A Nose for the Business

After a dream run, the deodorant industry is facing hyper-competition and shrinking margins. But the families that took the battle to global MNCs are confident of winning the fragrance fight

Varuni Khosla

Kunaaaaaal!!!!! Remember the debonair chap who left a lasting first impression and had the boss' daughter swooning, much to her hapless father's indignation in the Wild Stone deo commercials? "*Log toh notice karenge hi.*"

And so did Darshan Patel, a light-eyed, god-fearing Gujarati maverick notorious for smelling out new consumer business opportunities. The force behind cult homegrown brands such as Moov, Livon, Itch Guard, Krack and Dermicool could have comfortably retired to his 300-acre orchard after selling stake in the family business, Paras Pharmaceuticals, in 2006.

But who can resist a "second innings" reeking of profit?

Vini Cosmetics, formed with cousin Dipam, is that second innings and — predictably enough — again a big disruptor. Fogg — an acronym for Friends of Good Guys/Girls — Deodorant was launched in 2010-11 and within two years, dethroned Hindustan Unilever's Axe as the largest selling brand.

Today, with a 20% market share, Patel's Vini is a thriving ₹4,000-crore enterprise, with Fogg alone contributing a lion's share of the topline.

Logically, it makes great business sense to sell deodorants in a tropical country. And if Indians are spending ₹3,300 crore to smell good, then the quest for a unique fragrance promised easy profitability too.

But could you have thought of a male grooming category beyond talcum powder, hair colour and oil just a decade ago? Neither could the Dagas of Kolkata or the Gupta family of Karol Bagh, Delhi or even Patel's brother Devendra. Each of them saw a business opportunity and jumped right in to take on the mighty global beauty and personal care giants Unilever and Nivea.

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> **SAURABH GUPTA**
> Marketing director, Vanesa Care

While Narendra Kumar Daga's Kolkata-based company McNroe gravitated naturally from the traditional talcum powder business to unleash its Wild Stone range, for the Kochars of the Vi John Group, Cobra was the obvious extension to their core shaving cream brands. Rajesh and Vijesh Gupta of Vanesa too expanded their offering through Denver and Envy deodorants.

Soon their newfound aggression got the larger local players — Godrej, Emami and, later, ITC — thinking of exploring expansions. It didn't even matter what industry they were from; everyone from an Adidas to a Nike to even a Reebok wanted to smell good.

During 2009-11, the market grew at a CAGR of 30%. Fogg alone sold a million cans within four months of launch and notched up ₹100 crore sales in year 1 itself. "That's when we realised, we were sitting on something big," says Patel. Today he sells 4 million units a month, a quarter of which is in Dubai, GCC, Bangladesh and Nepal. With a blitzkrieg of sexually suggestive advertising, bargain offerings and value propositions, new customers were drawn to heady scents that assured instant seduction. No surprise then, that nearly 75% of the business of deodorants comes from Indian men.

But success, like your favourite scent, does not linger for long. Hyper-competition only fragmented the market and drove up costs while driving down margins. The cash burn in an ad-intensive business with close to a dozen players in fray means profitability eluding by a long shot. "This is a big deterrent for new entrants," says Saurabh Gupta of Vanesa Care, whose family sells deos under the Denver and Envy brands. The future too smells phoney. Market research provider Euromonitor calculated that the deodorant market is about ₹3,382 crore in 2017, a notch above the year before. But the overall business growth is expected to slow down to 9.3% CAGR by 2022 instead of the 17% growth rate since 2012.

JUST A WHIFF OF PROFIT

It's a higher gross contribution business, where above-the-line spends on advertisements are upwards of 20% of the business for select smaller companies, explains Navroz Mahudawala, founder, Candle Partners, an advisory firm. "In 2011 and 2012, these companies saw a very different pot of gold. If they don't have scale today, they may not survive."

That's not easy when trade marketing and heavy discounting is still pushing companies to spend higher and higher on advertisements. 20% spends on advertising are being replaced by 30-35% in some cases to capture the flighty customer.

