

# TOO RISK AVERSE?

Although Britannia biscuits is growing healthily using a strategy of incremental innovation, there is little risk-taking, unlike other food giants in the world.

India's big and growing biscuit market is dominated by three players: two old timers, Britannia and Parle, and one new kid on the block, ITC Foods. Britannia and Parle each command over 30% of the total market while ITC Foods comes in at around 15%. The three players account for some 75% of the market. Britannia has grown at over 10% over the last three years posting sales increases of 13%, 28% and 17% in the fiscal years of 2006, 2007 and 2008. The 2009 year-to-date growth rate is 24%. Profitability, under pressure from raw material cost inflation, has been more volatile but return on sales has nevertheless been a respectable 8.5%, 4.9% and 7.4%. So Britannia is a leader in terms of market share and has appreciable momentum in the form of strong revenue growth while maintaining a respectable return on sales.

To reach this position, Britannia's strategy has been one of incremental rather than radical innovation. From a branding standpoint, their recent strategy has been to leverage well-established brands, rather than establish new ones. Rather than venture into new

product categories, Britannia has used line extension, staying within existing categories and introducing product variations (often around nutritiousness). One recent visible area of innovation has been packaging with the introduction of low-price, small-quantity packs known as nano packs. By and large then, the strategy has been a conservative one, building on existing strengths rather than creating new ones from scratch.

Before jumping into that 21<sup>st</sup> century strategy, a bit of 20<sup>th</sup> century background. Britannia was created in Kolkata in 1892. A strategic move occurred in the 70s when it took over biscuit distribution from Parry's (1975). In 1993 the Wadia Group acquired a 44% stake in Britannia and subsequently became an equal partner with the French food giant Group Danone in Associated Biscuits International

Britannia business basics	
Year founded	1892
Headquarters	Bangalore
Employees	2000
Tonnes of biscuits 2008	442000
Sales 2008 (Rs billion)	25.8
PAT 2008 (Rs billion)	1.9

which holds a controlling stake in Britannia. Today Danone is trying to exit the partnership but an acceptable compromise has yet to be negotiated. Sunil Alagh served as Managing Director of the company until 2003, when he was sacked over allegations of financial irregularities. Chosen for her marketing expertise acquired at Cadbury and Coca-Cola, Vinita Bali, the current Managing Director, took the helm in 2005. Analysing Britannia's current position is thus a matter of examining Ms. Bali's strategic initiatives, some of which build upon Mr. Alagh's legacy.

### Branding

There are three segments in the Indian biscuit industry (see box). Britannia's objective has been to be present in all three segments, in the number 1 or 2 market share position. Jagdeep Kapoor, Managing Director

of Samsika Consulting notes their success in this regard: "Britannia's major strength has been to build presence across all price segments. They have succeeded in doing so in a well-balanced manner, each segment contributing approximately a third of revenues"

Britannia approaches the high-volume low-price category through its Tiger brand, which it launched in 1997. Competition in this glucose segment is fierce. Two other major players are in competition. One, an old presence in the segment and the market leader, Parle through its Parle G brand, controls 67% of the segment. Britannia runs a distant second with 19%. The third player, ITC Foods with its Sunfeast brand, is a recent entrant. ITC's massive foray into this market is an intriguing one as it is not a product-centred one but an advertising- and distribution-centred one. ITC is not leveraging any particular baking experience but is using its cash for massive advertising campaigns and its ubiquitous distribution system to offer consumers biscuits the way it offers them cigarettes. The substantial cash at the disposal

of the cigarette behemoth has allowed it to build up a 10% market share in this segment.

Given the fierce competition in the low-end segment Britannia has adopted a strategy of continuous product introduction – witness Tiger Coconut (2001), Tiger Creams (2002), Chota Tiger (2007), and Tiger Banana (2008). Several of the product introductions have been centred on increased product nutritiousness. These efforts have allowed it to maintain that near 20% market share (which contributes a third of its revenues) and also brand equity. Testimony to the brand equity is the legal wrangle between Group Danone and Britannia in which Britannia is accusing Danone of selling the Tiger brand in some of its overseas markets without seeking prior permission. Such intellectual property protection problems are the price of branding success – build a successful brand as Britannia has with Tiger and you are bound to have to deal with imitators, if not counterfeiters.

