Accelerating DPI in Consumer Investments

Sue Ying [00:00] Hello and welcome to A&M ADD, our series on accelerating DPI or distributed to paid in capital delivery for PE clients. Today we are launching a string of consumer-focused chats with insight from the senior industry leaders.

Sue Ying [00:13] I am Sue Ying, a Director in the Performance Improvement practice in Southeast Asia and Australia, and I'm excited to be joined by Nayantara Bali, a senior advisor at A&M and also incredibly seasoned business leader with 30 plus years of experience in the consumer space.

She's held multiple senior positions in Procter and Gamble over a 25-year period and is currently an independent director in Marico, Starhub, Inchcape and Torrent Pharma. Welcome, Nayantara.

Nayantara Bali [00:43] Hi Sue Ying, delighted to be here and looking forward to this chat.

Sue Ying [00:49] Thank you so much for being here today to talk about how to drive category development and building a Moat. Let's start off with CDI or Category Development Index. What exactly is CDI and why is it important?

Nayantara Bali [01:03] Yeah, that's a great question now Sue Ying.

So basically, when we look at growth opportunities or when a lot of companies look at growth opportunities particularly in sort of ASEAN, India or developing markets in general, you know one of the things that looks very attractive is the growth potential, right.

And typically, you know we are all familiar with the PowerPoint decks which show that, you know, categories are very small relative to, let's say, more developed markets. And therefore, there's a huge opportunity for whatever business somebody is looking at to grow. And this is true, right?

So typically, let's take laundry detergents or diapers or any of these categories. What typically we look at is how many pieces or how many units per consumer is being consumed in that market, right?

And that represents how well the categories developed or the Category Development Index. And obviously, you know, if it's very low, let's say just for example that in a market like India on average consumers using let's say one diaper a year – I'm just cooking up the numbers, these are not actual numbers – and the equivalent number in the US or Western Europe is, let's say 100, right?

So, that gives you an example or an idea of how much you know that the India market has to grow in the diaper category as incomes grow and you know as economic development happens.

And obviously, India has a large number of babies. So, what becomes important to companies is not so much about competing amongst the existing competitors for that one diaper a year, but really looking at how can you go from one to two and two to four and so on, right? So, the things that you do, the way you design the product, the way you decide how you're going to spend your money, what your message is, who you're going to target, all of that becomes very different.

When you look at developing categories versus competing versus somebody else in the same category. So, I hope that gives you some sort of idea of what Category Development is and why it's so important in developing markets.

Sue Ying [03:40] Yeah. Thank you so much for breaking that down. And so, with that, how does CDI then create a moat that is then hard for a new entrant or for competitors to overcome?

Nayantara Bali [03:54] OK, so this is, you know this is a very important point because what you don't want to have happen is that you put in all the hard work to develop a category – developing categories is you know very high effort; it's very expensive because people are probably not using the category or a particular form of the category much, so you have to 1st convince them to use start using the category and then you've got to get them over time to use more of the categories.

So, this is not an easy task versus you know, just going into an existing category of saying, hey, you already know everything about this category and here's how I'm better. Now, obviously that's an easier task, but the rewards of category development can also be very large if it is done smartly. Ok, so what does it mean to create a moat?

If you're going to put in all the hard work of building a category and building your brand, you want to make sure that somebody else doesn't come in and then just take market share away from you, very easily because you haven't built barriers to entry or what I like to call a moat.

[05:10] OK, so one of my favourite examples is actually the very first category that I ever worked on, which is feminine care – *Fempro*. And this is about the launch of Whisper, which is a feminine hygiene product launched in India in 1989.

So, you know that was sort of my first project and at that time the category development of feminine care products, branded feminine care products in India was exceedingly low.

Most consumers, even wealthier consumers used homemade, you know, either gauze or cloth or whatever. And so, when Procter and Gamble was entering the category. J&J was the entrenched competitor with their leading brands. They had over 70% market share, but albeit of a very tiny market.

And when Procter and Gamble entered, we realized that, you know, this is going to be no fun. Sort of just trying to fight for share and in any case it's a very high-risk, adverse category. So, no one's going to sort of casually – it’s not something you just casually try out like candy. The risks of failure are too high.

[06:43] We had a superior product and we realized that there were going to be, you know, the only way to show people our superior was to actually give them free samples and get them to try the product.

