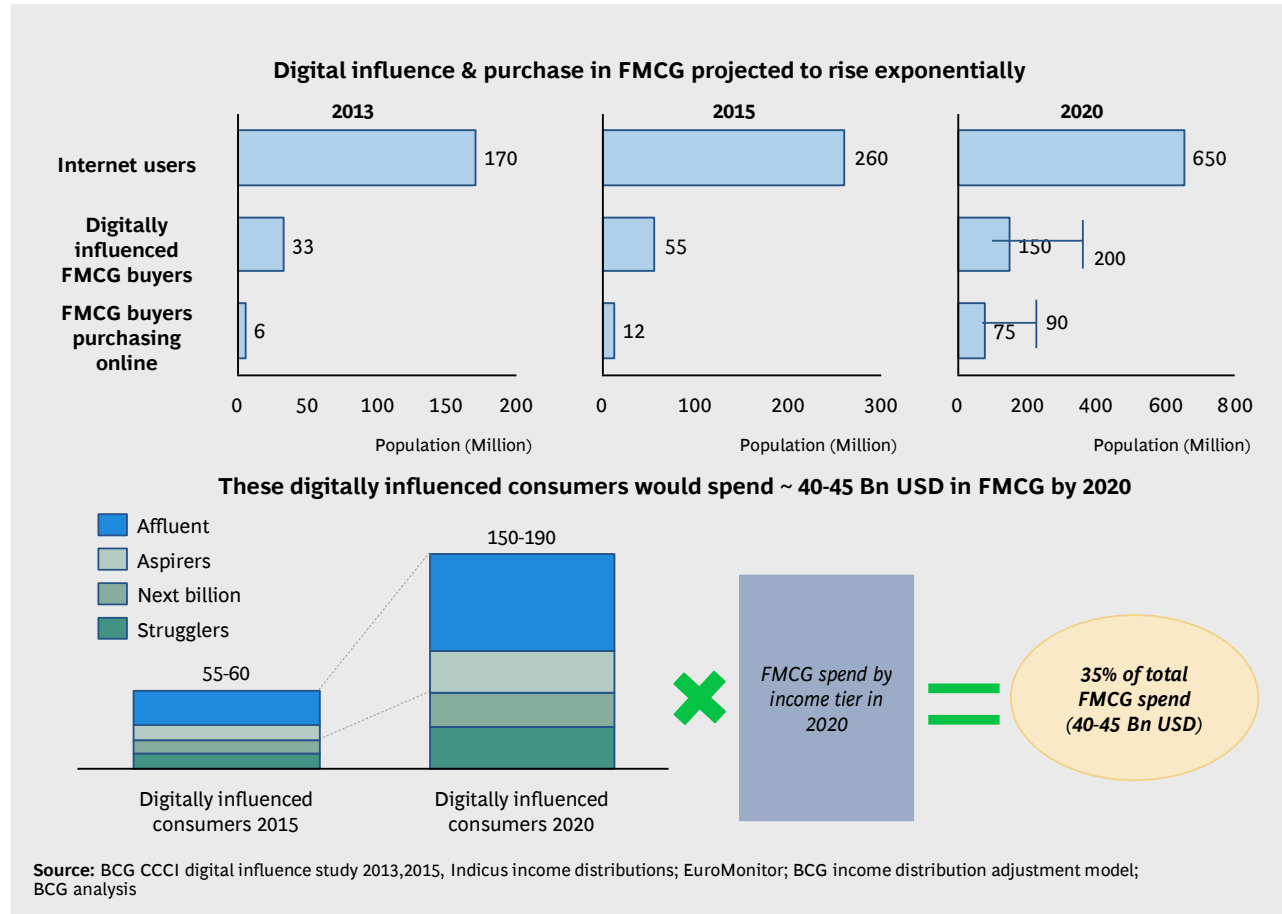
> 150 Mn digitally influenced consumers by 2020, would account for 35% of spend on FMCG

To assess the impact of digital across categories, we use two key metrics: digital influence and digital purchase. Digital influence is the fraction of category buyers that use the internet for product research, purchase or post-purchase. Digital buyers refers to the fraction of category buyers who buy the category online.

Today, ~55 Mn consumers are estimated to be digitally influenced in FMCG, of which ~12 Mn buy online.

As digital age rises (defined as no. of years a consumer has been online), there is a significant increase in digital influence. 25% of consumers who have been online for over 4 years are digitally influenced compared to only 6% of consumers who have been online for < 6 months

Projecting this forward, we expect that in 2020, 150-200 Mn Indians would be digitally influenced in FMCG, while 75- 90 Mn would purchase FMCG products online. These ~150 Mn consumers are expected to account for ~ \$40-45 Bn i.e. 35% of total spend on FMCG by 2020



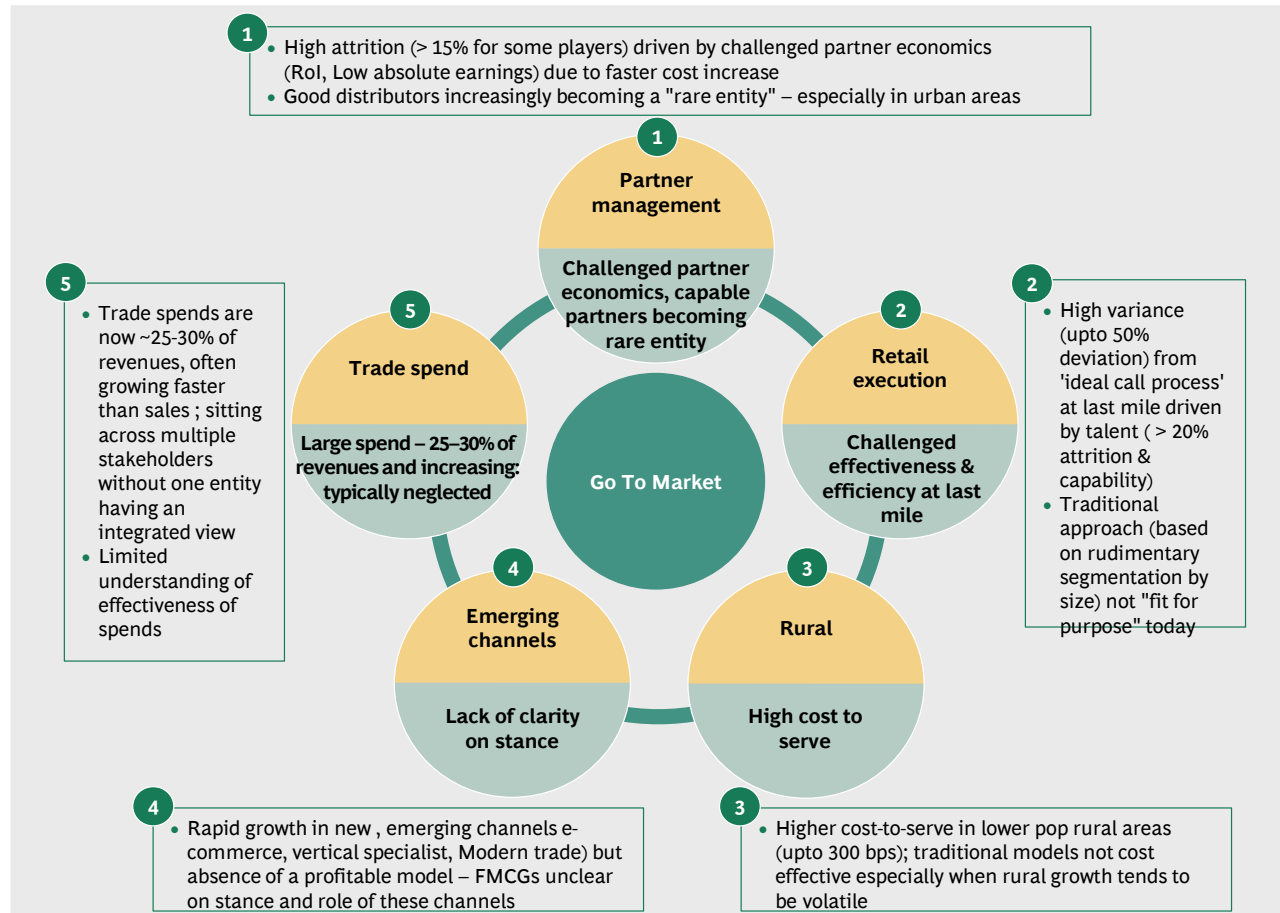
Traditional models of Go To Market would need to be recrafted

The conventional model of partner management & retail execution is under stress with increasing complexity and rising distribution costs. This has resulted in high attrition both at distributor as well feet on street level limiting the effectiveness.

Companies are counting on rural expansion as an opportunity for unlocking growth, however, cost to serve remains high in low population stratas and there is significant volatility in growth in rural

The emergence of new channels (e-commerce, Modern trade, and vertical specialists like online grocery) poses an interesting challenge as in the absence of a profitable model, FMCG organizations are unclear on how to engage

Trade spends are on the rise however, companies have undertaken limited initiative to enhance the effectiveness of spend

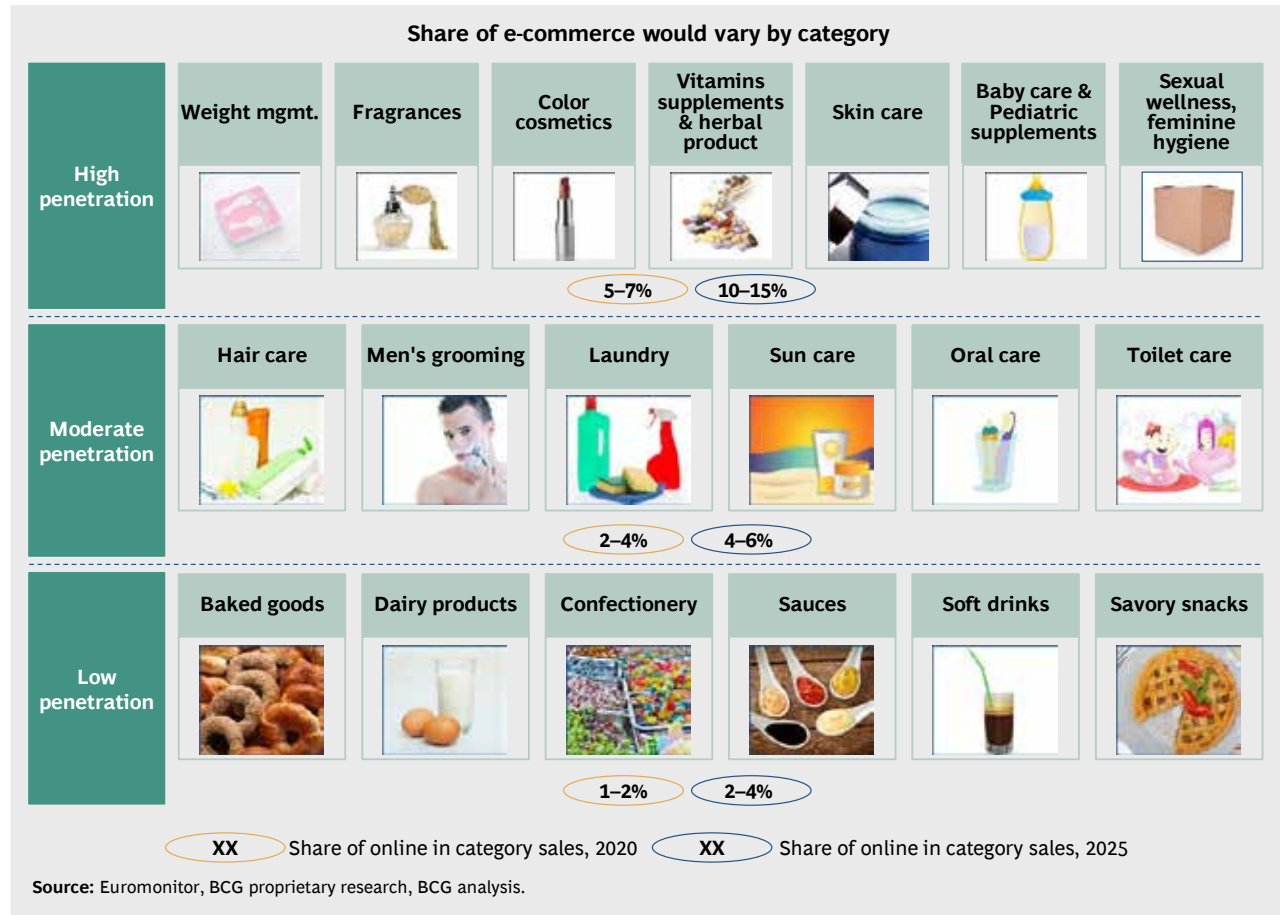


E-commerce could be ~10-15% share in some categories by 2025

A category's uptake for online sale can be analytically forecast through comparable markets. Some categories could witness break-out growth in online sales over the next ten years.

