

# Madison Media Matters

Media Newsletter | January 2020

Nagaraj Krishnamurthy, Chief Analytics Officer

## MARKETING PLAYBOOK TO ADDRESS

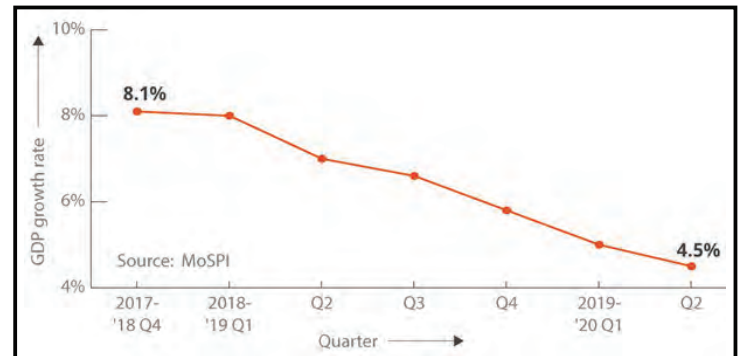


### 1.0 Slowdown is Real

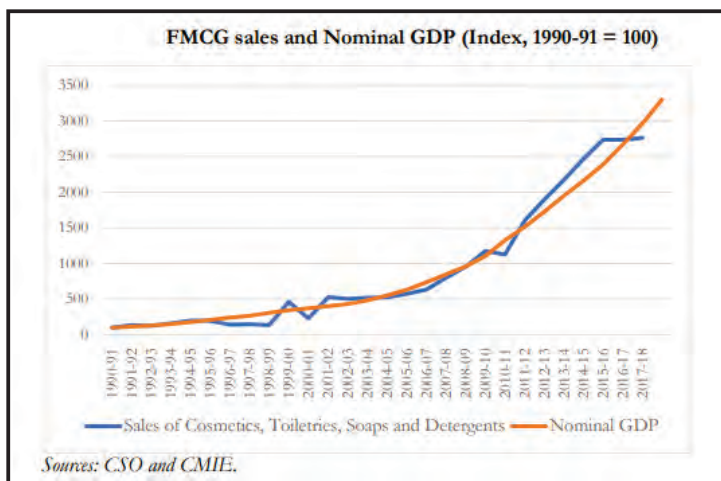
Indian economy is in an undeniable slowdown. GDP growth rate has been slowing down for six quarters in a row. For an average marketer, the slowdown looks a tad confusing. In the past, slowdown was associated with high inflation, falling Sensex and currency depreciation. Nothing of that sort has been recorded. Our headline inflation is low at around 4%, Sensex has got into the habit of recording lifetime highs every week and there has been no serious depreciation of Indian Rupee.

While the economists worry about defining the nature of slow-down and possible remedies to get us out of the slowdown, we as marketers need to find ways to make our marketing monies work harder.

Before we embark on some evidence based strategies to fight slowdown, let us look at some of the indicators that we as marketers can relate to.



### 1.1 Slowing FMCG Sales

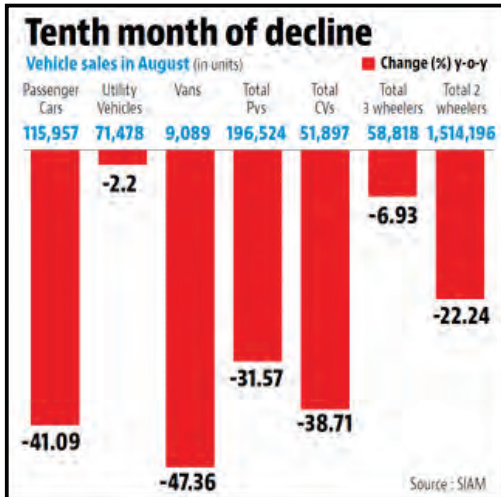


The sales growth of FMCG and Nominal GDP are well correlated 1990 onwards. Both are on an ascend for most of the years. However, over the last 2 years, FMCG sales have flattened. When one correlates the aggregate data with quarterly volume sales from leading FMCG players, the extent of slowdown is very evident. Since, FMCG sales is one of the better proxies for consumption, the observed trend is indeed disturbing.