In the non-glucose mid-price segment Britannia is present through its Marie Gold (over 50 years old), 50:50 brands

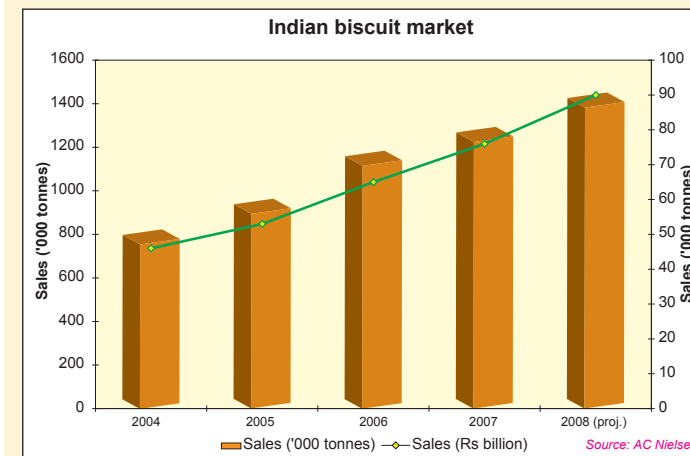
(1993) and Milk Bikis (over 40 years old) brands. This segment contributes around a third of revenues for Britannia. Jagdeep Kapoor underlines the success of the 50:50 brand: "Britannia has succeeded in developing this well named brand, thanks in particular to astute advertising around game shows and World Cup cricket." Another third of revenues is generated in the premium-price segment through the brands Good Day (1986), Nutrichoice (1998) and Treat (2002) brands. As in the lower-price glucose segment, its non-glucose strategy is to bring about new product variations, often centred on improved healthiness. Overall in the non-glucose segment, Britannia has constructed a clear market leader position, with over 40% share while Parle and ITC control only 17% and 8% respectively.

But here too, Britannia can not rest on its laurels. Just as in the low-price segment, new competitive entries pose a menace. In the low-end segment, it was ITC that entered the fray in a big way. In the higher-price segments the threat takes the form of Rajmohan Pillai, younger brother of the late biscuit baron Rajan Pillai and head of the

## OVENS CHURNING

Indians love their biscuits. That makes for a huge market, third in the world at some Rs 75 billion.

In 2007 the Indian packed food market was estimated at Rs 600bn. Within that, the biscuit market constitutes about 13% or some Rs 75 billion in sales. In the hierarchy of world biscuit producers, India stands on the third step of the podium behind the US and China. The biscuit market is a growing one: 15% in 2005, 22% in 2006, 17% in 2007 and 2008 is projected at close to 20%, by AC Nielsen. Production rose from 0.8 million tonnes in 2004 to 1.3 million tonnes in 2007, a 50% increase in 4 years. And those sorts of growth rates are sustainable – despite the famed Indian love affair with biscuits, consumption is a quarter of European consumption and half of Southeast Asian countries. That means that a doubling of Indian biscuit manufacturing in the medium term is not an outlandish target.



Europe-based Beta Group. Pillai has been keeping his eyes on the top end of the biscuit market (evaluated at Rs 400 crore). A former chief operating officer of Britannia, Nikhil Sen is also attentive to this segment as managing director of the Indian arm of the Australian company, Unibic Biscuits.

Within all three segments, the strategy is one of continuous leverage rather than radical innovation – use the strong brand names and introduce safe product variations. Here is how it is summarised by Nikhil Vora, Managing Director – Research at IDFC-SSKI: "Britannia introduces product variations

within its brand families more than it attempts to create blockbusting novelties. It is leveraging its brand equity rather than entering into new food categories. Rather than a strategy of innovation, it is better to speak of a strategy of continuous renovation." Jagdeep Kapoor believes likewise: "The strategy has been one of tweakings and tunings, one of incremental innovation."

