

Indian Made Indian Liquor (IMIL)

Inflection Point: Commoditization Giving Way to Branding

Indian Made Indian Liquor - Companies Realizing the Importance of 'Choice'

Companies marketing IMIL, popularly known as Country Liquor, are awakening to the realisation that the low-income consumer is no longer content with a product that is undifferentiated. Having been flooded with consumer companies in other segments trying to attract them with lower-priced products in innovative packages combined with targeted advertising, these 'bottom-of-the-pyramid' consumers are now expecting similar choices in the age-old IMIL industry. This sector, which was commoditized till recently, has always benefited from inelastic demand and little threat from new competition, due to which companies had little incentive to work on active marketing strategies and 'commoditization' became a way of life for them.

Now, with changing times, the introduction of newer products has seen significant change in competitive dynamics and market shares, consequent to which companies are realizing that there is a need and benefit of investing time and resources in not only development of new products but also designing of better packaging and deployment of marketing strategies to build a sustainable advantage through branding.

Globus has been an undisputed leader in North India in Indian Made Indian Liquor

After having initially forayed into IMIL in 1999 in the Rajasthan market, GSL has since become a market leader in the states of Haryana, Rajasthan and Delhi. In the financial year 2010-11, the company recorded sales of ~9mn IMIL cases and had a combined market share of 22% across these three markets. In the first eight months of the current financial year, the company has already crossed 8mn cases and is well on target to cross 12mn cases for the year achieving y-o-y growth rate of ~35-40%. This growth has been achieved as a result of concerted efforts at creating strong brands, introducing better packaging (like PET bottles) and offering more flavours. The North Indian states are amongst the largest IMIL markets in the country and while the rest of the country is showing a single digit growth rate, some of these states have been growing at ~15-20%.

Launch of Brand 'Nimboo' in Haryana has reiterated Globus' market leader position

Globus is a pioneer in brand-building in IMIL. The company recently launched the 'Nimboo' brand in Haryana, which became a runaway success. In a period of seven months, the company was able to up its market share from 20% to 27% in Haryana. The brand was launched after extensive efforts in market research, product development and designing premium packaging with a clear message.

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Introduction

Flavoured home grown alcoholic beverage

Indian Made Indian Liquor (IMIL) is a flavoured home grown alcoholic beverage mainly consumed by the lower income group in India. It has existed since pre-historic times and has even been referred to in mythological scriptures as the drink of gods and goddesses, and has now evolved to serving the masses. By and large the product uses rectified spirits of grain or molasses origin and has ~33% alcohol by volume.

Evolution of Indian Made Indian Liquor

Indian Made Indian Liquor (IMIL) has its origins in pre-historic India

Indian Made Indian Liquor has its origins in pre-historic India. Indian mythology is known to be replete with stories of gods and goddesses indulging themselves in highly flavoured intoxicating drinks. As early as 2000 B.C., the Indus Valley Civilization seems to have practiced not only alcoholic fermentation but also distillation. This was, of course, much before international liquors (whisky, rum, vodka etc.) which are also produced through the distillation process were born.

Post-Independence, IMFL became the choice of the rich and IMIL was relegated to becoming a poor man's drink

It was only during the *Raj*, that the British introduced India to foreign liquor, which though produced by a similar distillation process, had a higher alcohol percentage and was usually aged in wood before being served. Gradually, given the dynamics of the colonial regime, this became the gentlemen's drink and was adopted by the Indian royalty and upper classes, while the traditional flavoured Indian drink was relegated to the masses.

In order to suit the pockets of its target segment, the indigenous drink started losing its shine and began taking commodity overtones, especially against a backdrop where branding was largely restricted only to premium products across consumer categories. Over a period of time post-Independence, there became different distribution channels for the foreign origin liquor, which now is widely known as Indian Made Foreign Liquor and for the Indian origin liquor, which is referred to as Indian Made Indian Liquor or Country Liquor.