Categories that are more amenable to e-commerce would have the following characteristics:

- High brand stickiness and low level of experimentation (e.g. skincare)
- Limited availability in traditional offline channels especially in Tier 2 cities (e.g. niche consumer health products such as weight management)
- Higher share of planned purchases –replenishment / stock-up vis a vis impulse buys (e.g. diapers & baby care)
- Low involvement – driven by ticket size, need to touch & feel (e.g. health supplements)
- Profitable value to weight ratio for e-commerce (e.g. high ASP, low weight, high channel margin)

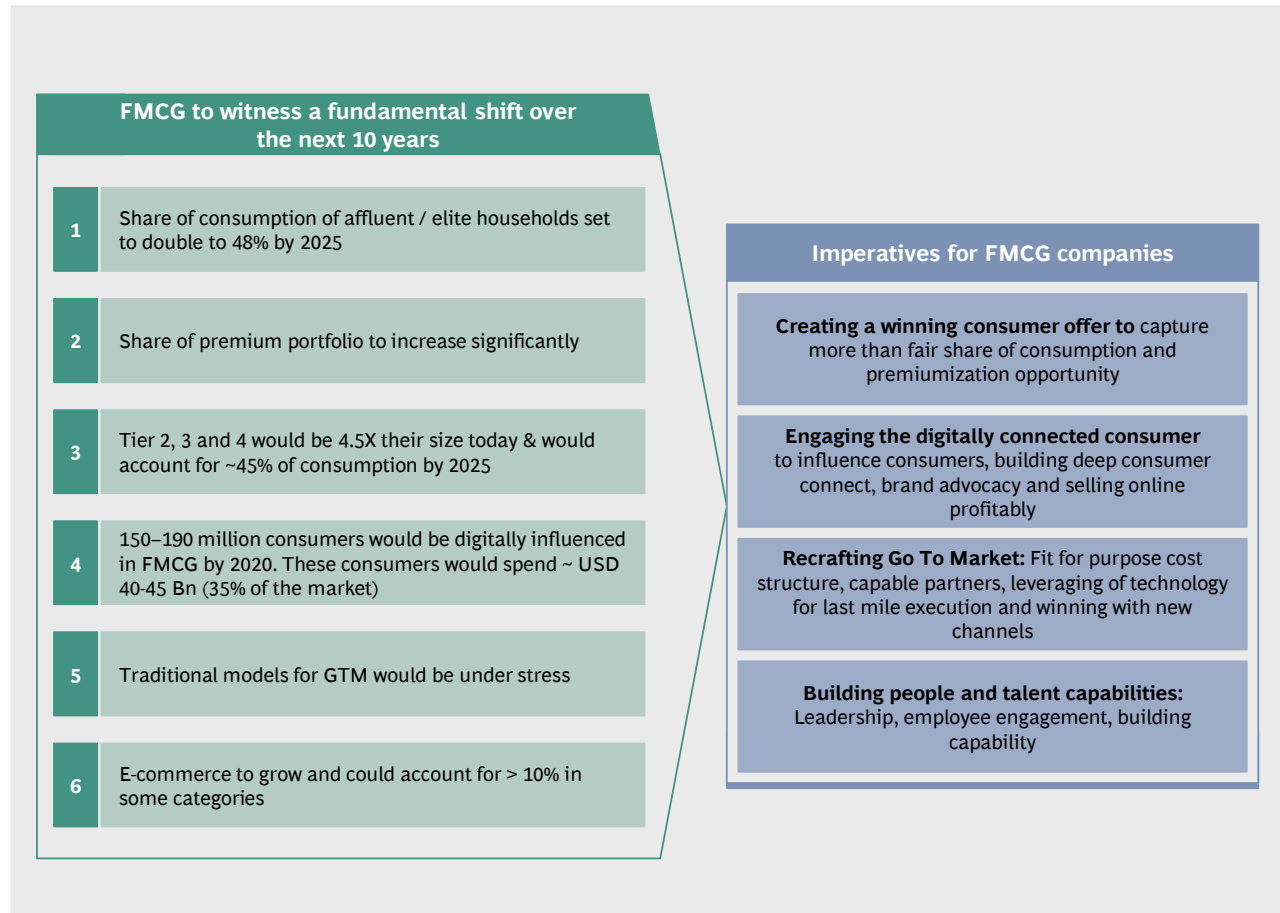


Imperatives for FMCG companies in light of the new reality

This emerging reality poses an interesting opportunity as well as challenge to FMCG companies.

This report would focus on the imperatives for FMCG companies required to win in the new world. We believe there are four key imperatives

- How can FMCG companies create a winning consumer offer to capture more than fair share of the opportunity in a systemic manner?
- How can companies win with the digitally connected consumer?
- How should FMCG companies rethink their Go To Market to be “fit for purpose”?
- How should companies think of talent and leadership capabilities in the new reality?



CREATING A WINNING CONSUMER OFFER





How consumers choose is at the heart of understanding demand

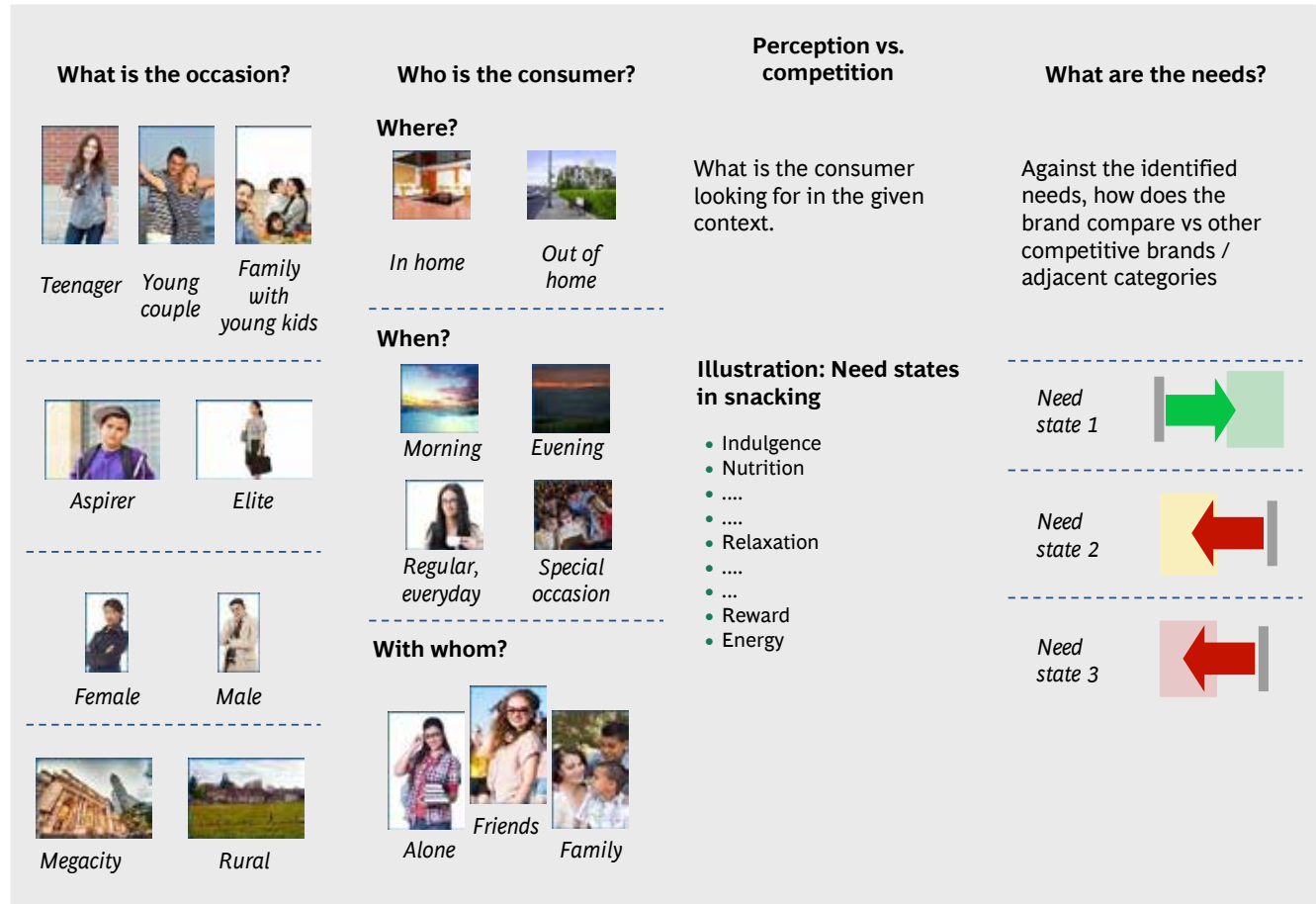
How and why consumers make consumption choices lies at the heart of understanding demand. It is the key to unlock growth.

The conventional view is that consumers are fickle and inconsistent, hard to understand and predict. This view is based on the hypotheses that demographic factors (life-stage, gender income etc.) or at best psychographic factors hold the key to knowing what consumers want.

We see that the biggest determinants of consumer choice are not demographics / psychographics but needs of the consumer in a given context and the occasion of use – that is, where the consumer is, with whom he or she is when using the product.

So one needs to ask:

- When do customers use the product?
- Who are they with at the time?
- How do they want to feel?
- Which of their needs are they trying to fulfill with the product?
- How does the brand compare vs. others in fulfilling the same needs?



The same consumer behaves differently in different contexts

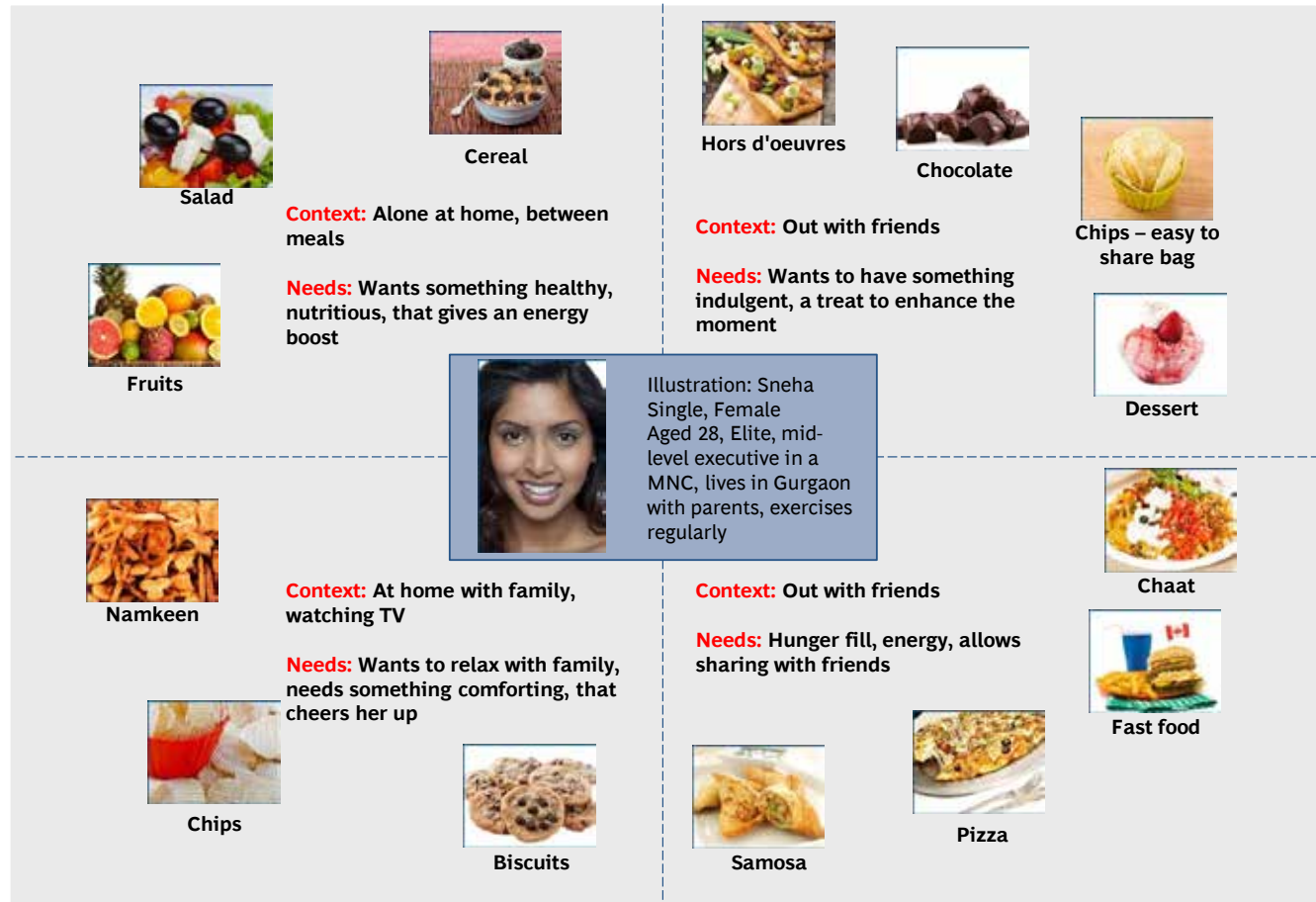
The same consumer behaves differently in different contexts when he / she is looking to fulfill different needs.

If we ask consumers the right questions, we begin to understand "why" consumers choose a product in a given context.

As depicted in the illustration, Sneha, a young girl in her mid 20s who is a mid level executive in a MNC makes different choices depending on who she is with, what time of the day it is and what is she looking for in that moment. The predominant choices of products and brand would vary quite significantly across the context and occasions.

This approach reframes the way companies think of who they are competing with.

For example, for Sneha the potato chip brand competes with not just other potato chip brands but also indulgent products like ice cream/ chocolates.



A demand centric approach can help in unlocking growth

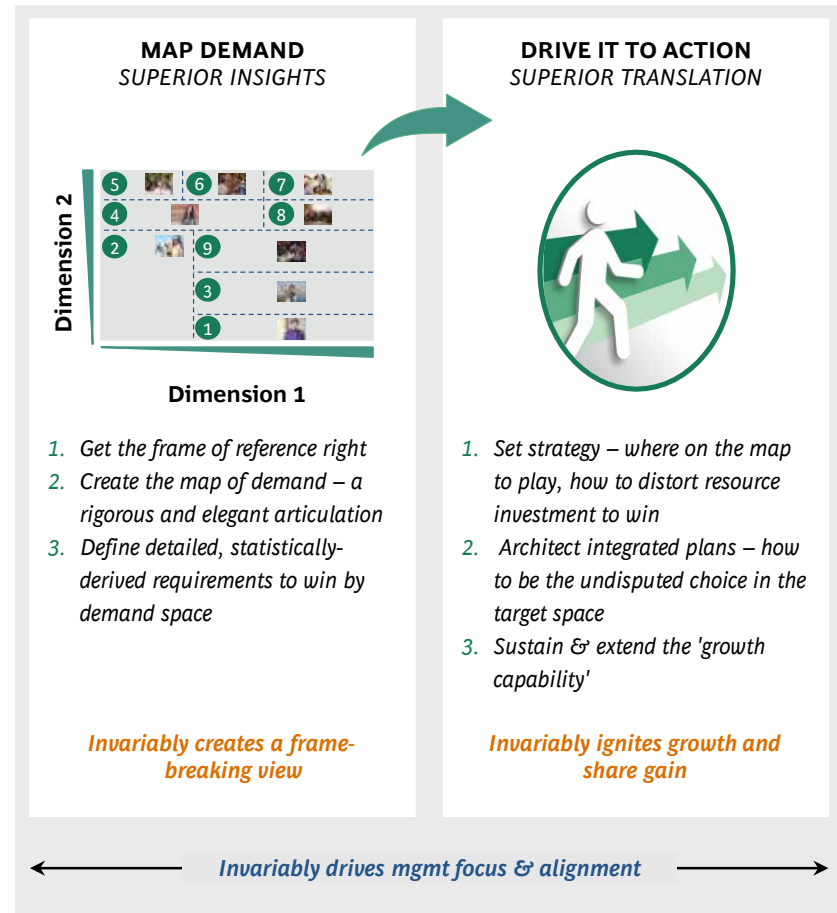
To unlock growth, we go to the heart of consumer decision making process and use "demand centric growth" based approach which is based on what we call "demand spaces".