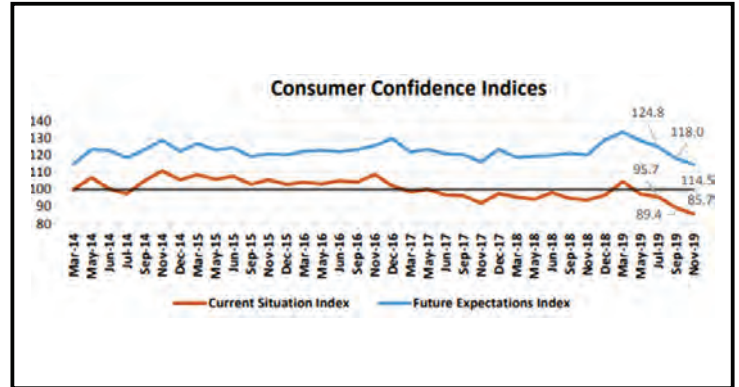
## 1.2 Automobile Sales

If FMCG sales are a good indicator of consumer non-discretionary spends, auto sales are a good proxy for consumer discretionary expenditure. Auto sales reported in the month of August 2019 were one of the worst in recent history. There was red ink across the spectrum. Passenger vehicles recorded a degrowth of 32%. Commercial vehicles which is a good indicator of industry growth degrew by even more alarming 38%!



## 1.3 Consumer Confidence

RBI conducts a Consumer Confidence survey which is a key input for its monetary policy decisions. As per the survey, consumer confidence dipped to six-year low in September 2019, as sentiment around employment, income and discretionary spending declined. This loss in consumer confidence does not augur well for revival of consumption.



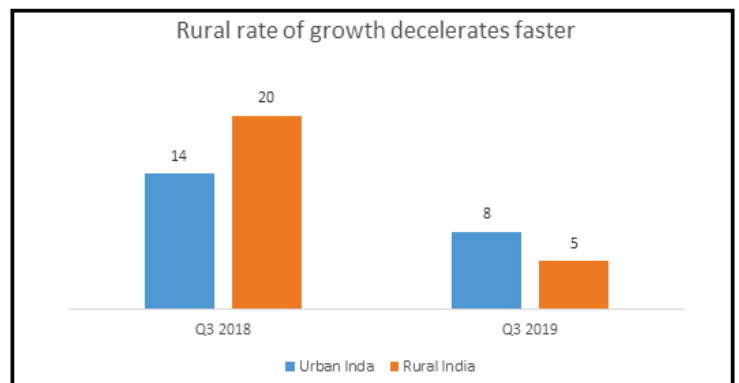
## 2.0 How to play the slowdown?

### 2.1 Temper expectations from rural market



Nielsen's report on Q3 FMCG growth had a clear call out – "In recent periods, rural growth is slowing down at a much faster rate, compared to urban". Rural India contributes 36% to overall FMCG spends and has historically been growing 3-5% points faster than urban. However, for the first time in seven years, the Q3 report showed consumption growth in rural areas was slower compared to that of urban markets. Rural consumption grew at 5%; urban India grew at a better pace with an 8%. In Q3 of 2018, rural had clocked 20% growth and urban India had clocked 14% growth.<sup>2</sup>

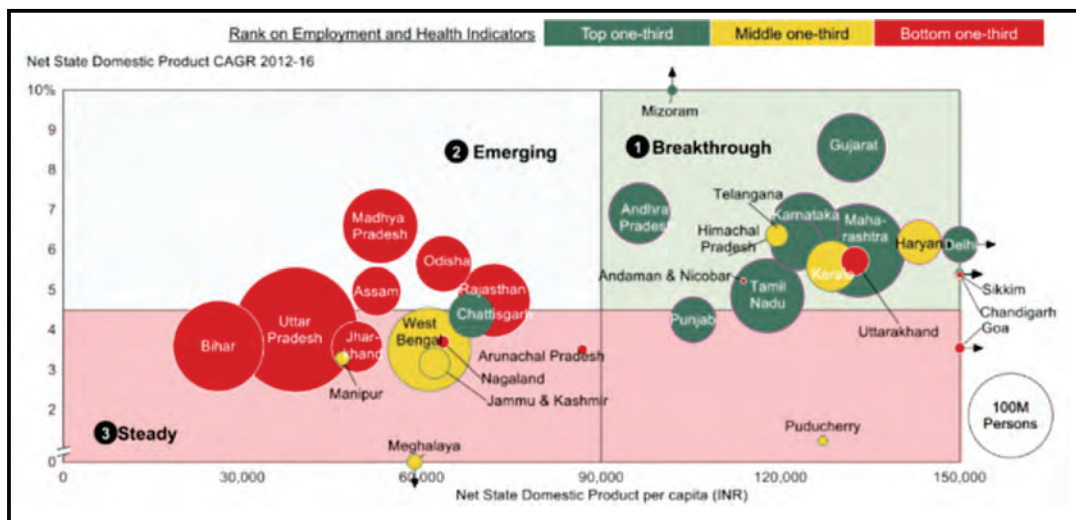
Marketers need to temper their growth projections from rural India. Probably, till the time farm incomes start showing a rise, marketers could divert their incremental growth energies to urban India.