So, the first big investment from a category development point of view was to invest in very large-scale sampling. Now, when I talk about large scale sampling, I'm talking of millions and millions of girls every year and there was no infrastructure to be able to execute something like that, right? How do you actually go in distribute samples to millions of, you know, ladies and girls? OK. And so, the company and you know, we came up with two sort of sort of ideas or approaches.

One was to sample women who could afford to buy the product right away if they were convinced.

OK. And this was really people in the age group of, you know, 18 plus to 21 – they might have their own money, more independent, able to make their own decisions. And we did a large-scale sort of house-to-house program, sort of targeting going door to door. So, you can imagine what a task this was – agencies had no experience of distributing to millions of women. It was like an army operation and, you know, we had to take permissions – so that was one more piece of it.

[08:04] So in a way that was a moat because it was not easy for companies to set up the infrastructure. But it was not a true moat because all the agencies – I mean the company didn't do it themselves. We hired the agencies; we developed those agencies. So, it is true that those agencies could be hired by competitors in the future.

The real moat that we developed was actually what we call the school program and what we realized was that if you can sample somebody when they enter the category when they're entering the category, when they've just started to have their periods, that experience what they use at that experience is a very key moment of truth.

And if they have a good experience with a product at that time, they'll likely to always stick to that product. There's a very high loyalty and a very high retention rate. Now, they may or may not be able to afford to buy at that point, but the bar for performance will be set very early on.

So, we decided that, you know, this is what we're going to invest on. It was not a one-year payout as you can imagine – it was a multiyear payout. It was very difficult to execute because it involved going to schools, building relationships with the schools and getting permission to do this as part of each school's different program. It could be like a sex education class or a puberty growing up class. And so, over a period of a few years, the company built all these relationships, the program, how to execute it, how to make it very meaningful, because it's a big rite of passage kind of experience and this program was incredibly successful.

[09:54] Now, why is this a moat? This is a moat because now when you have relationship with hundreds of schools across the country and they are used to you coming there every year, they're relying on you to run that program. It's almost impossible for a competitor to come in and unseat you from that program, and from those relationships.

And so now this, of course, is a very unique sort of example, but I would think that in every category, it's always helpful if you are going to category development and you don't want to do the hard work in let somebody else benefit from it – then always think of how can I build moats?

Now, they may not last forever, but they can last for a very long time, so you can always be one step ahead of your competitor. And this is not easy. It requires investment. I think from PE perspective the time frames are not as long.

But technically, if you can establish that you're beginning or you have an element that can build or create a moat going forward, certainly the valuations will be significantly higher.

So, I think it's useful to think of this right from the beginning and you know and at least if you can't execute on a large scale, have experiments running that show that it can work. And when money is there to be invested, you can keep investing.

Sue Ying [11:33] Thank you. That makes a lot of sense, and now that we understand a little bit more about the importance and the value of developing a category, could we talk a little bit about how this translates into adjacencies? We work in the PE space and every time there's a commercial due diligence, the word adjacency will come up. So, back to our conversation, how can a mid-size company that might be a market leader in a category – they've developed this moat – how can they realize the benefits from adjacencies or further benefits from being a category leader? Are there any examples specifically that you can think of?

Nayantara Bali [12:20] Sure. So, I'd like to share two types of examples. One is a company which has already got a big brand going into adjacencies, and the other would be a company which is trying to unseat a big brand by going into an adjacency, which can be, a very successful way. So, in other words, if you have a big brand and you haven't gone into some emerging or important adjacencies, somebody else can come and you know sort of steal that from you – in a way.

OK, so the first one just to continue the Whisper example is after its launch, Whisper was very successful, got to market leadership quite fast – within 10 years and got to very high double-digit shares (30-40% shares) and grew the category. So, it was a growing share and a growing category, but after a point in time, many companies J&J was active. Kimberly Clark entered, and other local brands started entering and so over a period of time, the product superiority, others start to catch up.

So, what Whisper did was actually then launch the next big innovation, the pads that we launched at that time were what are called maxi pads - were thick. And then there was this new technology in the 90s, created in the US by P&G, which was the ultrathin gel technology. This became a whole new, product form and that again required a lot of category development because it was counterintuitive. How can a thing that is so thin actually be absorbed and there was a huge barrier to trial, right? So that's the Whisper example, but I think you know for an existing brand or company which is very successful, I guess the point is you've got to keep looking out for what are the adjacencies that can broaden the brand and keep you ahead of others.