A demand space is an intersection of context (demographic, where he / she is, at what time and with whom) and the consumers' emotional and functional needs. Each demand space is unique, with a distinct set of needs, giving us a mutually exclusive segmentation of the market. Demand spaces analytically demonstrate that brands which deliver on the needs of a space outperform in that space.

The demand centric understanding can provide companies superior insights that articulate the "why's"—and build a demand map based on them. This approach allows us to answer the following questions:

- What drives choice in different consumer categories? And more importantly, what does not?
- What are the consumer needs that are shaping market demand? What is the relative size of these needs?
- What categories and products do consumers use? When, where, with whom, and how do they use them?
- What is the company's right to win, and for which needs? Where is it vulnerable to competitive attack? Where is the white space or unfilled demand space for the company?
- What needs are competitors satisfying and how?

This understanding will help brands decide where to play and how to differentially invest across demand spaces to win. A clear understanding of the brand's target spaces will help in building and orchestrating an integrated commercial plan to be the undisputed choice in those target spaces.

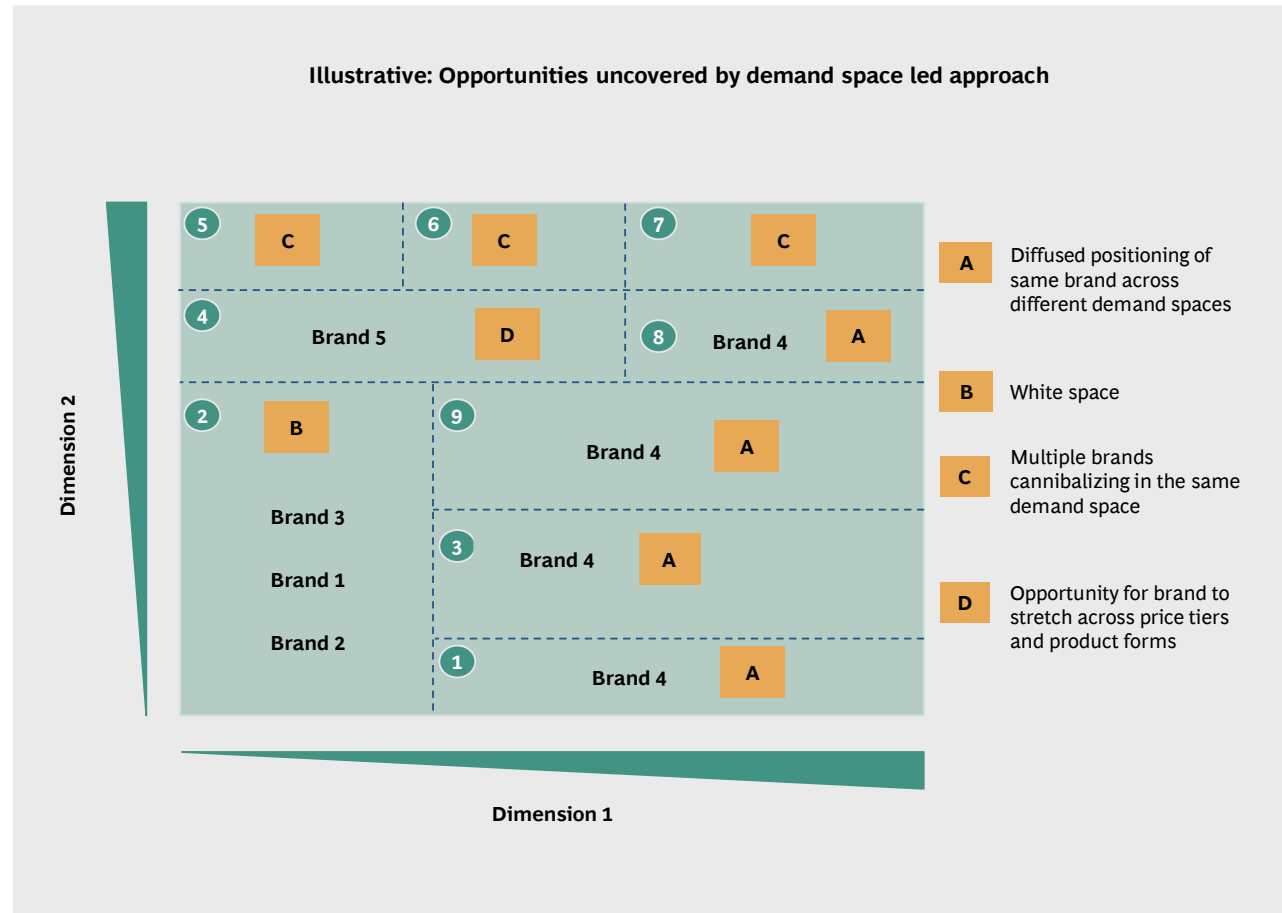


A robust demand map uncovers superior insights...

The demand map lays the foundation to assess the opportunity view. It is a powerful, differentiated way to uncover superior insights that can be translated into a superior portfolio strategy.

Typically, several different opportunity sets arise from developing a demand map:

- A. Some brands have diffused positioning and try to stretch across multiple needs. These brands would be at risk as propositions which are sharply targeted at specific demand spaces are better positioned to source volumes
- B. Under served / poorly served white spaces in the market
- C. Multiple brands clustering around the same demand space, cannibalizing growth
- D. Opportunities for a brand to stretch across price tiers and product forms within a demand space whilst respecting the brand guardrails

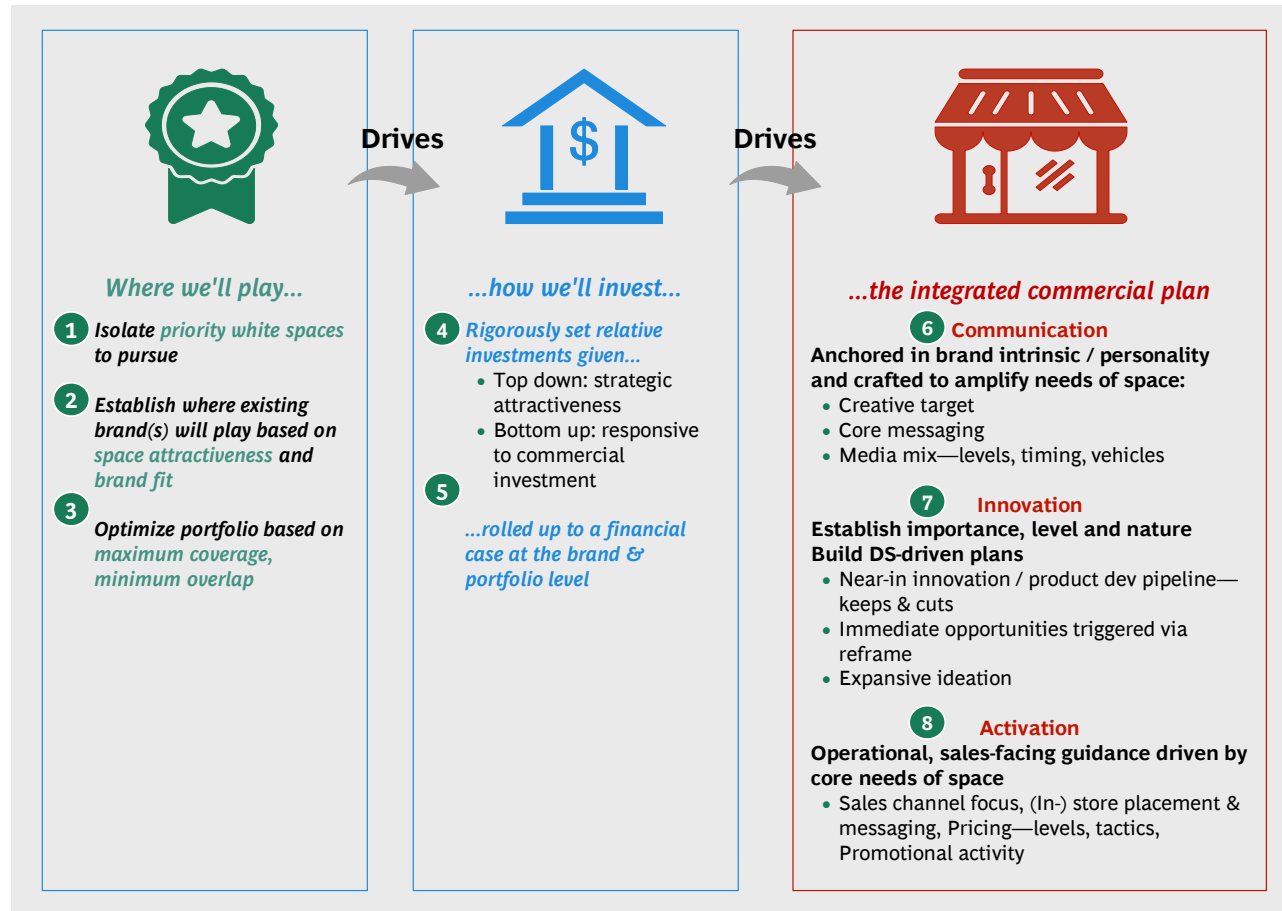


... that helps to architect integrated plans to seek growth

This approach provides actionable insight to drive game-changing commercial activity invariably by revealing a frame-breaking view on the business and growth pathway.

To summarize, this approach allows organizations to differentially

- Identify where the current brands lie on the demand space map, optimize portfolio based on maximum coverage & minimum overlap, and identify white spaces
- Define 'relative investment' in the demand space portfolio
- Communicate the new brand positioning, innovate to further strengthen brand's value proposition and operationalize through sales-facing guidance



Demand centric approach has created profound growth and changed performance trajectory

This approach has proven to deliver significant impact across a wide set of FMCG (food, beverages, spirits, personal care) as well as adjacent categories where customers make choices e.g. restaurants.

This approach has delivered a profound impact on growth, share and profitability, fundamentally changing the performance trajectory of these companies.

The exhibit to the right captures the impact this approach has delivered in a set of FMCG companies.

Business leaders have found this approach transformational – not only has it provided them with the right consumer insight, but it has also helped them convert those insights into actionable programs that can be run across the organization.

Context	Growth impact
Global snacks leader growth turnaround	<ul style="list-style-type: none"> Volume:06-11 at -1% to 12-14 at +3% (share gain) Top 4 brand simultaneously growing for 1st time in decade Significant enterprise value delivered; investor recognition
Global spirits growth strategy	<ul style="list-style-type: none"> Growth unleashed: pre +15% (0.9x mkt) to post +36% (1.6x) Taken 8 share points from brand leader
Global beverage turnaround	<ul style="list-style-type: none"> +2% pts volume swing, +10% pts profit swing vs. prior 3 years; growth concentrated in advantaged, more profitable brands

" This work is a lynch pin for us to reposition our brands to be once again relevant to our consumers. The insights gained from this work will provide competitive advantage as currently we do not see our competitors looking at the consumer in this way."
— CEO, International skincare player

"This is first time I have seen consumer insights that can be useful. It is clear to me now we have basically been driving this business without being able to see through the windshield"
— CEO, Global F&B player

"This has made my team better. We improved our business, discovered new techniques and learned how to elevate insights to a center plate issue for our management team by blending rigor with simplicity."
— CMO, Global food player

Six tests for when a demand space approach is needed

In the exhibit, we have listed a set of indicators that suggest the companies may need a demand centric growth led intervention.

The Demand Centric Growth approach can unlock significant growth in business by providing the insights, clarity and direction needed for growth. This approach allows organizations to determine whom to serve and why; and also helps the organization differentiate and win with these consumers and occasions.

Using this approach in a programmatic manner creates an integrated insights foundation that explains the drivers of choice in a category. It anchors and integrates portfolio strategy and actions, to drive innovation and activation.



Growth Test—Growth rate below ambition and/or history; constantly trading off price and volume growth



Consumer Test—Despite 1,000s of pages of insights decks, cannot simply explain how consumers make choice and why consumers pick your brand vs. the competitor



Segmentation Test—No or many segmentations, none at the center of the business or shared across brands; or using conventional U&A as basis for setting strategy



Share Test—Losing share (even if growing) and cannot sharply explain why



Portfolio Test—Multiple brands attacking the same target, resulting in high cannibalization and inability to grow brands simultaneously; absence of integrated portfolio roles



Commercial Cohesion Test—Different functions operating under different strategies, no consistent language around the consumer and how to win their purchase

ENGAGING THE DIGITALLY CONNECTED CONSUMER





Companies can use digital in three ways

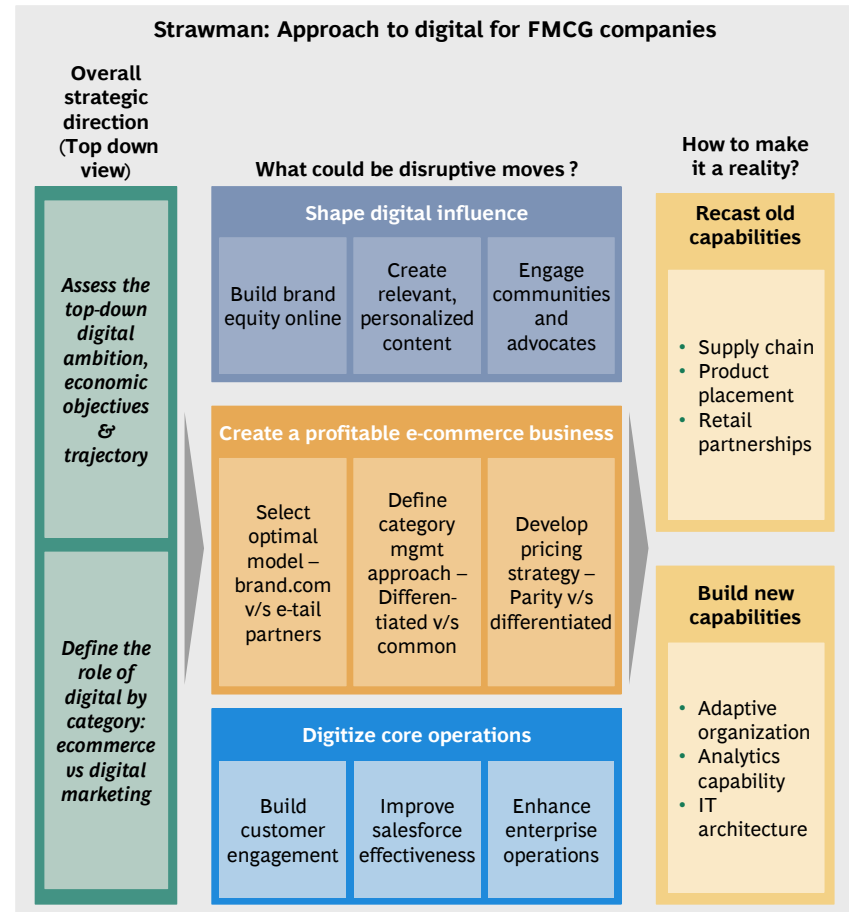
The disruption in consumer goods due to digital would increase at an unprecedented speed. Proliferation in internet connectivity, evolution of new business models and increase in digital media consumption would provide companies enormous opportunity to create value. Others who fail to capitalize on these opportunities would be under pressure.