### Advertising

The success of Britannia's brands has been the result of sound product quality and astute advertising. In the food business, marketing is a key to



BRITANNIA BRAND TIMELINE							
Brand Name	Marie	Milk Bikis	Good Day	50:50	Tiger	Nutrichoice	Treat
Launched	Over 50 years Old	Over 40 years Old	1986	1993	1997	1998	2002

BRITANNIA PRODUCT LAUNCHES					
2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
GoodDay Choconut	Duet Treat - Strawberry & Vanilla	Tiger Cream - Kesar Kulfi	Chota Tiger	Tiger Banana	Tiger Cream - Butterscotch
Timepass Nimkee	Duet Treat - Orange & Chocolate	Tiger Cream - Rose Milk	Tiger Cream - Chocolate	GoodDay Classic Cookies	Tiger Cream - Strawberry
	Jam Treat - Orange	MarieGold Doubles	50-50 Chutkule	GoodDay Jumbo	Tiger Cream - Pineapple
	Cup Cake	50-50 Pepper Chakkar	NutriChoice Digestive	Pure Magic Cookies	NutriChoice 5Grain
	Pineapple Cake	Greetings	NutriChoice SugarOut	Daily Fresh Dahi	Cheese Garlic & Multigrain Bread
	Chocolate Cake			Cheese Slimz	Berry Cherry Cup Cake
	Rusk				Eggless Cake



past five years. In 2007 it ranked 7<sup>th</sup>, while its rival Parle was 10 places back at 17<sup>th</sup>. In a survey of food brands (the 2008 Economic Times, Brand Equity ranking), Britannia was in second place, behind Tata Salt but ahead of its archrivals Parle (3<sup>rd</sup> place) and Sunfeast (8<sup>th</sup> place). When you have that sort of brand renown, the success as Nikhil Vora insists: “The major competitors in the biscuit market all have good distribution systems and there is no major difference in product manufacturing technology. Those are not real differentiators. Marketing is.”

Various brand rankings attest to Britannia’s marketing success. Brand Equity compiles a list of most trusted Indian brands – Britannia is one of only five brands that has been in the top 10 each year for the

sort of brand leveraging practiced by Britannia does make sense. The company spends about 7% of its revenues on advertising and it appears to spend it to good effect. Memorable tag lines, innovative campaigns (linked to World Cup cricket or TV shows for example) a mix of more functional and more emotional advertising spots have fostered brand recognition. “Britannia has done a good job of mixing up functional and celebrity campaigns, to reinforce

the corporate brand and build distinct images for its various biscuit brands”, holds Harish Bijoor, CEO of Harish Bijoor Consults. Jagdeep Kapoor confirms Britannia’s advertising savvy but worries about the recent emphasis on functionality: “Because of the emphasis on health, the advertising has more recently been aimed at the head. It might be time to target the heart again. To get at impulse buyers in particular, you need to get at their emotions.”

### Health and Delight

Back in 1997, a two year market research campaign led to a repositioning of the mother brand in an attempt to attract health-conscious customers. That repositioning was summarised in a new motto “Eat healthy, Think better”. The strategy was to introduce new, more nutritious biscuits in the various price segments. A new premium price brand was created, appropriately baptised Nutrichoice. Over the last years Britannia has

developed that health-based strategy by introducing products with nutrients and without trans fats. One focus has been high iron biscuits, such as Tiger Iron Zor. Another area has been high-fibre biscuits, such as Nutrichoice 5 Grain. A third is biscuits with no trans fat. Britannia is the first Indian biscuit player to enter this arena. Were Indian food regulators to imitate their European and American peers, the company could leverage this first player advantage.

Britannia has also used its turn toward nutrition to build a reputation for corporate social responsibility. This reputation has spread outside India’s borders, perhaps creating something of a self-reinforcing feedback loop. In its most visible initiative, Britannia partnered with the Global Alliance for Improved Nutrition (GAIN) and the Naandi foundation to supply its iron-fortified Tiger biscuits for mid-day meal programs in Indian schools. This initiative has earned it international



attention. In a case study on ways of combating malnutrition, the World Bank Institute mentioned this effort. Britannia was also invited to join the Clinton Global Initiative which brings together global leaders to invent and implement solutions to the world’s nutrition problems. In this way, Britannia has promoted its brand through social consciousness.

Jagdeep Kapoor comments on the health-based strategy: “The shift toward nutrition was a smart one. The development of the health-based products has allowed Britannia to maintain their visibility.” Now that the health-based strategy has succeeded in solidifying nutrition-centred brands and products, Britannia is attempting to differentiate and maximise the benefits of the two poles of its biscuit business, the newer nutritiousness pole and the older indulgence pole. Accordingly, the product portfolio has recently been divided into two categories, Health and Wellness, and Delight and Lifestyle, with senior marketing executives assigned responsibility for each of them. This portfolio structuring is accompanied by a new slogan which brings together the two categories: “Zindagi mein Life” or adding life (style) to life

(longevity). To use a metaphor from the baking business, Britannia is now organising itself to have its cake (Health and Wealthness) and eat it too (Delight and Lifestyle).

