

News monitored for: Pepsi - Corporate

# BrandLine

## Pepsi looks to change the game

Pepsi's core **cola** category is under pressure in the US, jobs are being slashed worldwide, but in India it's growth all the way. Read on to find out how PepsiCo is reinventing itself in India.

VINAY KAMATH

The Bay of Bengal, undulating and shimmering in the mid-morning sun, is a greenish-grey. In the cool breeze, amidst the swaying palm fronds, resort buggies are chugging away like giant caterpillars. Vacationers are lazing in hammocks. Taj Fisherman's Cove near Chennai seems an unlikely setting to talk strategy, market segmentation and organisational change. Over 30 senior executives of PepsiCo India are shutting out the inviting sun and sand to take part in a one-week leadership development programme, overseen by their chairman Manu Anand. *BrandLine* caught up with Varun Berry, CEO, Foods, and Praveen Someshwar, CEO, Beverages, to understand how PepsiCo is responding to a changing and shifting market.

For starters, Someshwar avers that one won't see as much of the 'cola wars' as in the past. Brands have grown, markets have matured and the focus now is on growing categories rather than slaying the competition. Also, as consumption trends and behaviours change, PepsiCo too has to transform itself to feed and satiate the new consumer. As he says: "The metros are behaving differently, so are the next set of cities and rural behaving differently from each other."

In urban areas, modern trade is mushrooming and on-premises consumption is increasing. Today, over 30 per cent of consumption in urban areas comes from this segment. "Food courts, malls, the fine dining, the multiplexes, they are huge consumption points for us and you're seeing that grow at an aggressive pace," he says.

In the past couple of years, Pepsi as an organisation has had to re-orient itself to cater to these new trends, says Someshwar. With sales from modern trade outlets growing at 40 per cent for brand Pepsi, it had to cater differently to this segment in terms of packaging and size of the stock-keeping units (SKUs). It had to serve more single-serve cans and large PET bottles to modern trade, while smaller outlets had to be given returnable glass bottles and smaller PET bottles.

Second, Pepsi had to approach the big consumption driver of 'on-premise' differently. It invested in a separate team to deal with this category. "These were big changes. Our 'go-to-market' strategy for each market, our consumer engagement programme and communication is very different and has to be segmented and focused keenly," explains Someshwar.

Not wanting to be caught on the wrong foot when growth in the new urban conglomerates happens, Pepsi is also investing in its distribution in the large towns of the future, such as a Salem or a Hubli, says Someshwar. "We aggressively invested in our hub-and-spoke model, where the spokes



go to all the smaller markets. With the increase in rural penetration, overall, we saw the number of front-end salesmen increase by 20-25 per cent," he adds.

While the cola category has been growing, albeit on a large base, within the carbonated soft drinks category (CSD), it's the lime and clear categories (7 Up, Mountain Dew, Nimbooz) that are growing faster, with juices, on an even lower base, growing even faster, points out the beverages head.

"CSD has enough legs to grow, if consumer engagement is appropriate then growth will be there," says Someshwar.

And, growth in the overall beverages space has indeed been rapid for the MNC major in the past year (see Table) in India - although globally it has been on a cost-cutting overdrive.

Just last week it announced it would be cutting 8,700 jobs spread across 30 countries and forecast a 5 per cent fall in 2012 earnings. And, in its home market of the US, Pepsi's mainstay cola has been losing share to Coca-Cola.

But that is global. In India, Someshwar, believes the opportunity is huge. "Per capita consumption is lower than Pakistan; even if I take Delhi city, it's lower than Sri Lanka and Pakistan. There is space to grow in every category."

Today CSD and hydration (Aquafina water) are large, juices and sports drinks (Tropicana/ Gatorade) are low, but has

opportunity to be the next big category," he says.

### BERRY NICE FORAY

Varun Berry, the lanky CEO of foods for PepsiCo, believes it isn't enough to be sitting pretty with a lion's share of the potato chips market with its Lay's brand.