FMCG companies can make three disruptive moves to win in the digital world:

- *Shaping digital influence:* This entails connecting with the consumers along the purchase pathway by building brand equity online and creating strong advocates for the brand
- *Winning with E-commerce:* Creating a profitable e-commerce business entails strategic choices around the channel – brand.com or/and marketplaces / vertical specialists. Companies would need to think through operating choices to avoid channel conflict.
- *Digitizing operations:* Companies can create substantial value by leveraging digital across the value chain to enhance efficiency and effectiveness of operations

To realize these opportunities, some old world capabilities need to be recast, while others need to be built afresh

- *Recasting old world capabilities:* Capabilities from the physical world such as (a) product placement, (b) supply chain, and (c) partnerships with retailers need to be recast for the digital world
- *Building new capabilities:* Companies would need to build new "fit for purpose" capabilities to compete in the digital world. These would include (a) analytics based decision making, (b) a digital ready organization, and (c) a nimble IT system that allows companies to follow a 'test, scale and grow' approach in digital



Take a strategic, top-down view to the opportunity

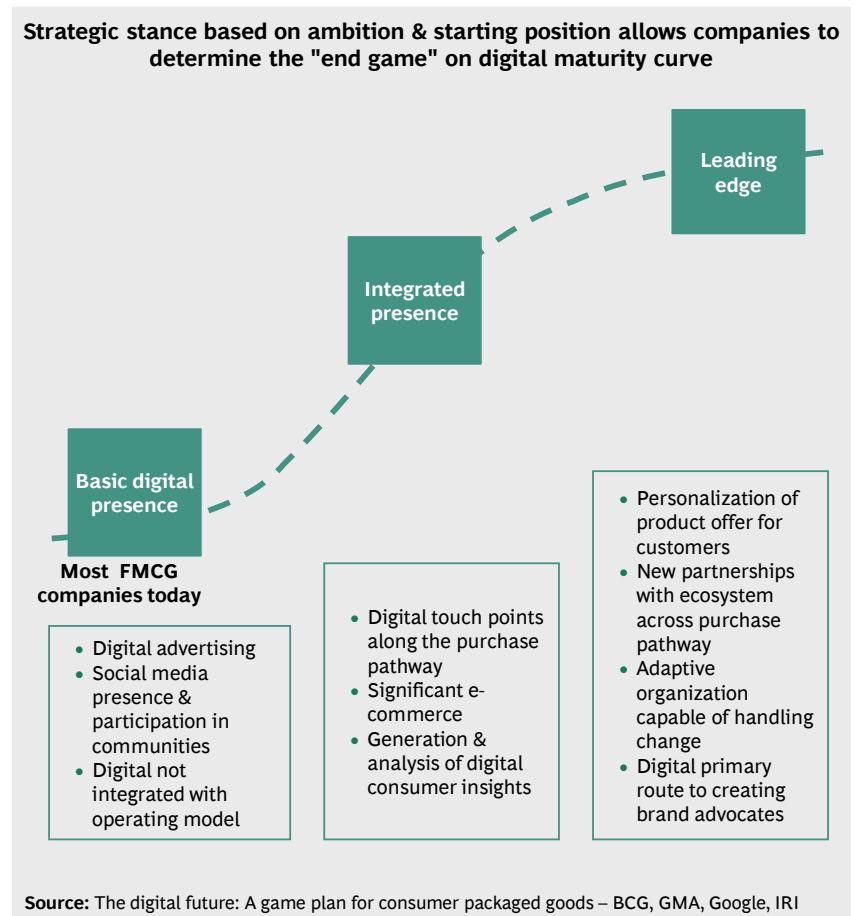
Digital is the new buzz word today– however, most FMCG companies are unclear on the opportunity it provides for them and the stance to take.

We recommend companies take a top-down view of the opportunity: the likely revenue (& associated profit pools) and degree of digital influence for each category.

The answer would vary by category very significantly. In some categories, e.g. health / OTC, e-commerce would grow to account for 12-15% of category sales by 2025 while in others, e.g. staples, laundry, contribution from e-commerce would be much lower. Similarly for some categories, e.g. baby food, degree of online influence would be significant (5-7%) yet e-commerce contribution would continue to be low (2-4%).

Companies need to assess their starting position, investment appetite and the trajectory they would undertake (e.g. would they lead / actively shape online or be a follower). This strategic view would determine the level and shape of the investment required. This would help companies make a conscious choice on where they would like to be on the digital maturity curve and the path they would follow in the future.

Within the same category, organizations may choose to take different paths e.g. a leading FMCG global player has an evolved digital offering (self owned e-commerce portal with the option of personalized offerings for consumers, active social media engagement, social listening for generating rich insights) for its premium portfolio while continuing to have a basic digital presence (updated website, social media fan page and e-commerce partnerships) for rest of the portfolio.



Step up digital marketing capabilities : Take a data driven, programmatic approach

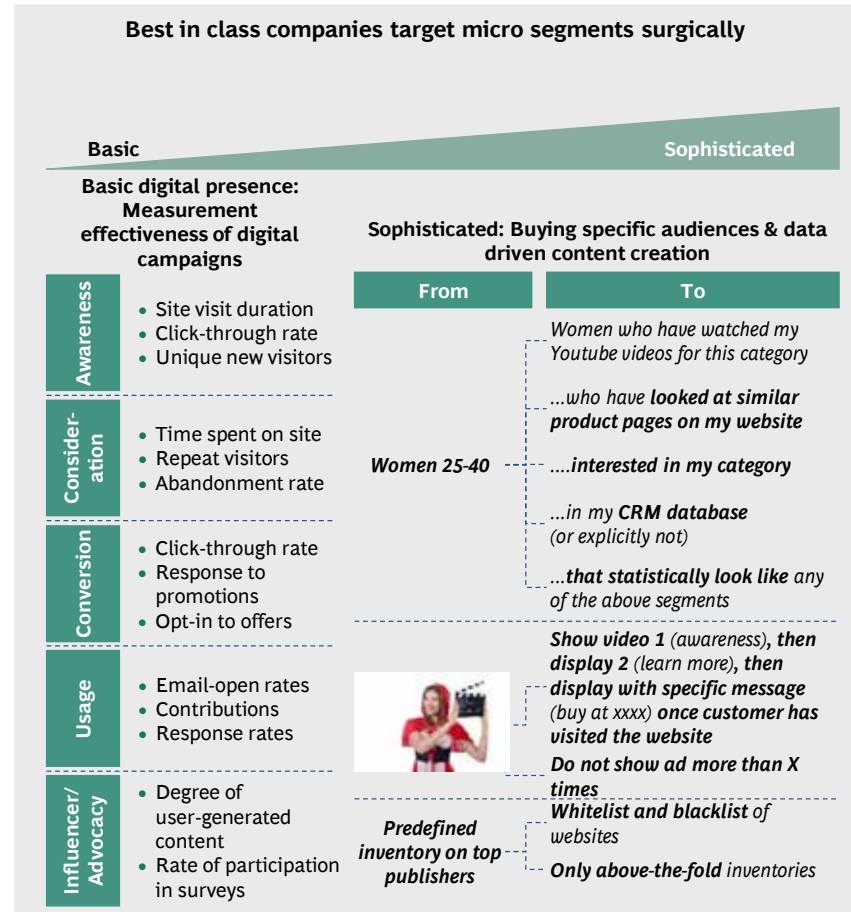
Though spend on digital marketing has increased for most FMCG companies and for some benchmark players reached as much as ~8-10% of the overall marketing spend, there is a clear opportunity for companies to revisit both the strategic stance (level and shape of spend) and the effectiveness of spend.

Companies need to reexamine the following strategic choices:

- What should be the level of spend in digital?
- What digital platforms is the core consumer engaging in? Hence, what platforms should we invest in?
- What would be objectives for selected platforms and what campaign tactics and engagement techniques should be adopted?

As the spend on digital marketing grows, so would the focus on efficiency and effectiveness of spend. While most companies have started to measure effectiveness of their spend through specific metrics tied to given objectives, companies further ahead on the maturity curve have been smarter and data driven in their approach to digital marketing. This entails taking a programmatic media buying approach which seeks to buy specific digital audiences rather than buying an inventory of click through.

A leading personal care player has adopted a data driven content creation strategy wherein the digital marketing content dynamically adapts to the audience type who is viewing it. This involves use of data analytics to create smart creatives which are segmented and sequenced strategically as per audience type. This approach has helped the company drastically improve the efficiency of its spend.



Provide rich content and engage communities to win in digital

Digitally influenced consumers spend considerable time online engaging with the brand across the purchase pathway. Most companies have created rich, immersive content on their websites/ online platforms. Best in class companies are pushing the envelope further to create engaging content that is personalized, adapted to micro-segments of consumers and co-creating products / solutions with them.

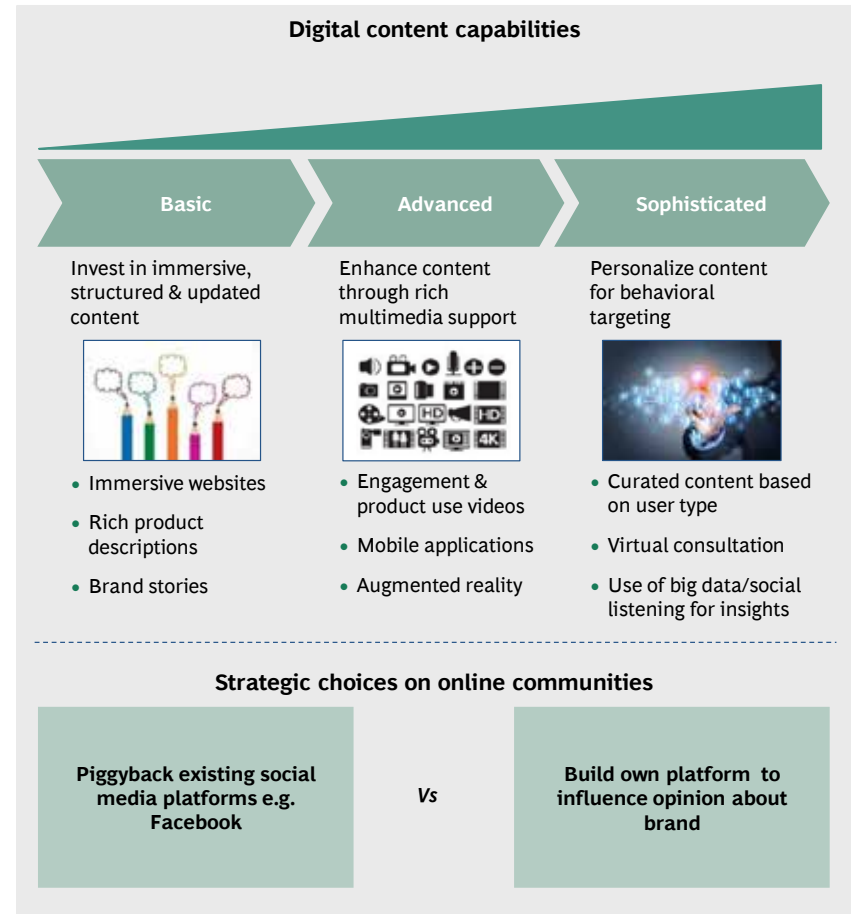
A leading beauty & personal care company engages consumers through a mobile app offering that provides personalized suggestions based on mood & outfit and allows virtual experimentation through a visualization tool.

Consumers are increasingly turning to trusted sources to seek advice. Creating deeply engaged communities & powerful advocate networks has become a key source of advantage for successful brands.

As companies build online communities, a key strategic choice is leveraging existing social medial platforms v/s building own platforms to drive community engagement. The decision would be based on:

- *Level of engagement:* Existing social media platforms help the brand achieve rapid reach, however, own platforms allow much deeper engagement, relationships and rich insights
- *Starting position:* For brands with limited social media presence, harnessing an owned platform would entail considerable effort; however, if the brand enjoys a high social media following, migrating the fan base to an owned platform would be relatively lower effort

A leading baby & personal care company created an own platform of mothers to drive advocacy. The portal serves as a forum for mothers to gain access to new product launches, share experiences and engage in fun activities.