"Aggressive selling among competition and 'buy one get one free' products are making the market very challenging," rues Vimal Pande, chief executive, Vi John. "Profits are dwindling for most players."

ITC's Engage is outspending most. Once a darling of the deodorant brands, Axe, too, has started to lose market share. The bigger players have also cracked the inherent flaw in the market: limited differentiation. A customer just doesn't care which brand of deodorants they buy.

"A few large companies' P&Ls would be bleeding in the deo businesses. The ones perhaps doing better will be the ones who do not have deodorants as their core category, (but also) other consumer products in their portfolio," adds Mahudawala. Companies such as McNroe are at Ebitda margins of 3%, less than 1% of profit after tax. A deodorant company with 10% market share sees a margin of anywhere between 15-20% on its products.

"We are just a few deodorant family businesses up against very big MNCs. And because of that, we have to keep innovating. We are making quite a few attempts at increasing market penetration," says Ankit Daga, heir apparent at McNroe.

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> Chief executive, Vi John

Patel came up with a non-aerosol pump, resulting in the emergence of Fogg, a deodorant without gas – a first of its kind in India – after his first launch 18+ was relegated to the me-too box. Consumer research across 35-40 groups in the top eight cities brought out a general sense of dissatisfaction with existing deodorant brands. The recurring consumer concerns ranged from vapourising of the fragrance to quick depletion of the product.

"Customers want more value for money, so these companies are trying their best to give them what they want: the 'no gas' or body mists, which are longer lasting products," says Pinakiranjan Mishra, partner, retail and consumer products, from consultants EY.

Durability, including more spray volume, is becoming as important as small pack sizes that fit into pockets, competitive pricing, more value for money and well-established pan-India distribution networks.

Priced at ₹60-100, the small pack deodorant is pocket-friendly in more ways than one. Widening the market is also a focus, with new generation marketing strategies such as sampling, smaller pack/travel sizes, cross-selling with other categories. "It's important to know what's not working for the market. The consumer today wants value for money but never complains if they don't like the product," says Gupta, marketing director, Vanesa Care. He compares the auto-pause deo to a CNG car with pick up. "There's value for money because its auto-pause mechanism minimises wastage of spray."

There has been a conscious effort to change the message by moving away from ads that tend to objectify women. Fogg, for example, recently ran a commercial with a rather elated deo-using man dancing in a metro compartment.

"While the price point remains very similar between Indian and MNC brands, Indian brands have been quicker to react with new variants (for example, smaller sizes) and fragrances, giving them an edge with consumers. They have also built strong distribution across channels," says Rajat Wahi, partner, Deloitte Consulting.

It's important to grow the segment for survival. Penetration of deodorants stands at less than 15% in India, according to industry estimates. Total market size is a fraction of the soap market, about ₹3,380 crore versus ₹19,780 crore (soap in 2017), according to Euromonitor International, a market research provider.

"Deodorants need to become a regular use product, which they still aren't," says Gupta. "This, in a market where people don't take well to be told that they don't smell good… The conversation about smelling good doesn't come up in homes. And that is the biggest barrier to entry."

MILLENNIAL PERFUMERS

New challenges also throw up new opportunities. When Saurabh Gupta joined the family business in 2006 after studying at the University of Bath, modernising the family's perfumes business topped his to-do list.

That meant clear delineation of responsibilities. But it was only after his team won an award for marketing that other vertical heads in the company started to take him seriously. "Even in a family-run company, merit is critical," he admits. Today, his uncle and cousin look after the manufacturing side, while his father is the head perfumer. Deodorants contribute ₹180 crore of the ₹400-crore topline and are seen as a growth spot.

At the Kochar headquarters in Gurgaon, Saturdays are normally for review meetings, where all family members are required to contribute on Vi John businesses. Of late, conversations have been around innovation and improvising the existing portfolio.

The business is led by second-generation Kochar, Bhupinder Singh, under whom Achin is in charge of purchase, procurement, modern trade and perfumes. He says that while he is part of a legacy business, he has had to earn his hard miles. Achin wants to bet big on the perfume business, which he feels has stronger customer stickiness. Even though he has no doubt the family businesses thrive on quick decisions and entrepreneurial chutzpah, he feels "respect can only be earned."