That's only small fry compared to the Rs 12,500-crore salty snacks space, where Pepsi's Lehar brand of traditional *namkeens* only has a tiny share. This segment is dominated by 'backyard upgraders' who can put up an inexpensive extrusion machine and sell their 'brands' at low price points.

To get a larger bite of this traditional snacks category, it started to do the numbers, and figured out its conventional model wouldn't work. Lehar was pretty much under-represented in the traditional snacks market, which is 60 per cent of the total salty snacks market. PepsiCo found that the players dominating this segment were operating a backyard kind of businesses, distributed in small areas, fixed costs were very low. "They are very nimble, they launch a product a day if they want. And there are 1,500 operators all over the country. So we had to disguise ourselves as similar operators, if we wanted to get into that category," explains Berry.

So in October 2010, Pepsi took the plunge and created a separate company called Lehar Foods. The objective was sim-



ple: have a separate team, be very entrepreneurial, keep the fixed costs down, be nimble, move fast, do local and regional variants and so on.

It's a very low-capital model that Lehar Foods evolved. It opted for the co-packing model with a host of small entrepreneurs - independent businessmen who wanted to make money by selling out their capacity.

### SURFING THE LEHAR

The Lehar Foods team is lean and mean in every sense. Just 35 people are on the rolls, and it has its own CEO, who reports to Berry. "But we keep him as free from the burdens of internal corporate reporting to keep him very entrepreneurial. I make sure that he is not making presentations to all and sundry; in fact, we banned PowerPoint presentations completely within that company. We started to gain momentum in 2011 and we continue to do so," says Berry.

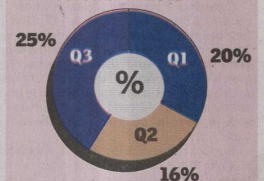
Lehar today has around 40 SKUs of *namkeens* and salty snacks. The targets are aggressive and this unconventional model within the MNC framework is looking at garnering big volumes. Berry says, "We are looking, in volume terms, in three years to get to being about 40 per cent of the size of the A business (the chips)."

A separate distribution set-up for Lehar Foods too was created. Berry says Lehar could easily have gotten up to two million outlets if it went through the Pepsi system

PepsiCo India

Beverages: Consumers lapping it up

Growth in 2011



Annual packaged beverage consumption per person

India - 10 litres
Sri Lanka - 16.3 litres
Pakistan - 19.4 litres

Source: Company

**Varun Berry (left), CEO, Foods, PepsiCo; Praveen Someshwar, CEO, Beverages -** BIJOY GHOSH

but decided to keep it separate to avoid any cannibalisation with its main portfolio of Lays as there was a distinct difference between the two categories. Last year, in six States Lehar Foods was distributed directly. In a few other large States, it rode on Lays' distribution. It has touched about four lakh outlets through its own distribution, Berry says.

### PEPSI MAANGE MORE

Ask Berry about competition such as ITC, Parle and Britannia, as well as from regional brands such as Balaji in Gujarat, hurtling at its chips business with a range of baked snacks, and he points to the new launch, Lays Baked. This, he says, can't be replicated for a while - baked snacks yes, but not baked potato chips for which Pepsi has imported an expensive machine, he emphasises.

"While both Parle and ITC have deep pockets they have also got to make choices. They are getting into so many different categories. They are seeing success in some and facing a wall in others... What really happens when competition comes in is that there is a lot more excitement in the market. And that excitement creates the buzz. And, we've got to be leaders who innovate and lead from the front," says Berry. Point out to Berry how several - from Marico, Horlicks, Kellogg, Britannia - are leaping into the oats category where Quaker Oats is the market leader, and he looks unperturbed. It's a small category of Rs 150 crore, with just one per cent penetration of the population, so there's room for everybody. "In the next few months you will see a lot of excitement in this category from us," he promises.