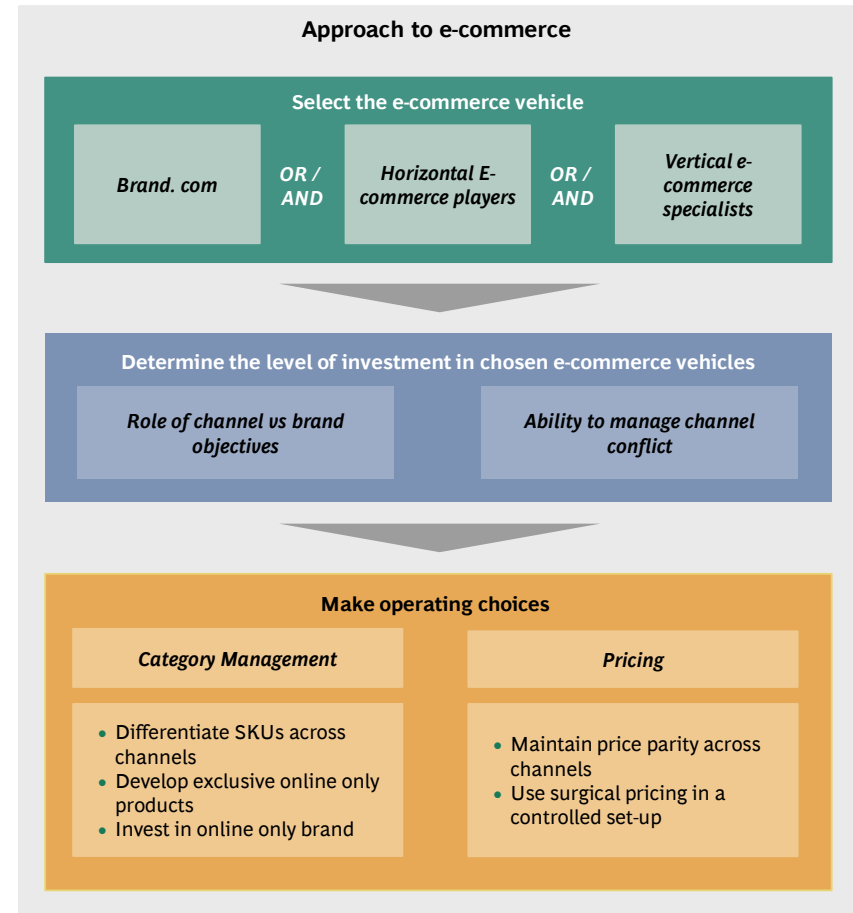


Participate in e-commerce via multiple routes, manage channel conflict

Companies can choose multiple routes to participate in e-commerce : brand.com or / and vertical/ horizontal specialists. While, brand.com allows companies to build deep relationships with customers, offer personalization and take decisions based on analytics for generating rich insights, they experience much lower traffic vs market places. Partnerships with ecommerce players, on the other hand, offer the benefits of higher reach at the cost of limited engagement.

The level of investment per channel should be based on the role of the channel and the company's ability to manage channel conflict. To manage conflict, companies have typically adapted two routes -

- *Differentiated assortment:* Several options exist -
 - *Differentiated SKUs:* A multinational coffee player differentiates its assortment across its channels by varying the SKUs and by retailing selected products only on its exclusive channels
 - *Exclusive online product:* A leading confectionery brand invested in an exclusive online product that can be personalized to individuals. It sold at a significant premium compared to traditional offerings
 - *Online only brand:* A leading beauty brand invested in an online only brand in collaboration with a YouTube beauty blogger; the brand witnessed substantial sales
- *Pricing:* Maintaining price parity v/s using surgical pricing
 - *Price parity:* It is imperative for companies to proactively manage channel conflict by maintaining price hygiene. The marketplace model, wherein inventory is owned by the brand allows companies full control on pricing
 - *Surgical pricing:* In some cases, a price discrimination approach may be followed by companies to carry out targeted pricing actions in a controlled set-up



Rehash traditional capabilities for the digital world

Product Placement: As in the physical world, visibility & placement at the right place is important

- *Product facings:* With shelf space no longer a constrain; companies need to secure high product rankings & invest in brand stores
- *Navigation:* Manage product listing across departments to ensure relevance; customer reviews to improve ranking; and tags to ensure easy search
- *Touch & feel:* Invest in enhanced virtual experience
- *Product info:* Go beyond technical & functional information and offer rich multi-media experience to ensure brand connect

Supply chain: Need to ensure the right trade off between responsiveness and cost to serve

- *Inventory stocking:* Differentiate holding across SKUs – slow moving at central warehouses and fast moving with e-commerce partners
- *Order servicing:* Take a decision on servicing by self or via distributors
- *E-tail inventory demarcation:* Invest in advanced IT systems to enable virtual demarcation of inventory, allowing higher flexibility
- *Packaging:* For bestselling online SKUs, invest in storage & transport friendly packaging

E-tail partnerships: Companies would need to forge partnerships with e-commerce players with clarity on the role of the format & player.

- *Strategic alignment & allocation:* Select e-retail partners based on business objectives (reach/loyalty/potential for collaboration)
- *Trade structure & rules:* Define clear guardrails for category management and develop pay for performance incentives
- *Execution:* Monitor customer reviews & other online metrics to track partner performance



Product Placement

Product facings: Enhance visibility in digital world

Navigation: Manage listing departments/tags

Touch & feel: Enriched virtual experience

Product info: Offer rich multi-media experience



Supply Chain

Inventory stocking: Differentiate by SKU type

Order servicing: Service directly or via distributor

Inventory demarcation: Enable virtual demarcation

Packaging: Invest in storage & transport friendly packaging



Partnerships with retailers

Strategic alignment: Win with winners

Trade structure & rules: Define clear guardrails

Execution: Define and monitor metrics for partner performance and align incentives

Rethink organization structure and manage friction proactively

As companies adapt their organization structure to their digital strategy, several friction points would need to be managed. Companies need to proactively solve for it by selecting the right organization structure and KPIs.

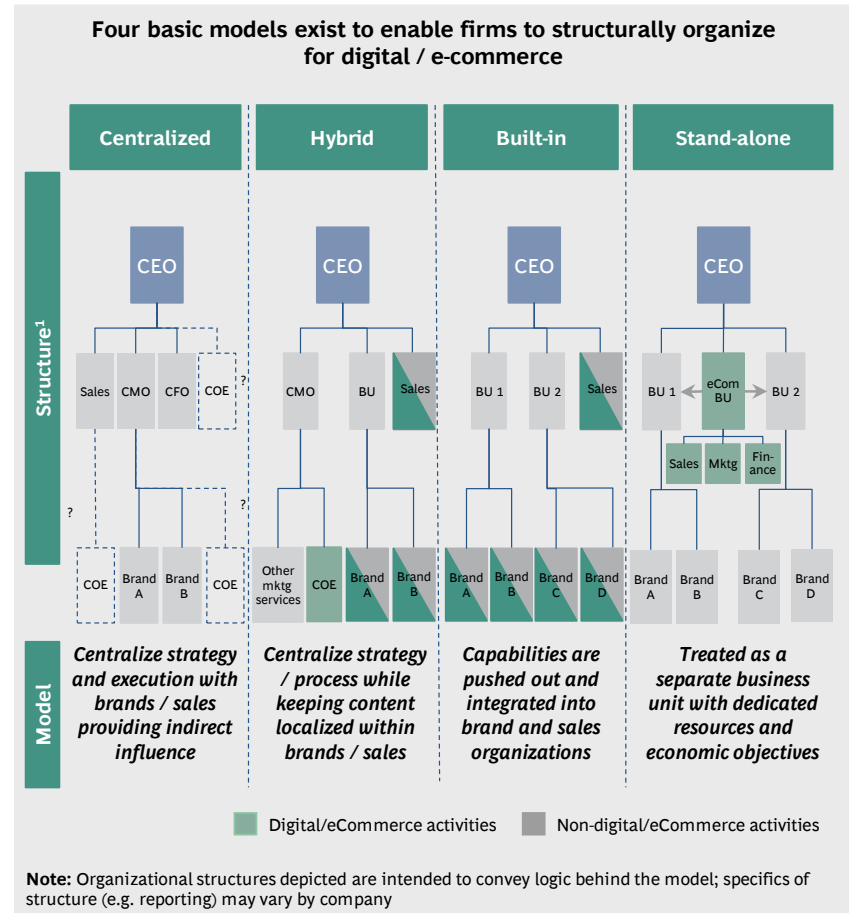
A couple of illustrations of friction points that companies need to proactively manage include:

- *Accounting lines* between marketing and trade spend are fuzzy and create conflicts when working with online retailers. This calls for new buckets to be defined both for budgeting and managerial P&L
- *Incentives and metrics* often push business owners to optimize channel results vs. drive overall business
- *Promotions* in stores and online, if not coordinated, confuse consumers and/or sub-optimize economics
- *Assortment decisions* need to be made across channels, but lack the speed of independent decision making
- *IT systems and processes* unable to provide one view of merchandise, inventory and consumers across channels

Companies would also need to invest in new capabilities, data driven digital marketing e.g. big data to create one version of truth.

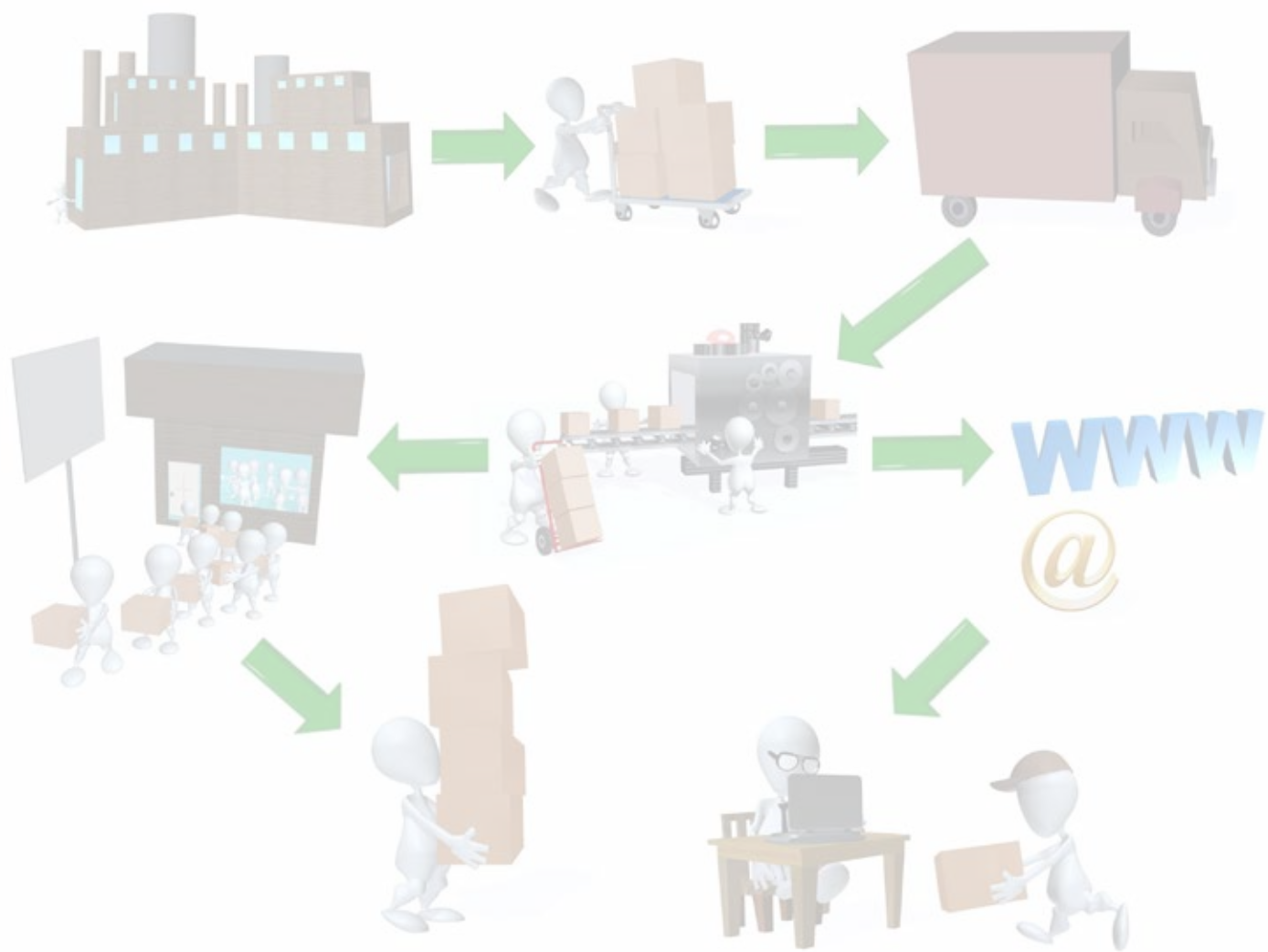
Four basic models exist for companies to structurally re-organize in the digital landscape. The suitability of the model varies by company type as described below

- *Centralized*: Large, complex organizations with multiple BUs that have limited access to top talent in digital/e-commerce
- *Hybrid*: Organizations with multiple BUs, a collaborative culture and moderate access to talent in digital/e-commerce
- *Built-in*: Organizations with limited BUs, an experimentative culture, and with top talent engaged in digital/e-commerce roles
- *Stand-alone*: Organizations that do not operate in a culture of silos, are agile and are looking to drive e-commerce on brand.com



RE-CRAFTING GO TO MARKET





Companies need to re-think their Go To Market model in the new reality

The conventional Go – to –market model is under stress

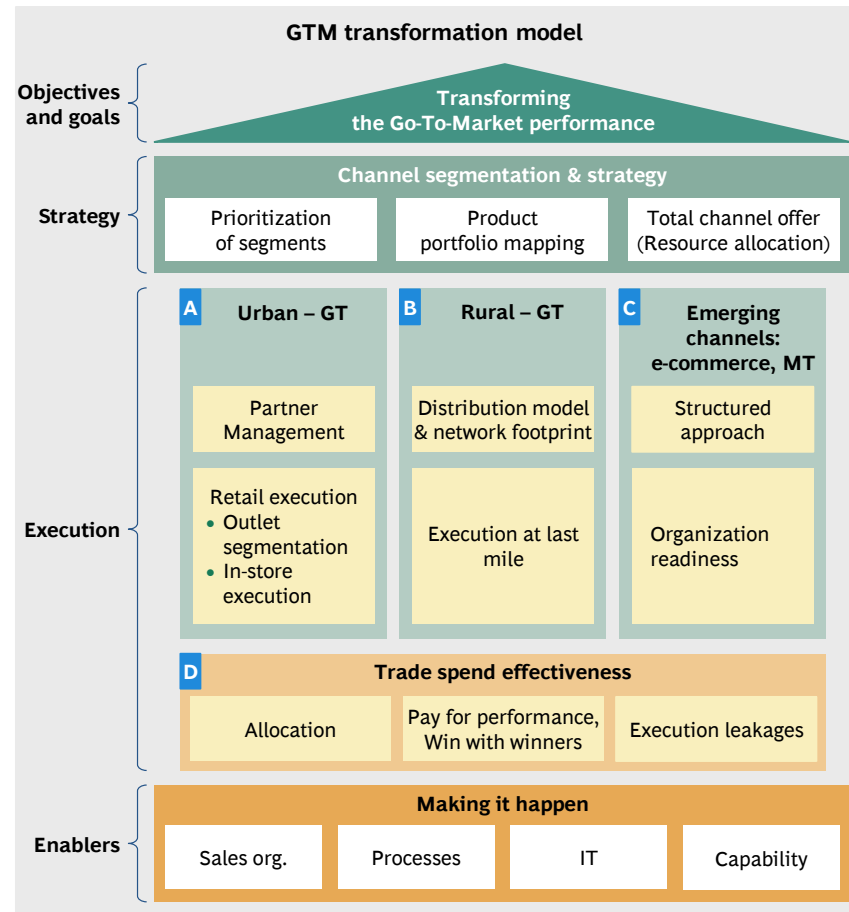
- Rising distribution costs have resulted in challenged partner economics and high attrition. More importantly, "good distributors" are increasingly become a rare entity
- Companies today face a wide variation in last mile execution in retail. Most companies face a > 20% attrition at the front line level. High attrition combined with increasing portfolio and channel complexity has resulted in a wide variation in last mile execution
- Rural expansion has given mixed returns with volatility in growth and FMCG companies are still grappling with the right cost model
- Emergence of new channels (Modern Trade, e-commerce and vertical specialists) poses an interesting challenge. In the absence of a profitable model, FMCG organizations are unclear on how to engage and what would be the role of these channels
- Trade spends have increased significantly & account for 25-30% of spends. However, optimization of their allocation has been neglected by most companies

In this context, FMCG companies need to rethink their approach to go to market. Successful GTM transformation programs...