Due to Western influences, the more affluent segments remained inclined towards IMFL, while most states in the post-Independence era continued to sanction IMIL in order to provide the low income customer with a safe, regulated form of low-priced liquor. To achieve these state objectives, price regulation imposed in this segment was higher vis-à-vis IMFL and lower rates of excise duty were levied. This also guarded against consumers straying to illicit liquor, which is neither regulated nor safe and is known to have caused several tragedies in the past.

Typically the alcohol content in IMIL ranges between 30% and 36% across states, while IMFL contains a uniform 42.8% across the nation. Further, in some states, Rectified Spirit (RS), which is obtained after primary distillation, forms the base of the IMIL drink while in IMFL, there is a mandatory pan-India provision for using Extra Neutral Alcohol (ENA), which is obtained after secondary distillation.

Changing Landscape: Branding Gaining in Importance

North Indian states are driving the growth in IMIL

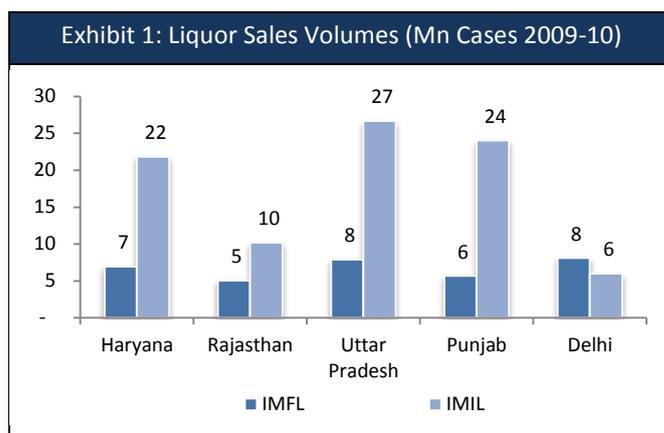
In terms of volume, IMIL is almost equivalent to the IMFL segment in the domestic alcohol industry. Estimates peg the industry size at around 250 million cases, growing at a healthy rate of ~8%. The growth rate varies widely across regions with some of the North Indian states displaying very high rates of growth at ~15%-20%.

South Indian states collaborated to discontinue IMIL in order to ensure success of the government controlled wholesale distribution system

In the southern markets, IMIL has been discontinued as a separate category and lower priced IMFL products have been introduced to substitute the demand which was earlier met by IMIL. Southern markets have traditionally been a stronghold of IMFL and further, these changes in the Southern states were largely introduced to ensure the success of the government controlled wholesale distribution system, to which most of the southern states had switched in order to augment their income from distribution. Following the discontinuation of IMIL in these states, IMFL has seen rapid growth and has led to the four states of Andhra Pradesh, Tamil Nadu, Kerala and Karnataka becoming the highest selling IMFL states. It was the collaborative attempt of the four states to undertake such a step that led to some measure of success.

Better products, increasing disposable incomes, possibly a shift from IMFL to IMIL driving growth in North Indian states

In comparison, the North Indian states are very large markets for IMIL, where any such step is impossible due to the sheer size of this segment (see Exhibit 1). While there has been no research to determine the specific growth drivers in these markets, it can be attributed to increasing disposable incomes and new and improved product introductions.



Source: Company Estimates, Excise Departments

Having evolved in the way it did, the IMIL industry became a commoditized play. The pricing norms in most states were established by the government, and combined with a natural growth rate, there was little incentive for producers to differentiate. Further, the licencing norms naturally insulated the existing players from new competition. Due to the stipulation that the liquor had to be produced at a distillery located within the state, this became highly localized and fragmented in nature.

A more aware consumer is demanding more choices and is increasingly becoming brand conscious

In recent times, the low-income consumer has gained prominence in the Indian consumption story. Across consumer goods companies, there has been a trend of increasing focus on this strata of society. Similarly, in IMIL also, companies have realized that in order to gain volumes, it is not sufficient to have a 'me too' product. The product has to be innovative, it has to be attractively packaged and the brand story has to be effectively communicated to the target audience so as to achieve the desired results. The industry, thus, has begun to embrace the concept of branding and Globus Spirits Limited has played a significant part in this.