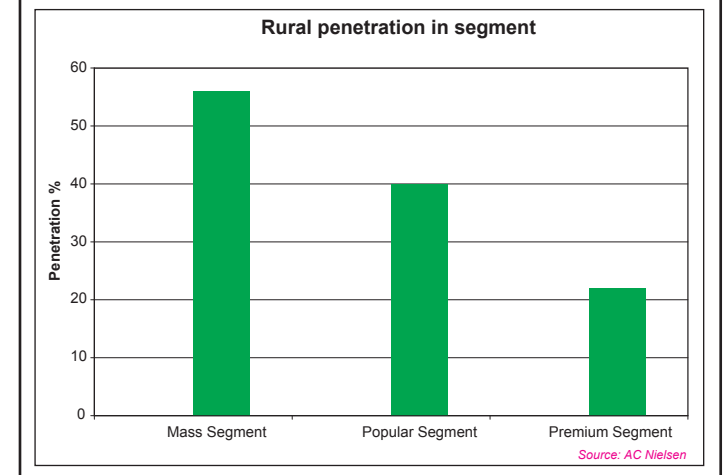
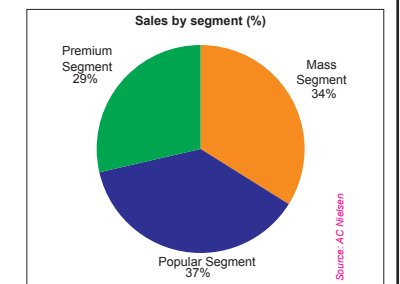
### Outside of biscuits?

Britannia remains first and foremost a biscuit company. The two other divisions, dairy and bread, cake and rusk (BCR) contribute only some 10% of revenue. Britannia entered the dairy business in 1997 and then spun it off as a joint venture with the New Zealand giant, Fonterra Group in 2002. The division has become cash positive but provides less than 6% of revenues. The BCR division has more potential. As Harish Bijoor points out, “There is little synergy between the milk and the biscuit businesses. BCR however, like biscuits is all about baking and baked products. There is synergy.” The BCR has doubled in size over the last two years but from a very small base –in 2008 it provided only 5% of revenues. Jagdeep Kapoor assesses the BCR strategy as follows: “It is good to see management pay attention to bread and cake after years of relative neglect. Rusk is worrisome: “The one disappointing thing about Britannia’s performance has been its inability to extend the

## THE TRINITY OF BISCUITRY

The most common segmentation of the biscuit market is by price point, giving the mass, popular and premium segments

A basic way of looking at the biscuit market and therefore also at Britannia’s strategy is by price point. Adopting such a perspective, there are three categories: the mass segment with a low-priced biscuit (the Rs 40/kg range), the popular or mid-priced segment (the Rs 50/kg range) and the premium segment (the Rs 60/kg and above range). In terms of value contribution, the three segments are fairly balanced (around the Rs 25 billion range), with the popular segment ahead of the mass and premium segments. Parle is the clear leader in the mass segment with 67% market share. Britannia is the leader in the other two with 40% market share. The urban/rural divide is fairly pronounced. Urban markets account for at least 60% of biscuit sales. Rural penetration varies from a high of 55% in the low price segment, to a low of 22% in the high-price segment. ■

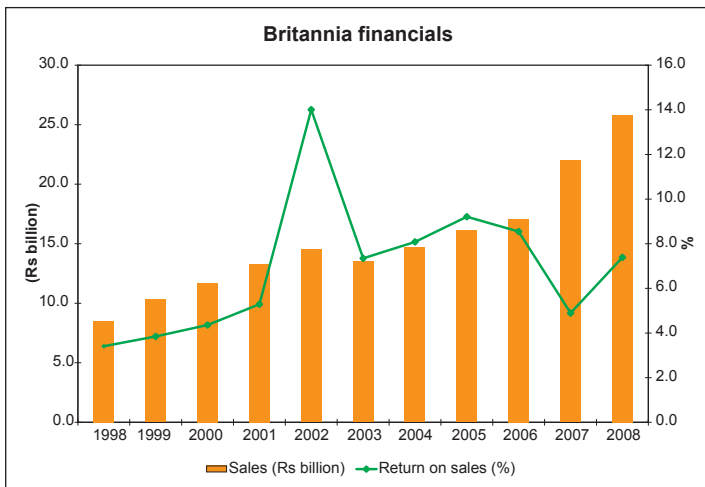


quality, and the price points and distribution system are suitable.”