- Increase reach in a cost effective manner
- Improve quality of coverage and hence extraction and mix sold
- Reduce gross-to-net leakages to enhance profitability
- Develop the platforms to drive next wave of growth

... resulting in

- Incremental revenue growth of ~500 bps
- Increased margin by 200-300 bps

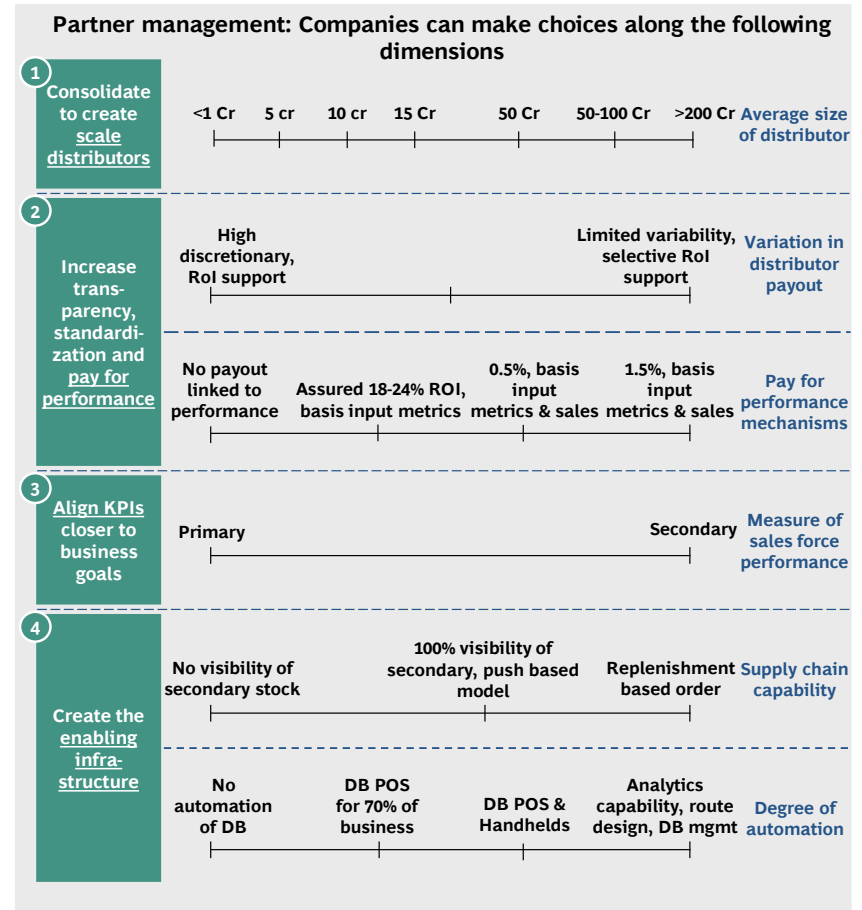


Evaluate stance on partner management on four dimensions

Escalating cost structures have resulted in challenged partner economics (RoI, low absolute earnings), especially in urban trade. This has resulted in high levels of partner attrition – for some companies attrition has been in late teens or early twenties. The problem gets compounded as the next generation feels the distribution business has lower return on effort vs other alternatives and has lower interest in pursuing the business.

Companies can address these challenges by creating scale, capable partners, supported by enabling governance mechanisms and infrastructure

- Drive towards higher consolidation in the network
 - Increase earnings and RoI for distributors, while lowering supervision costs for company
 - Use a bottom up approach to consolidation weighing territory, density and logistics constraints
- Increase transparency and rigor in calculating partner economics
 - Allocate subsidy, RoI support based on performance based measures with a clear linkage to distribution objectives
- Move to performance linked incentives to manage distributor network:
 - Align base margin to service norms & variable margin to drive network performance
- Invest in building enabling infrastructure:
 - Build strong governance mechanisms, IT systems and replenishment based supply chain to manage distributor working capital better



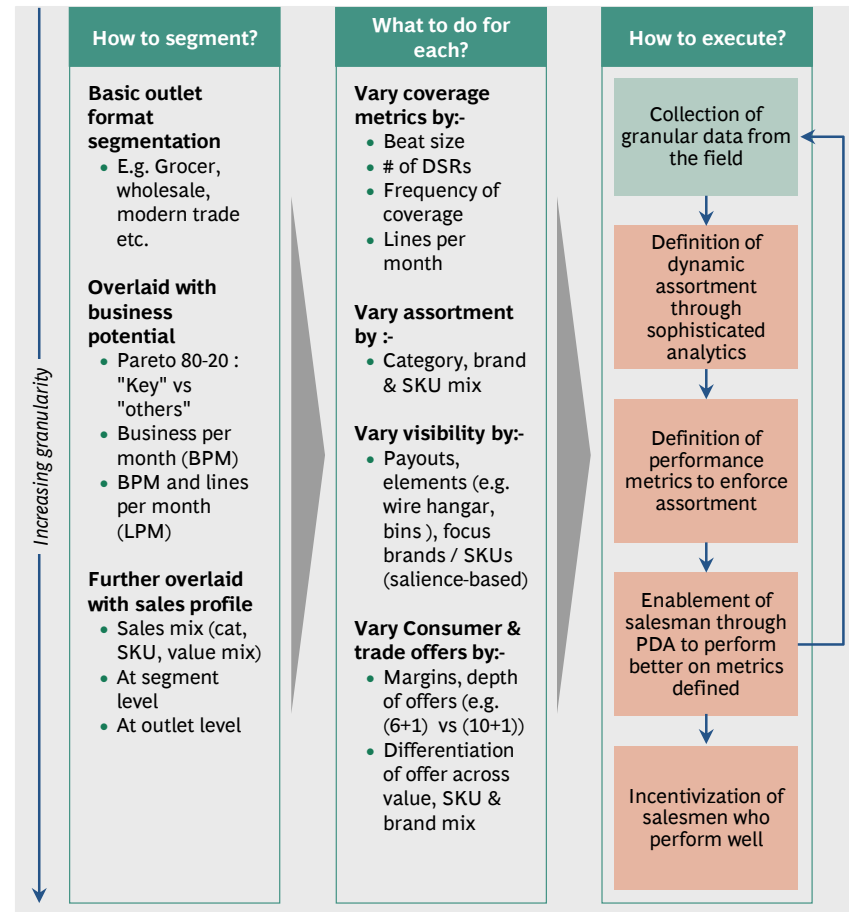
Take a segmented approach to retail & translate design to last mile

Retail execution is getting increasingly complex owing to proliferation of SKUs, channels are becoming more demanding and complexity is rising owing to increasing sophistication in asks from the internal category teams.

This has resulted in wide variation in effectiveness of execution at the last mile. Most companies have taken a differentiated approach to outlets based on their revenue. Companies today have the necessary IT investments to take a much more nuanced approach to outlets

This translates to the 3 key imperatives for companies

- *Segment outlets beyond traditional criteria of sales:* This can be done by layering business potential, profitability and sales profile over the basic format type segmentation
- *Taking a segmented approach to drive higher range selling in key accounts:* This would result in better resource allocation or higher sales per field person – both in terms of time spent/ outlet and quality of resource. This also manifests into key outlets getting a disproportionate share of in-store inputs, visibility investments, consumer/ trade offers and in some cases also a differential assortment
- *Translate to last mile execution by leveraging IT:* Enable last mile execution by translating the design into on-ground action by leveraging IT. This entails using handhelds to enable the sales team, defining performance measures in line with design, and dynamically revisiting analytics based on the POS data



Win with key accounts : Invest differentially to get superior returns

Different levels of sophistication (& granularity) possible in segmentation of outlets. While most companies segment retail outlets based on outlet format and some basic criteria, companies that are ahead in the maturity curve adopt a more sophisticated segmentation approach by factoring in other variables like, business potential as well, sales profile of the outlet, sub channel and outlet level profitability.

Best in class companies invest behind top- tier outlets differentially to get a significant upside in the following manner

- *Service frequency:* Invest as much as 12x man-days in key outlets vs smaller outlets, often with more than one salesman calling upon them, each carrying a different portfolio
- *Quality of sales resource:* Deploy the best quality/ top performing resources in key outlets
- *Trade offers & engagement program:* Institute engagement programs for key outlets with a pay for performance mechanism linked to multiple objectives: sales, range, growth etc
- *Execution monitoring mechanisms:* Deploy tracking mechanisms to measure performance on key in-store execution metrics e.g. plannogramming, merchandise execution
- *Visibility:* Systematic investment in key outlets with payouts linked to multiple criteria – sales profile, catchment of the outlet, location and "real estate"
- *Assortment:* Target assortment e.g. level of premiumness, pack sizes etc. defined and measured separately for key accounts
- *Consumer offers & in-store activation:* In-store activation inputs prioritized for key accounts basis a defined criteria

Several models of segmentation possible basis business potential overlaid with sales profile

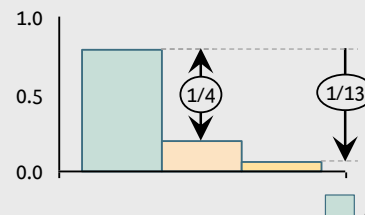
Increasing level of granularity & sophistication of segmentation

Model 1	Model 2	Model 3
2 segments basis business potential Pareto 80-20 <ul style="list-style-type: none"> • Key: Top outlets contributing ~80% sales • Others: Outlets contributing other 20% 	Granular segments basis business & sales profile / sales mix <p>Business potential</p> <ul style="list-style-type: none"> • Class A (>20K); Class B (5–20K); Class C (<5K) <p>Sales profile</p> <ul style="list-style-type: none"> • India 1 <ul style="list-style-type: none"> – Large packs > 75% – Premium SKUs > 90% of the buy • India 2 <ul style="list-style-type: none"> – Small packs – Mass brands 	More granular segments basis business (BPM, LPM) and sales profile at an outlet level <p>Business potential</p> <ul style="list-style-type: none"> • Family Grocers (BPM>40K or LPM>200) • Kiosk (BPM<5K and LPM<60 for) • Mass retail (others) <p>Sales profile</p> <ul style="list-style-type: none"> • Done at outlet level based on sales mix

"Sweating" the top tier outlets, results in significant upside

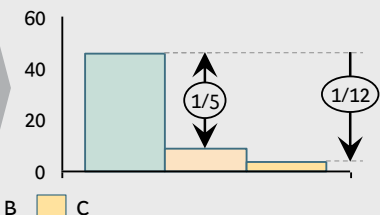
Resources allocated per outlet type

Man-day per outlet



Lines sold per outlet type

Lines sold per outlet



Source: BCG analysis, Expert Interviews

Leverage IT to embed intelligence in the sales call process

With increasing complexity, last mile execution is a challenge given capability and attrition at front line sales force. Most companies face attrition of > 20% for feet on street and capability gaps at the frontline. This results in significant variability in execution levels.

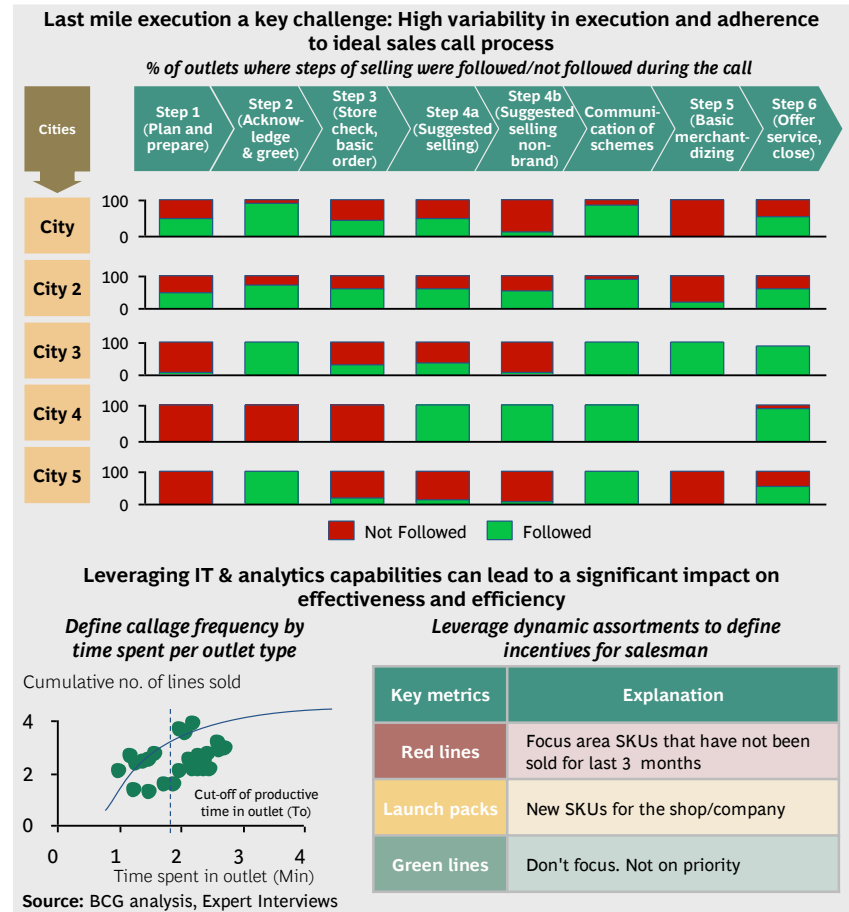
Our work (refer exhibit) suggests that the level of variability can be very high across the various steps of a sales call.