### 2.2 Pick your markets

Various reports indicate that slowdown is not a uniform phenomenon across India. Nielsen India's report titled 'India FMCG Growth Snapshot' indicates that deceleration is being driven by North and West zones. According to the report, Haryana, Madhya Pradesh, Uttar Pradesh, Maharashtra and Assam are leading the slowdown.<sup>4</sup>

Even outside of slowdown, Bain and Company in their report on India's consumption story have identified that growth in consumption will not be secular but led by 10 large "breakthrough" states: Kerala, Karnataka, Andhra Pradesh, Telangana and Tamil Nadu in the south; Delhi, Haryana and Punjab in the north; and Maharashtra and Gujarat in the west.<sup>10</sup>



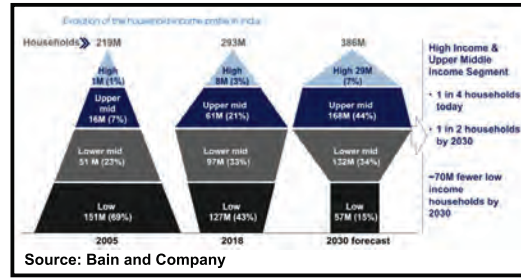
Marketers have to reassess traditional market prioritization methodology and give more emphasis on those markets where their brand has recorded growth over last 5-6 quarters. Historical category growth and penetration should not be the yardstick for market prioritization.

The reprioritization will have implications on how media monies are deployed. For instance, going by the observation of Bain and Company on breakthrough states, it appears that focus for TV investments should be on regional language channels rather than on Hindi GEC channels as much of Hindi heartland does not feature as breakthrough states.

## 2.3 Go for Premiumization

It appears that the slowdown is triggered more by the uncertainty in the unorganized sector than in the organized sector. The salaried seem to be relatively well insulated from the slowdown. According to The Economic Survey of 2018-19, released on July 4, 2019, approximately only 7% of India is employed by the organized sector. However, they wield a disproportionate share of consumption.

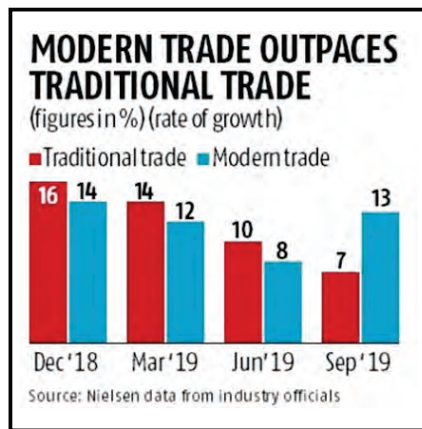
At a more fundamental level, India's consumption profile is changing. It is estimated that by 2030, India will move from being an economy led by the bottom of the pyramid, to one led by the middle class. Nearly 80% of households in 2030 will be middle-income, up from about 50% today. The middle class will drive 75% of consumer spending in 2030. Premiumization and category addition will drive a significant share of incremental spend on eating (food and beverages at home, and dining out), looking good (personal care and apparel) and staying connected (cellphones, data packs and gadgets).<sup>6</sup>



Marketers could do well to launch premium offerings primarily targeted at the well-heeled and the salaried. It can either be an extension of their well established brands or a new one with a clear

and sharper premium focus. After three decades, HUL launched a new brand, 'Love & Care' in the laundry category targeted at affluent Indians. Even the venerable Margo soap went in for a glycerine variant to attract premium audience.