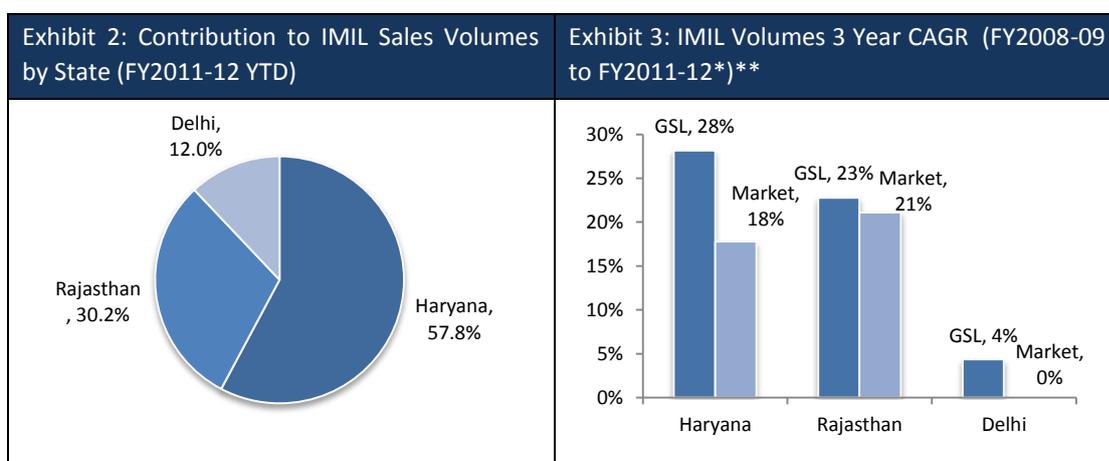
Globus Spirits – A Market Leader in Indian Made Indian Liquor

Globus Spirits is the largest IMIL player in the country present in three states

Globus Spirits Limited (GSL) is a leading player in IMIL in North Indian states, specifically, Rajasthan, Haryana and Delhi. It forayed into IMIL with its entry into the Rajasthan market in 1999, and soon expanded its presence to Haryana in the following year. The launch in Delhi was much later in 2007, by which time GSL had already acquired a leadership position in its existing markets.

In the financial year 2010-11, the company recorded sales of ~9mn IMIL cases and had a combined market share of 22% across these three markets. In the first eight months of the current financial year, the company has already crossed 8mn cases and is well on target to cross 12mn cases for the year achieving a y-o-y growth rate of ~35-40%. To a large extent, this growth is attributable to the launch of a new brand “Nimboo” in Haryana, which in a short span of seven months, caused the GSL market share in Haryana to increase from 20% to 26%. GSL has been growing faster than the industry growth rates in each of the three markets. This growth has been achieved as a result of concerted efforts towards creating strong brands, introducing better packaging (e.g. PET bottles) and offering more flavours. The culmination of these efforts can be seen in the runaway success of the *Nimboo* brand.

The largest market for GSL is Haryana, which contributes more than half of the overall IMIL volumes.



Source: Company Estimates, Excise Departments

*FY2011-12 volumes have been annualised based on first 8 months data to calculate the CAGR

**Volumes are based on cases for Haryana and Delhi and proof litres for Rajasthan

Haryana is the largest market for GSL. In the current financial year, the company has been able to increase its market share to 27% following the ‘Nimboo’ brand launch

Haryana

This is one of the largest IMIL markets in the country and has been growing at a rapid rate. There are 8 IMIL producers in Haryana and the distributors are committed to purchasing 5% of their requirements from each of these 8 players operational in Haryana, thereby cornering 40% of the total market. The balance 60% of the market is what operates as a free market.

At the distribution level, the market is relatively less regulated. Both wholesale and retail are private markets, with annual licenses being distributed by the government. Ex-distillery price and the minimum retail price is fixed by the government.