As Nikhil Vora points out, the inability to enter and grow in other food categories is worrisome: “The one disappointing thing about Britannia’s performance has been its inability to extend the

strong mother brand into new food categories. Britannia has not been able to scale up in categories outside of biscuits.” Jagdeep Kapoor also points to pusillanimity: “Britannia’s major strategic weakness has been the inability to try out two or three breakthrough concepts in

# DOSSIER - BRITANNIA STRATEGY



different food categories. They need to be more risk-friendly and fear failure less. One success will eclipse a couple of failures.”

The absence from new categories may not be so much a matter of strategic choice as the result of other management preoccupations. Here, Nikhil Vora points to the ownership dispute between Wadia and Danone: “Danone would like to exit from the partnership. Management is naturally distracted by the wrangling over the terms of the exit and the legal disputes over Danone’s use of the Tiger brand. Ideally, Wadia would become full owner quickly and then management could devote its full attention to leveraging the strong Britannia brand over new categories.”

## Packaging

In products, the strategy has been a relatively conservative one of line extension; in packaging, Britannia has been more adventuresome. In 2007 it introduced low-price small-quantity packs known as nano packs. Depending on the brand, these retail for Rs 2, 3, 4 and 5 and contain as few as 2 and as

many as 10 biscuits. The low price and low unit count are destined to attract the on-the-go urban consumer as well as the more budget-constrained rural consumer.

Harish Bijoor views this as one of Britannia’s most successful recent strategic moves. First, it should be an important revenue generator. Bijoor can imagine the proportion going up to a quarter in the medium to long term. He notes that the opportunity given the consumer to purchase very small quantities is actually a sort of return to the mid 20<sup>th</sup> century when biscuits were sold in loose form at the retail level and could therefore be purchased in quantities as small as a single unit. “These small packs are a way of building rural penetration. Rural consumers currently generate only about a quarter of Britannia’s sales – the nano packs should drive that percentage up. What’s more, rural markets can be more resistant than urban ones in times of reduced growth such as today,” he explains. The nano pack strategy should therefore feed both Britannia’s growth and its rural market penetration.



## Distribution and Operations

There have been no major strategic innovations in distribution in the last few years. Harish Bijoor notes: “The current management team inherited a good distribution system and is maintaining it reasonably well.” Jagdeep Kapoor concurs while pointing out the urban tilt of Britannia: “Britannia’s distribution in urban areas is excellent. However 72% of India’s population still lives in villages and Britannia needs to worry more about tapping and therefore distributing to that market.”

Operations is not a major strategic focus, though there has been a recent emphasis on cost control. Britannia has three factories (Delhi, Kolkata and Rudrapur) which contribute 25% of production, while more than 35 outsourced units contribute the rest. All told, some 440,000 tonnes of biscuits came out of all these factories in 2007. Recently, wheat and cooking oil price inflation in the 20% area affected raw material costs, and crude oil inflation weighed down on distribution costs. This explains that operating margins and profit margins have not followed as strong an upward trend as the sales curve. But the price rises have triggered a management effort to control costs and thus prevent margins

from plummeting.

To help reduce costs, Britannia has improved oven utilisation, increased packing machine speed and installed energy-saving equipment. One possible competitive benefit for Britannia is that it might function as a Darwinian selector. The smaller players often have a more difficult time surmounting such margin pressures than the bigger, cash-heavy players. So while the cost inflation has created headaches for Britannia, it can carry long-term benefits in the form of a pruning of the competitive landscape.

At this end of the tour of Britannia, how can their strategy be summarised? It has been one of first building brands though product quality and astute advertising, and then leveraging those brands through line extension. Judging by sales growth and profitability, it has been a safe and successful strategy. Some onlookers though might prefer to call it a successful but safe strategy. Might it soon be time for brand extension, that is to say bold though risky forays behind the Britannia shield into new food categories? ■

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