## 2.4 Focus on Modern Trade and E-commerce



The share of modern trade has been continuously increasing and has now crossed the threshold 10% of total FMCG sales.<sup>7</sup> This is expected to increase further as modern trade penetrates deeper. As per property management company, JLL, 50-60% of the new modern trade outlets are coming up in tier II and tier III cities. This augurs well for the penetration of modern trade. Nielsen India has estimated that share of e-commerce in FMCG sales is expected to grow to 5% in 2022 from 2% in 2019.<sup>8</sup>

In a year or two, it is likely that even for a mass market FMCG brand, modern trade and e-commerce could contribute more than 15% of total sales volume. Brands should plan for a differentiated media strategy to target such shoppers dialling up spend on digital media. Even options like shifting substantial trade promotion monies to ecommerce portals and managing categories with modern trade may prove to be very profitable. Brands that manage to garner largest share of ecommerce and modern trade could end up as the most profitable brand.

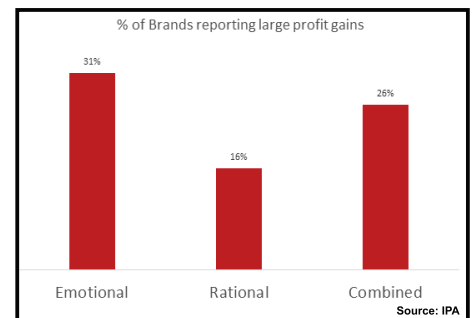
## 2.5 Invest in Brand Love

"Lipstick effect" is a well-documented economic observation. According to proponents of the theory, when facing an economic crisis, consumers will like to indulge but will favour less expensive luxury goods. The name has its origin in the fact that lipstick sales shot up during the Great Depression of the 1930s.

Marketers can leverage the lipstick effect by upping the aspiration quotient and building the brand love. Often in a slowdown, brands have a temptation of running promotions rather than building the "Brand Love". This is contrary to what believers of Lipstick Effect will argue. It is also well established that emotional campaigns work the hardest. A study was conducted by The Institute of Practitioners in Advertising [IPA] by utilizing the data from 1400 advertising campaigns. It was clearly established that emotional campaigns work the hardest – nearly twice as hard as rational campaigns [promotion campaigns]. When brand invests in an emotional campaign, it would be wise

to synchronize and invest in "bottom funnel" campaign probably using digital media. Such an approach will ensure Share of Mind is translated to Share of Market.

Thus in a slowdown, contrary to popular belief, it pays to advertise behind Brand Love than on promo campaigns alone.



## 2.6 Manage Brand Portfolio



Marketers should devise and adopt a brand portfolio management approach to maximize the ROI. As an example, marketers could run an aspiration mother brand campaign that is designed to have a large halo on the entire portfolio. Smaller SKUs and lower priced variants in the portfolio could then get disproportionate benefit resulting in higher sales.

Brand portfolio management is all about developing and maximizing halos (cross brand elasticity). Rigorous analytics can help to identify the donors and recipients of "Halos" and thus develop a portfolio strategy that adds to the marketing ROI.

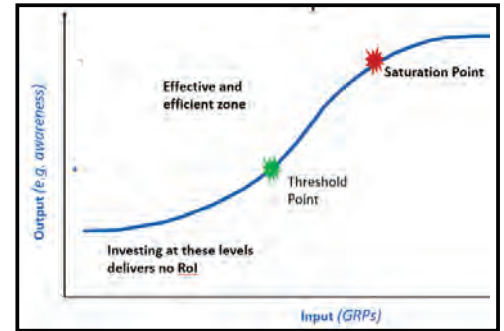
## 2.7 Do not Under Invest

Across various marketing mix models we have developed, it is clear that Advertising has a "S" shaped response. The same has been extensively documented across various journals.

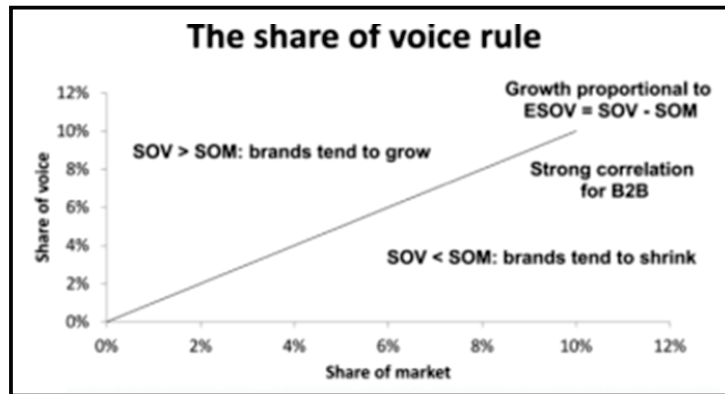
Implications for marketers is clear. If you invest below the threshold point, the entire advertising budget is wasted. Threshold point depends on the brand size, category and the advertising copy. Rigorous analytics can identify the threshold and saturation levels for the brand. Modern day machine learning algorithms have made it easier to determine and also enhanced the reliability of the findings.