The Company’s key brands in this market are *Nimboo* (launched recently) and *Narangi*. GSL has a 27% market share in the current fiscal, which has gone up from 20% in the previous financial year FY2010-11. In absolute terms, GSL sold ~5mn cases last year FY2010-11.

The Rajasthan IMIL market has been growing at a formidable rate of 21% during the period FY2008-09 to FY2011-12

Rajasthan

Amongst the fastest growing markets in the country, Rajasthan has been growing at a formidable 21% CAGR during the period FY2008-09 to FY2011-12 (based on annualised YTD data). In Rajasthan, wholesale is in the hands of Rajasthan State Ganganagar Sugar Mills (GSM), a government entity, which also distills its own IMIL brand. A fixed market share up to 50% is reserved for sale by GSM of its own IMIL production. The retail is again in the hands of the private sector, like in Haryana, with licenses being distributed by the government annually. Ex-distillery price and the retail price is fixed by the government.



The Company's key brands in this market are *Ghumar* and *Heer Ranjha*, named based on locally popular folk tales. GSL is a very well-known name and has 23% market share, which has remained consistent in the 22-24% range in the last few years. In absolute terms, GSL sold 2.6mn cases last year.

Delhi is a smaller market and has remained flat in last few years

Delhi

Delhi is relatively a smaller market and the operating environment is more difficult. The market has been flat for the last four years. Both quantity and prices are fixed by the government based on tender quotations and wholesale and retail are both controlled by the government. Key brands for GSL are *Kinnu* and *Narangji* and these are supplied from own distilleries in Samalkha and Hisar.

Though the market has been stagnant, GSL has increased its market share from 22% in FY2008-09 to 25% in the current financial year. In absolute terms, GSL sold 1.5mn cases last year.

Brand 'Nimboo' Sets a New Benchmark in Haryana IMIL - A Case Study

In late 2010, GSL was faced with the challenge of consolidating its position in Haryana. One of its competitors had increased its market share significantly (~7% increase) in a span of one year and in order to maintain its leadership position, GSL knew it had to do something different. A market research had been conducted to understand consumer preferences and the results had been shared with all decision-influencers: the market had become so commoditized that almost all products were offering a similar proposition, i.e., an orange flavoured drink and the consumer was almost neutral towards all brands. Clearly, the retailer was driving the consumer's purchase decision.

Two options were laid out:

- > The trade route: push the margins and influence the retailer through schemes, incentives, etc.
- > The brand/ product route: provide to the consumer a better product in an attractive package, centred around a theme that the consumer can identify with

While the first choice was likely to give immediate results and would be easier to implement, everyone knew that this was easily replicable. There was no guarantee of customer loyalty. The second option, though it involved far more effort in terms of product development, flavour development, rigorous testing, realigning the production facilities to accommodate

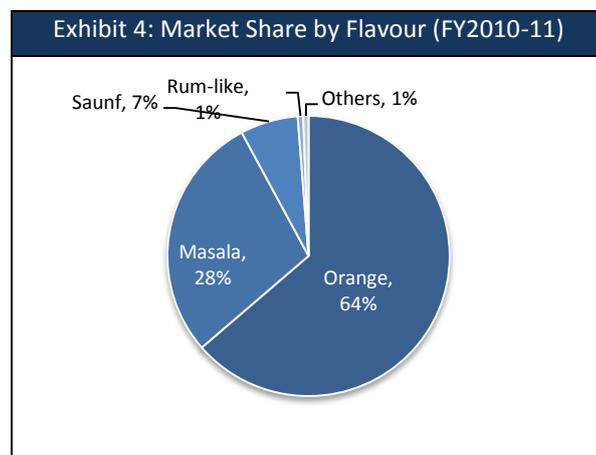
the required production variables and building an effective brand campaign, the effects of this exercise, if successful, were expected to be long lasting.

A near unanimous decision emerged amongst the decision-makers over the next few days to go with the second option, unaware at the time that they would be setting an important new trend.