Best in class companies are solving for this by leveraging IT and embedding intelligence into the sales call process. They have been able to leverage several years of POS data & build analytics capability to effectively:

- Optimize beat plans, service frequency and cost to serve
- Enable sales call in range selling through hardwiring/ providing inputs basis history/ stated objectives
- Enhance efficacy of trade spends
- Track execution excellence on key elements e.g. Visual merchandising

This is strengthened by investing in institutionalized training programs that cover topics such as basic math, up-selling, product & market understanding, soft skills as well as standardization of sales call. Best in class companies have incorporated assessment of performance on these parameters in performance management for the "feet on street".

Companies have moved from focusing on volume based incentives, to tracking selling efficiency and key distribution metrics such as focus brands sales value, frequency of billing, average bill value and attendance for disbursement of incentives.



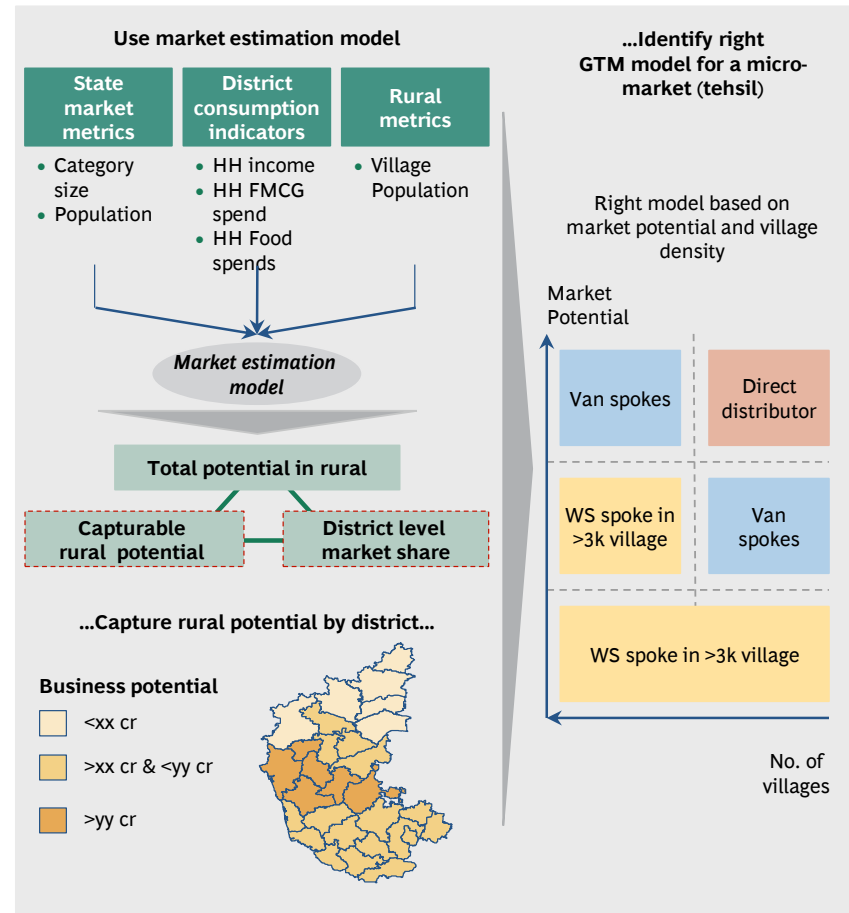
Step up rural expansion through right choice of GTM models

Rural growth has historically tended to be volatile subject to macro factors. However, what separates winners from others is the ability to go deep into rural with the most cost efficient Go To Market model.

Best in class organizations, have been able to effectively leverage geo-spatial data (GIS) overlaid with some consumption metrics & infrastructure metrics at the level of a sub district / tehsil . Based on potential of market and cost to serve, companies should assess and decide the most optimal service model. As companies expand their rural footprint, taking a segmented approach based on market potential allows them to go for the most cost efficient model to penetrate rural markets.

For multi-BU companies there is a also case to evaluate leveraging of scale across the entire portfolio to optimize costs and enhance reach. The scale kicks in at three levels: distributor margins, feet on street and the company sales team. However, it requires careful evaluation of the underlying trade offs . This also needs to be supported with enabling mechanisms in supply chain and IT to ensure the entire order to cash cycle is streamlined.

Best in class companies are investing in low cost technology solutions to enhance effectiveness of sales force in rural markets – they are able to monitor, track and enable the rural sale steam. There is evidence to suggest > 30% increase in effectiveness of rural sales teams when these enablers and monitoring mechanism are in place.



Take a structured approach to emerging channels

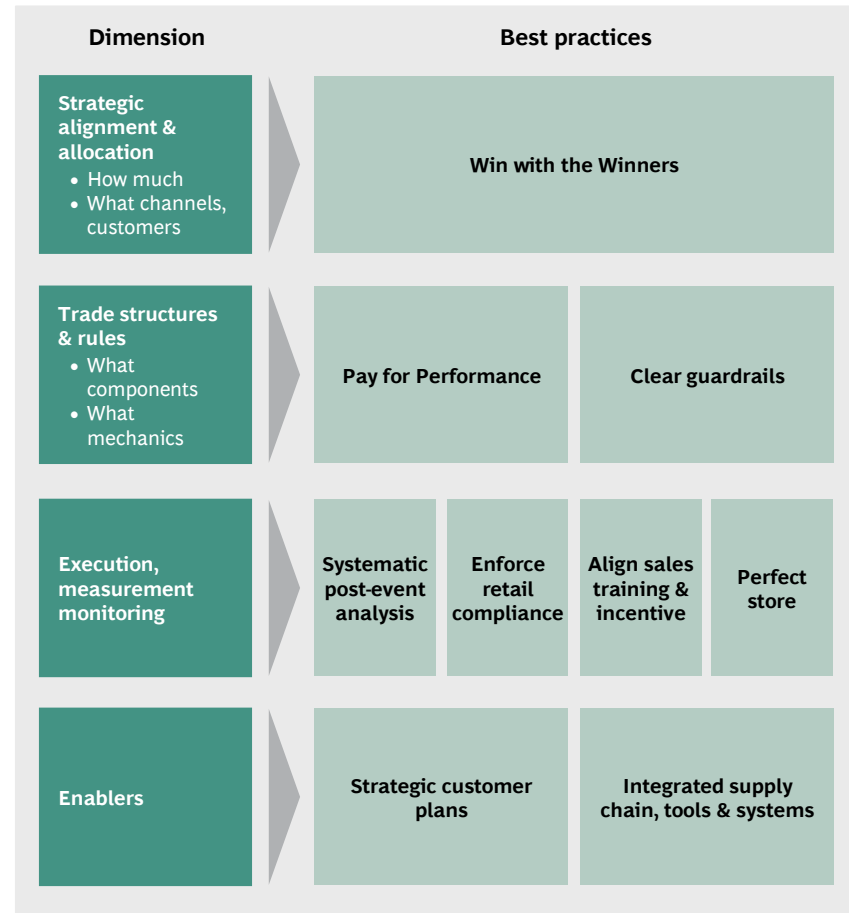
Emerging channels (e-commerce, vertical specialists, modern trade) are in a state of flux & continue to evolve in India. In some cities these channels already account for > 30% of the market. While these channels have shown robust growth, there is limited evidence of a clear profitable model. FMCG companies are hence, often unclear on the stance to take.

We advocate that FMCG companies take a strategic approach based on clarity of the role of these channels for their categories. The strategic objectives need to be translated to an implementation plan using a playbook based approach for emerging channels.

This approach is based on:

- Clearly identifying and investing in "winners" in the space
- Creating joint business plans with the identified winners in the space
- Restructuring Terms of Trade to maximize results .Introducing clear pay for performance mechanisms with elements on growth, in-store execution elements, and joint business plan objectives
- Outlining guardrails in trade spends to avoid channel conflict
- Rolling out robust execution monitoring mechanisms e.g. compliance to Terms of trade (share of shelf, visibility, in-store execution elements)
- Laying out guidelines for the "perfect store"
- Investing in integrated supply chains and IT systems for greater visibility and agility

It is imperative that companies, put in place the right organization structure with dedicated teams and the right KPIs to win in modern trade.



Enhance efficiency of trade spend through structural intervention

Trade spends accounts for 25-30% of overall spends for most companies. Typically, trade spends tend to be disaggregated across multiple stakeholders with no entity having a full view and are often legacy based.

As most of this spend sits above the net revenue line, it is typically neglected. Most companies have limited understanding of the effectiveness of spends and outcome metrics.

Our work with companies in India suggests we can optimize trade spend by upto 10% (200-300 Bps) EBITDA impact through a set of levers

- *Reduce Trade* spends by considering a few key factors based on
 - Affordability of the spend for a given level of product margins
 - Level of competitive intensity
 - Ability of the retailer to distinguish total spend levels vs competition
 - Costs to serve and returns for channels
- *Reallocate spend* across portfolio (markets, products) to enhance effectiveness of the spend based on
 - Strategic priorities for the brand/product
 - Level of competitive intensity
 - Brand strength and relative market share
 - Spend types that can make payouts performance linked
- *Plug leakage* arising from multiple sources such as
 - Misclassification of channel partners
 - Incorrect interpretation/ pay-outs on schemes
 - Manual payouts leading to leakages
 - Weak linkage to targets

To realize this opportunity, most companies would need to make a structured intervention and enable it with a robust organization structure, realigned performance measures and decisions rights, and an IT system that ensures last mile execution.

Illustration: Opportunity to realign trade spends based on market share, product profitability

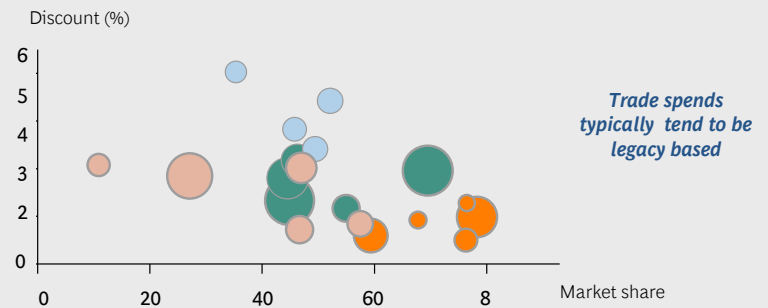
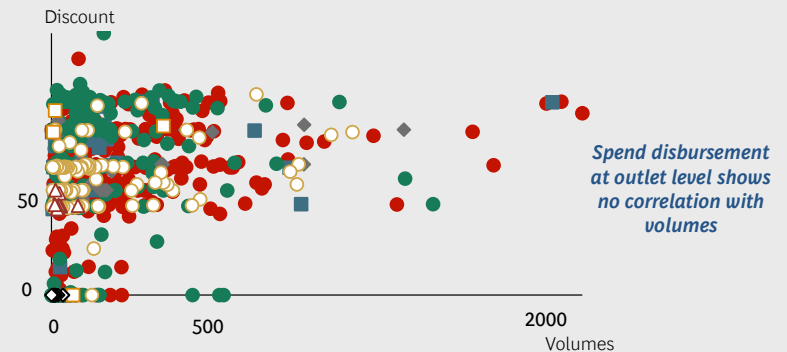


Illustration: Limited correlation between sales and spends at an outlet level



Source: Expert Interviews

BUILDING PEOPLE AND TALENT READINESS





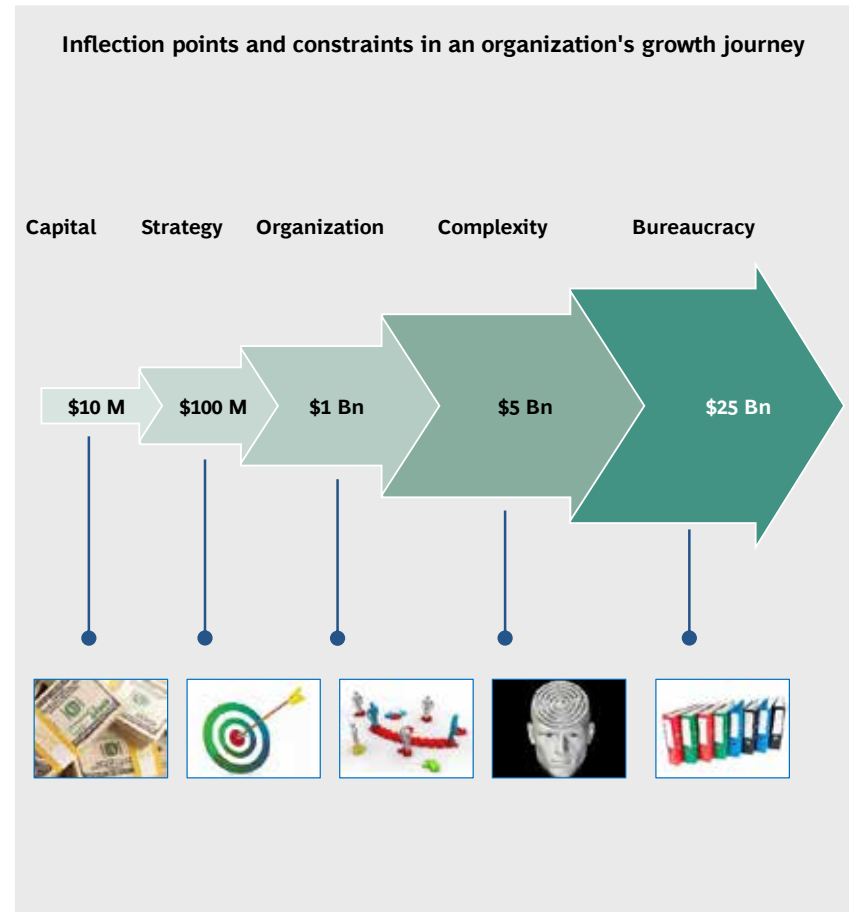
Imperative to build people and talent capabilities for the new world

With the profound change in the shape of the future growth, FMCG companies would need to re-think elements of their organization model to become "future ready". This would entail not just a reorganization but in some cases a de-novo look at the structure as well as building new age capabilities e.g. analytics based decision making to win in the new world.