In Kolkata, when Ankit's mother isn't paying attention at the Daga dinner table, conversations digress into strengthening the company structure. "Family businesses work for continuum and not necessarily for profits. And I think my grooming began as far back as my teenage days, when there were samples of perfumes at home and I would tinker around with them," says the 26-year-old.

"We are a family-led business and Ankit is being groomed by the senior management to learn the ropes," says his father, Narendra Kumar. "*Marwari baniya hai, saari zindagi kaam hi karega*," he quips about how Marwari men are destined to work all their lives. Ankit's leaning is towards product development and marketing, but his aptitude and interests are being analysed before he gets into a more permanent position.

"I have made some mistakes in a pilot project, named Code. But stupidity is welcome here because it teaches you a lot," adds Ankit.

Darshan Patel is also a doting father. The fifth floor of their office building is a dedicated space for family members and often, his daughter Janaki and son Manan come in. But there's no pressure to join the business. Janaki, 29, saw her father travel 20-25 days a month when she was growing up and now doesn't want anything to do with the business. Patel's son is 25 and has studied finance at Regent University in the UK.

But Patel wants to keep his children at bay for now. "They come to the office often but just because I like this trade, doesn't mean they have to," says Patel. That decision will be left to the family gods, who have pride of place in his office — in the midst of over a thousand bottles of scents.

As Vini's commercials say, special decisions are always taken by the family … together.

Cousins Darshan and Dipam Patel exited their family business Paras Pharmaceuticals to start Vini Cosmetics. The company operates out of Janaki House in Ahmedabad, named after Patel's daughter Janaki. Darshan came up with the name Vini, which was his children Janaki and Manan's pet tortoise!

Ankit Daga currently splits his time between work and a postgraduate programme in management for family business from ISB Hyderabad. When back in Kolkata, Narendra Kumar Daga is ensuring Ankit is groomed in the workings of every department.

Photo: ASHWANI NAGPAL

In the 1980s, the Gupta family's original business was incense sticks. The suave Saurabh Gupta did his Masters from the University of Bath. His father, Rajesh (R), is the head perfumer, while uncle Vijesh and a cousin look after the manufacturing side of the business.

Achin Kochar (R) looks after the deodorant and perfumes part of the shaving company's business. Nephews Harshit, Tarun, Prateek, Achin and Gavin work with uncle Bhupinder Singh Kochar in various divisions.

Photo: AMRENDRA JHA

Smell Test

Figures in ₹ crore

	Vini Cosmetics	Vanesa Care	McNroe Consumer Products
Revenue '17	685.29	-	325.86
Revenue '16	582.97	128.57	303.77
EBITDA '17	136.66	-	10
EBITDA '16	103.42	4.0	10
Profit after tax '17	88.9	-	2.15
Profit after tax '16	66.1	1.84	2.14

Source: Annual filing

Follow Your Nose

Market comparison:

	Soap Bars	Talcum Powder	Deodorant
Period of growth/CAGR (in %) 2012-17	9.80	3.30	17.30
Forecast CAGR (in %) 2017-2022	2.30	-5.70	9.30
Market size/ growth (in ₹ crore) 2016	18,550	1,410	3,130
Market size/ growth (in ₹ crore) 2017	19,780	1,430	3,380

Scent From Heaven

ALL INDIA URBAN MARKET SHARE (%)

	2018*	2017	2016	MAT'18	MAT'17
Fogg	14.6	16.5	17.3	15.7	16.8
Nivea	11.5	10.2	9.2	10.5	9.9
Engage Total	10.3	9.9	9	10.7	9.3
Park Avenue	9.7	7.4	7.5	8.2	7.2
Axe Total	7	7.5	8.1	7.1	7.7
Wild Stone	6.6	6.5	5.9	6.8	6.3
Denver	4.3	3.4	3.2	3.9	3.3

*Till August MAT moving annual total for the last 12 months
Source: Industry officials quoting Nielsen

In India, Conglomerates Must Hone That Edge

For long term survival, it's important for family businesses to keep an eye on the market and look out for trends among conglomerates and others. A report by Bain & Company released last month, *Asia's Conglomerates: End of the Road*, presents vital lessons for the growth

and Thailand's Charoen Pokphand (CP) Group, which operates in agri, food, retail distribution and telecom, with investments in 30 countries.