Product Development

GSL started work on the product, packaging and branding to make a truly unique product in a heavily commoditised market. The available products in the market largely revolved around the orange flavor with names like ‘Malta’, ‘Santra’, ‘Raseela Santra’, etc which left little room for differentiation amongst brands. They reinforced the sameness of proposition and flavour (see Exhibit 4).

The first step was to find a flavour which was different from the ones being sold. The new flavour developed by GSL used ENA as a base in place of Rectified Spirit. Rectified spirit was cheaper and easy to produce but the product had a malty smell carried through from the raw material. ENA on the other hand, is ‘neutral’ of all characteristics of the raw material and, therefore, a far ‘cleaner’ base. The new flavour was tested rigorously and the ‘Nimboo’ flavour in a colourless form was ranked the highest in consumer testing panels.



Source: Company Estimates, Excise Departments

Packaging

GSL also rewrote the rules when it came to packaging in a market where labels of most brands tended to be dull and uninspiring with no design objectives. GSL completely revamped the packaging of ‘Nimboo’ by making it visually appealing which enabled it to clearly stand out amongst competition. The labels were designed to reflect a premium image and were high on organo-leptic values (such as water droplets to indicate a refreshing and cooling beverage) so as to enable the consumer to better identify with the product.



Source: Company

Sales Strategy

Instead of the common practice of introducing the product in limited areas of the state to test the response before a mass launch, GSL introduced 'Nimboo' simultaneously across the state with innovative advertising support using vinyl boards and posters near the outlets, a first in the Industry. This helped propel the brand to the top-of-mind for every customer that visited the stores. Thus began the journey of 'Nimboo' in April 2011.

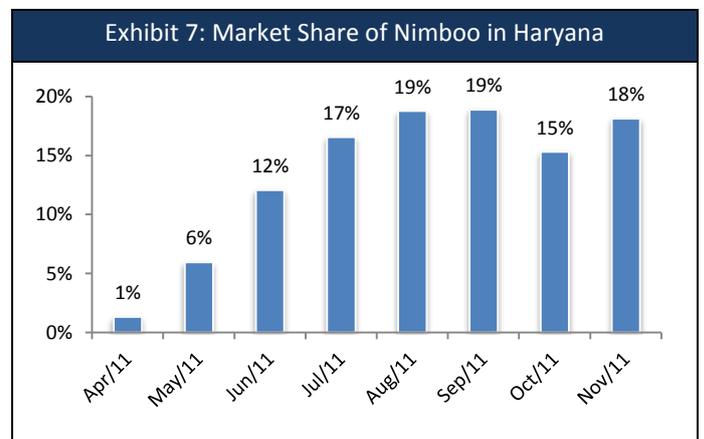


Source: Company

Results

From the time of its introduction in mid April 'Nimboo' has met with stupendous success and has surpassed the leader in terms of sales and has maintained its no.1 position till date. In fact, the demand has been so much higher than anticipated that in October, the company was unable to supply sufficient quantities.

'Nimboo' enjoys high brand equity and competition has not been able to dent its share despite attempting to launch similar versions of the product.



Source: Company Estimates, Excise Department

Conclusion

IMIL market presents significant growth opportunities for companies geared up to take the challenge

Till recently, the IMIL industry was largely operating as a commoditized play. In a market which was growing at a healthy rate and where the regulatory framework not only ensured high entry barriers but also enforced a 'single price point', companies continued to survive with an 'undifferentiated' offering and had little incentive to invest in new products or innovations. However, the landscape is now changing and GSL has shown that product based innovations and focused branding can make a difference with the bottom-of-the-pyramid consumer, who has been exposed to branded products across consumer categories.

The IMIL industry in the North Indian states is showing strong volume growth and companies geared to meet changing needs of these bottom-of-the-pyramid consumers can stand to benefit significantly. Not only is the industry growing rapidly, but also there is an opportunity to grab market share from companies who continue to rely on a commoditized approach.

GSL has shown the way and its growth in the recent past stands testimony to the industry potential and also importantly to its own ability to understand and respond to the consumer needs.