As can be seen in the exhibit, the constraint for growth varies by size of the company. For most FMCG companies the two biggest challenges are putting in place the right organization model across levels and solving for complexity which comes with scale. In this chapter, we have focussed on these two core issues

We believe the three key imperatives for FMCG companies are as under:

- *Reduce complicatedness*: Adopt smart simplicity principles- leaner structures, eliminate bureaucracy and build capabilities specific to individuals
- *Create business leaders*: Enable transition from line managers to business leaders through a structured intervention
- *Rethink value proposition*: rethink the value proposition for entry positions in the light of increasing dichotomy between old & new economy career paths



Reduce complicatedness: Adopt smart simplicity

Most FMCG companies have made changes in their organization in a piecemeal manner to respond to a change in the environment e.g. addition of new account teams (for modern trade and now e-commerce), or new centres of excellence. Over time, these additions have complicated how business is done. It is not uncommon for companies to believe that the solution to the problem lies in adding more KPIs, more governance and more coordinators. As this organization design remains unchecked, the organization starts feeling the symptoms of what we call complicatedness.

Three symptoms indicate increasing complicatedness:

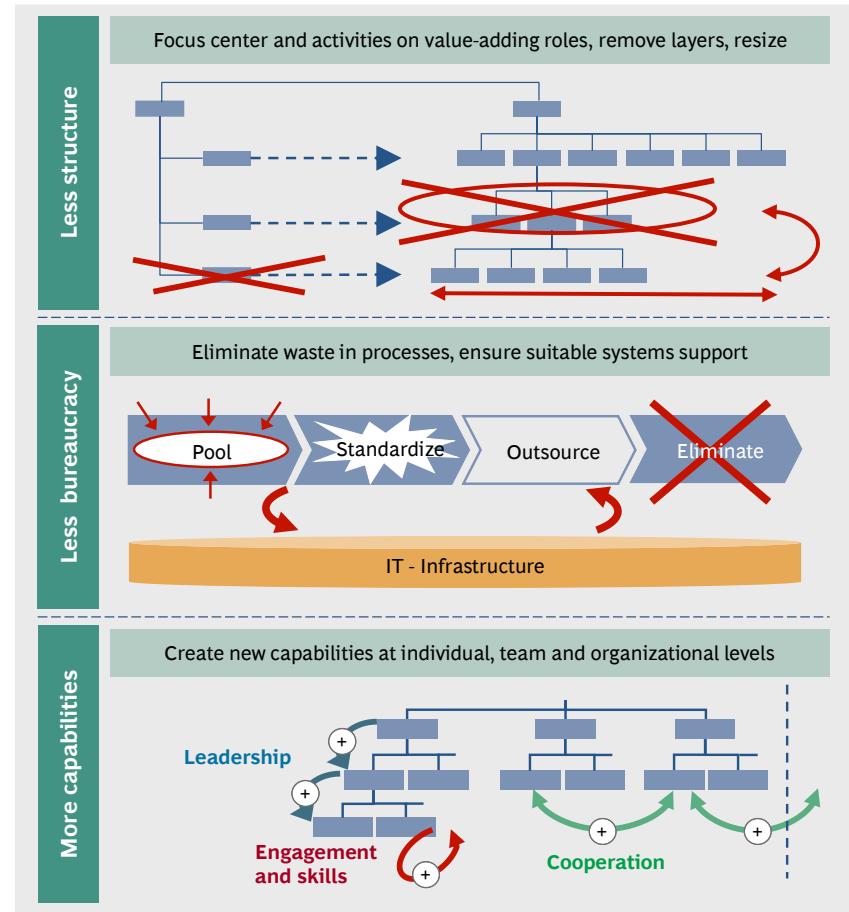
- Slow decision making with processes takes longer than usual
- Proliferation of coordination meetings and roles with people spending too much time in one meeting or another
- Silo working or repetitive work being done

As an illustration, one of our clients has to manage close to 10 stakeholders across the value chain in order to get a promotion signed off for a brand. The complex system has reduced the company's agility and decreased the sense of ownership.

Companies facing these situations must think about their structure from scratch. The current environment and flexibility should be incorporated into a brand new mode of working. When designing the organization, we use the principles of what we call Smart Simplicity. Smart Simplicity is about managing complexity without complicating things even more. This in the long run, helps improve organization performance and employee satisfaction at work.

The route to Smart Simplicity involves three steps -

- *Less Structure*: Focus on value-adding roles and removing layers
- *Less Bureaucracy*: Eliminate waste in processes while ensuring suitable systems support
- *More Capabilities*: Create new capabilities at individual, team and organizational levels



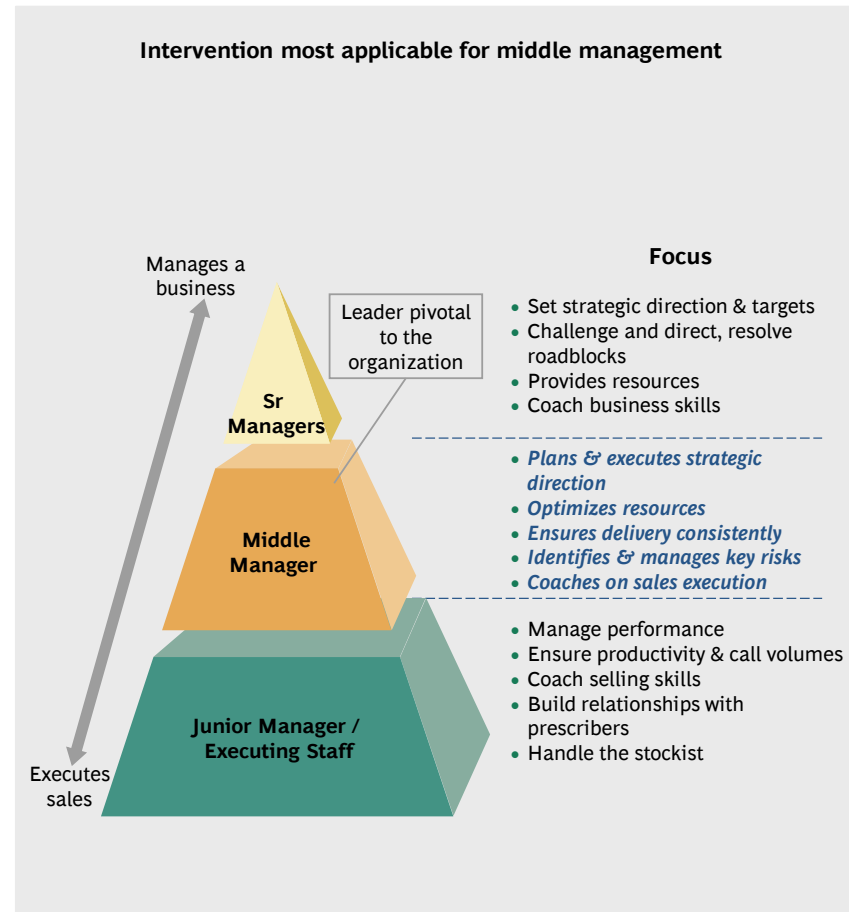
Transition from functional managers to good business leaders

Most middle managers who have risen through the ranks are excellent in their functional roles but lack the necessary skill set to be great business managers.

Many companies have started inculcating these skills with short term initiatives such as executive programs. This is a good start but not sufficient. In order to truly make an impact and build capability, a structural intervention would be needed. This intervention is given through a combination of role enhancement, class room training and on the job apprenticeship.

Key elements that are required are a combination of functional capability builds (hard tools), soft skills and building leadership competencies.

- *Hard elements:* These tools enable decision making, managing by exception, and allow the managers to make proactive interventions by giving them a snapshot of the most important trends
- *Soft elements:* Building soft skills that allow mid level managers to collaborate better with other functions, coach and mentor junior teams while focusing on honing their leadership competencies
- *Business capabilities:* Typically, when people are promoted from the field, strategic planning is a commonly highlighted skill gap. Transmitting these skills to junior teams takes time and often takes place in an unstructured manner. However, putting these tools together into codified blueprints can accelerate the learning curve and ease the management of business performance at every level
- *Role enhancement:* Structurally enhancing roles at the mid-management levels by encouraging collaboration and getting a functional overview with other functions either through direct or indirect reporting



Create a winning value proposition at the entry level

Millennials joining the entry level today face an increasing dichotomy between old and new economy career paths. They like working in loose teams instead of hierarchy, are optimistic, multi-cultural, curious and open. The expectations of millennials about career growth and work life balance vary significantly from those of past generations. Job security is not the number one priority for the millennials. Career satisfaction is. Hence, a rethink of the value proposition is necessary.

It is common for a conventional FMCG companies to have 15+ levels to CEO. This has been driven by the approach of using promotion as a substitute for motivation. Often these seemingly life changing promotions don't add any power, skills or responsibilities, and therefore frustrate millennials who are not really motivated by just fancy titles.

Organizations need to develop a structured approach to defining the employee experience. Steps to take include the following -

- *Define the value proposition:* Be clear and articulate about the experience and how it can be made better.
- *Back it up with clear learning experiences:* Structured learning from experienced hands and having a back-bone to lean on implies a much higher probability of success.
- *Organize to deliver it:* Relook at career paths, explore incubators with the organization and structure a non-traditional path that adds value to the business.

More importantly, organizations should take a step back and explore if the experience based hierarchy is still relevant for their context. Perhaps companies would be better off staffing roles based on relevance i.e. a set of lateral experiences that make the person relevant for the role.

Relevance versus Experience

What is the secret sauce behind the energy at start-ups? Some would argue that it's the buzz of the place. Where does that drive & engagement come from? Our view is that giving people roles and responsibilities far in excess of their experience works very well for millennials.

It's a tough balance, risk vs. reward; start-ups eschew the traditional experience based process to putting people into roles. They primarily (because they have to) use relevance to build up capabilities for roles that never existed in the past.

Take for example, a role to sell on-line a category that has never been sold before – let's say bespoke suits. Would you rather give the job to someone who has ten years experience in suit selling or someone who understands how shoppers shop online. Or maybe somebody who has done both?

What many companies may find is the relevant skill set is not always found in the individual but in the team. Putting the right teams together in regimented hierarchies is not easy and therefore established companies struggle unlike their smaller, more nimble counterparts.

We contrast the organization philosophies between established companies and start-ups using the example of an orchestra and a jazz band. Both require intense training and talent, but the first uses a far more regimented approach than the latter. Start-ups create the jazz band, putting together a flexible skill set of very talented folks to get the job done and they pull each other to greater heights as do all fantastic jazz bands.

One would argue, to attract and retain the young talent for the future, established companies need a way to set up jazz bands. To not stretch the analogy any further, the secret is in teams and more importantly, empowered teams. Crack teams to disrupt the system, challenge existing thinking and build a diverse skill set with the flexibility to experiment. So think about teaming structures to engage people and the contemporary jazz archetype of teams which would appeal to the contemporary employee.

For Further Reading

The Boston Consulting Group publishes reports, articles and books on related topics that may be of interest to senior executives. Recent examples include those listed here.

Street-Level Segmentation in India: Winning Big by Targeting Small

A focus by Neeraj Agarwal, Nimisha Jain and Shweta Bajpai, The Boston Consulting Group, October 2015

Demand-Centric Growth: How to Grow by Finding Out What Really Drives Consumer Choice

A perspective by Michael J. Silverstein, Dylan Bolden and Dan Wald, The Boston Consulting Group, September 2015

India@Digital.Bharat: Creating a \$200 Billion Internet Economy

A report by Alpesh Shah, Nimisha Jain and Shweta Bajpai, The Boston Consulting Group, in association with the Internet and Mobile Association of India, January 2015

Rocket: 8 Lessons to Secure Infinite Growth

A book by Michael J. Silverstein, Dylan Bolden, Rune Jacobsen and Rohan Sajdeh, 2015

Brands Need Friends: Advocacy Fuels Growth in India

An article by Steve Knox, Amitabh Mall, Nimisha Jain, Kunal Rana and Shruti Patodia, The Boston Consulting Group, August 2014

The Digital Future: A Game Plan for Consumer Packaged Goods

A report by Patrick Hadlock, Shankar Raja, Bob Black, Jeff Gell, Paul Gormley, Ben Sprecher, Krishnakumar (KK) S. Davey, and Jamil Satchu, The Boston Consulting Group in association with Grocery Manufacturers Association, Google and IRi, August 2014

Going to Market in Developing Economies: Winning Big by Targeting Small

An article by Amitabh Mall, Vaishali Rastogi, and Jeff Walters, The Boston Consulting Group, April 2014

Six Simple Rules: How to Manage Complexity without Getting Complicated

A book by Yves Morieux and Peter Tollman, 2014

From Buzz to Bucks: Capitalizing on India's "Digitally Influenced" Consumers

A focus by Arvind Subramanian, Nimisha Jain, Shweta Bajpai, and Shruti Patodia, The Boston Consulting Group, April 2013

India is Trading Up (And Down)

A whitepaper by Abheek Singhi and Nimisha Jain, The Boston Consulting Group, October 2012

The \$10 Trillion Prize: Captivating the Newly Affluent in China and India

A book by Michael J. Silverstein, Abheek Singhi, Carol Liao and David Michael, 2012

Note to the Reader

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Acknowledgements

This study was undertaken by the Boston Consulting Group (BCG) with support from the Confederation of Indian Industry (CII).

We would like to thank Mr. D Shivakumar – Chairman CII National Committee on FMCG 2015-16 and Chairman & CEO, Pepsico India for his support and guidance while developing this report.

We are grateful to Rahul Guha, Partner and Director in the Mumbai office of the Boston Consulting Group and Head of BCG India's People and Organization Practice, for his contribution on the "People & Talent Readiness" section.

We would also like to acknowledge the contribution of Kanika Sanghi, who is a Principal in the Mumbai office of the Boston Consulting Group. and co-leads the Center for Consumer Insight in India.

We are grateful to the BCG Consumer Practise for providing invaluable insights, concepts, and frameworks that shaped the key themes of this report.

We would like to thank Shantanu Misra , Sneha Motwani, Anurag Mishra and Indira Ghagare for their assistance in writing this report.

We are thankful to Jasmin Pithawala and Maneck Katrak for managing the marketing process as well as Jamshed Daruwalla and Pradeep Hire for their contribution to the editing, design and production of this report.

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