Marketers should invest in analytics and ensure that they do not under invest as that would lead to wastage of precious marketing monies. In fact, if a brand

is unable to invest at threshold levels, it would be a better strategy to remain silent and mount a BTL campaign. Thus, proportional slashing of budgets in wake of slow down induced budget cuts is not recommended.



## 2.8 Play ESOV game



The most normal reaction of marketers in a slowdown is to trim advertising budget. However, data suggests that marketers need to do exactly the opposite.

Basis data collated in 2009 downturn, Nielsen came up with a hardworking metric called "Excess SoV" (ESOV = SOV – SOM). It was found that ESOV had a definitive correlation with share growth. On an average, a 10 point difference between SOV and SOM led to 0.5% of extra market share growth. However, ESOV was found to be working harder for brands with greater emotional appeal and those who had a higher share of market. For instance, brand leaders achieved 1.4% of share growth per 10% of ESOV, compared to 0.4% for challenger brands. For every brand, Analytics can help calculate the required Excess SOV for the target market share gain.

Downturn is the best time to mount a share gain exercise with ESOV as category heat is expected to be moderate.

## 2.9 Milk existing assets

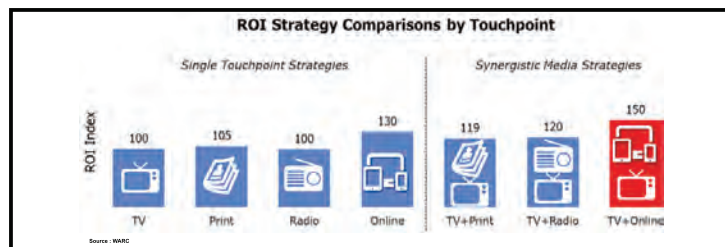
Marketers have tendency to commission a new creative or go in for a change in creative strategy. Copy Wear-out is the most quoted reason for change in campaign. Millward Brown had conducted a global study and articulated that "response generated by a TV ad doesn't change much over time. True "wear out" of a TV ad is rare, and many TV ads could have a longer useful life than advertisers realize." Other studies have also established that "CopyWear-out" is

very rare especially for a brand campaigns. It is only promotion led campaign that have definitive shelf life.

To maximize RoI of marketing monies, advertisers could resist the need to change creative assets and instead find ways to extract more out of existing assets.

## 2.10 TV and Digital to be GO TO media

Our own experiences as well as the findings of published research clearly establish that multimedia campaigns work harder. More specifically, TV and Digital media offer the highest ROI.



TV and Digital work in synergy and complete the loop. Recent study by Accenture titled "Cross-channel advertising attribution report" has quantified the halo impact of TV on digital performance campaigns. Without TV, stand-alone ROI of digital campaigns comes down by 18%. For a branding campaign, digital adds to incremental reach of TV at higher frequency at a lower cost, thus increasing the campaign ROI.

Marketers can adopt the above ten strategies derived basis data and analytics to fight the slowdown. For a well prepared marketer, slowdown can be an opportunity to increase profitability and market share.

*We would love to hear your views. Please send them to [nagaraj@madisonbusinessanalytics.com](mailto:nagaraj@madisonbusinessanalytics.com)*

1. "Fitch lowers India GDP growth to 4.6% in FY20." The Economic Times, December 20, 2019
2. "Rural FMCG consumption lowest in the last 7 years: Nielsen" Livemint, October 17, 2019
3. "Agri GDP growth falls: Doubling farmers' income in next 3 years looks a tough task" Hindu BusinessLine, August 31, 2019
4. "These states are leading India's economic slowdown" Business Today, July 18, 2019
5. "India's electricity demand falls for fourth straight month, here's why it matters" India Today, December 10, 2019
6. "How India will consume in 2030: 10 mega trends" Bain report presented at World Economic Forum
7. "Indians do 10% of their shopping in modern stores" Livemint, August 28, 2018
8. "E-commerce sales in FMCG to grow twice as fast as modern trade" Financial Express, December 4, 2019
9. "Future of Consumption in Fast-Growth Consumer Markets: INDIA" - A report by the World Economic Forum's System Initiative on Shaping the Future of Consumption Prepared in collaboration with Bain & Company. January 2019