India's Bajaj Group, Lalbhai Group and Murugappa Group enjoyed annual TSR of 24% or more. Indeed the top quartile

Business growth depends a lot on a company's ability to create a transformational roadmap in which they excel in four areas:

- Clear and compelling ambition that powers their existence as a conglomerate
- A crisp articulation of their parenting advantage — the way a conglomerate adds

Thriving Despite Challenges

Top 15 Conglomerates	Country	TSR %*
Charoen Pokphand Group	Thailand	40
Hap Seng Consolidated	Malaysia	36
Berli Jucker Public Co	Thailand	34

Erosion in Indian and SE Asian Conglomerates' Advantage in Total TSR in Recent Years

Average annualised total shareholder returns (2003-2012)

Checklist for Reinventing Family Businesses and Conglomerates

Do we have a well-defined ambition that sets out our value creation plan and mission of the company?

Do we have clear parenting advantages to guide portfolio choices and the group's value added to assets?

Do we have a clear perspective on the full and future of family businesses.

The report says conglomerates in India —many of them family businesses—and South East Asia no longer hold an advantage in total shareholder returns (TSR) over pure plays (that is, companies focused on single business) and have begun to underperform in revenue growth and margins. Unless conglomerates in these regions reinvent themselves, investors will call for breaking them up—the fate of many conglomerates in the west.

However, top performers have maintained a hefty conglomerate premium, showing a way to flourish. They have clear ambition, articulate their parenting advantage and make strategic portfolio and financial choices to deliver superior growth. These top performers include Malaysia's Hap Seng Consolidated

conglomerates in India and South East Asia performed significantly better than others, achieving TSR of 25% versus -3% for the bottom quartile.

Bain & Company tracked the performance of 102 conglomerates and 287 pure plays. During 2007-16, TSR dropped to 11% for conglomerates—slightly less than 12% for pure plays.

If conglomerate performance suffers, a 'doom loop' will be set in motion — conglomerates will be less able to attract talent, money and opportunities, further hurting their performance.

value to each element of its portfolio

- Active management and resource allocation across portfolio to drive profitable growth
- A well thought through financial strategy to fund their ambitions.

Our Bureau

Bajaj Group	India	**32**
DMCI Holdings	Philippines	**31**
Aboitiz Equity Ventures	Philippines	**30**
Wadia Group	India	**26**
Murugappa Group	India	**25**
Lalbhai Group	India	**24**
Sinar Mas Group	Indonesia	**24**
Godrej Group	India	**24**
Emami Group	India	**23**
BDMS	Thailand	**22**
Torrent Group	India	**22**
Lippo Group	Indonesia	**22**

*2007-16

Indian & SE Asian conglomerates **32%**

Indian & SE Asian pure plays **28%**

Conglomerates in rest of the world **8%**

Average annualised total shareholder returns (2017-16)

Indian & SE Asian conglomerates **11%**

Indian & SE Asian pure plays **12%**

Conglomerates in rest of the world **0%**

PS: TSR combines changes in share price with dividends paid

Sources: Bloomberg, S&P Capital IQ, Bain & Company

potential of existing assets?

Do we have an outside-in perspective of our portfolio?

Do we have a roadmap towards target portfolio in place?

Do we have key enables in place to bring all business units to full potential?

Indian, SE Asian Conglomerates Average Annualised TSR

Top quartile **25%** 3rd quartile **7%**

2nd quartile **14%** Bottom quartile **-3%**

Note: Individual company percentages show average annualised TSR

Sources: S&P Capital IQ, Bain & Company