[14:47] I will say that Whisper also explored other adjacencies, some of which did not work. So, it's always important to see where's the opportunity. We looked at sanitary underwear as an adjacency because it was a very successful item in Japan, where actually there was a habit of using sanitary underwear. What I mean by sanitary underwear is that the fit of the underwear had a huge impact on the performance of the pad. Yeah, so we thought that this was something that we could try out in India. And I mean, people didn't have money to even buy pads. So, they were not going to buy a sanitary underwear to go with it.

And we came to the conclusion that the big opportunity is in the base category offering the main benefit. And we moved away, and we stayed with pads. Even now, the category development is, still low relative to other markets.

[15:52] Let me share another example, which is from the personal cleansing segment, and I want to actually mention two examples, one from P&G and one from Unilever~~.~~

[16:07] The example from Unilever is of Dove, which I think did a fantastic job of really understanding what was at the core of the Dove brand. Dove started as a bar soap. This is not a brand I worked on, some really looking at it from the outside. But I think they took this idea of real beauty. When the beauty industry was all about, you know, glamour, film stars, celebrities and so forth. And they took the idea of real women; real beauty and a product that works. A good product and they were very successfully that they were able to expand into hair care, into deodorants and then of course liquid body wash and all the rest of it. I will say that this is a relatively one of the rarer examples, but an example of a successful one.

[17:12] The other very successful example is from the fabric softener brand Downy, which is a Procter & Gamble brand where it started as an additive, a liquid additive. But the interesting thing that Downey did is they realized that while softening is the benefit, a lot of people were using it for the fragrance. There was a really a core group of people who loved laundry and who loved the fragrance. Especially developing markets, smaller houses, smelly bathrooms. This whole thing was giving a moment of happiness and joy to a fairly mundane drudgery type of activity. So, they created these softener beads, which is basically a very concentrated fragrance that you could pop into the wash for that extra fragrance and, bring a little joy to someone's life. So, I think, there's lots of ways in which you can bring adjacencies.

[18:24] I think what's important is to understand what is the consumer really buying when they're buying that brand? In the case of Dove, they were buying into an idea – of course the products have to be good – in the case of Safeguard, they were buying into, you know, cleansing really good cleansing, which protects me with degerming, but without giving up the delights of the latest ways to wash yourself. And in the case of the Downey example – a lot of people were, you know, yes, I do my laundry, I clocked in some softener so that my towels are not like potato chips or crisps – the brand was able to identify a group of consumers who actually loved fragrance, so they were able to capitalize on that and create this beads segment. Of course, when you do something like that, you can charge a lot of money for it, right?

And because the brand is known, you can shelf it next to the brand. You can just feature it in the brand shot. There's lots of ways to build awareness very quickly amongst your prime targets. So, adjacencies can be a much cheaper way, unless of course category development is again involved of getting in very quickly and making use of an existing asset effectively.

Sue Ying [19:51] Great! So obviously expanding into adjacencies, open up new avenues for growth, but a lot of the success of these ventures, you know, hinge on an effective distribution strategy.

So, could we also spend some time discussing distribution. Is distribution considered a true moat? How can a brand continue to build depth and breadth in distribution? And if we take that lens and focus on mid-size Southeast Asian companies.

Nayantara Bali [20:27] This is a great question. Distribution is often the thing that makes or breaks a brand and is very critical.

Now, can it be a moat? Absolutely, it can. But it's a very difficult moat. Because unless you own your own distribution channel, you basically have to convince whoever the target of your efforts. It could be a mom-and-pop store, which is still very large - what we call the general trade in all of Asia. It could be a big box retailer, it could be an ecommerce retailer, it could be a specialty channel – so it could be any of these.

Now, I think in Southeast Asia or India; the general trade, if you are going into a big mass sort of category or you started as a niche but now you want to become bigger, the only way to grow is to be better distributed.

This segment tends to be very, very, important. And if you are in a category development type of space or building an adjacency, then being the first person to get into this channel can be a moat. Because when you think of these stores, they're small stores. They are physically small, they don't have that much space, so they cannot have an unlimited assortment of products. They're also fairly cash strapped. So, the turnover of cash is very important to these stores and if you want to enter without giving endless amounts of credit cash is obviously a factor.

[22:18] If you are the first person to be able to convince these small store owners that it is worthwhile keeping your product and you have reasonably good support, they know you convince them that they can keep it and it will definitely move from their store and they can make good money on it. And if you have all of that come together, I think it's very difficult for a me-too brand or anybody else in that same category to come and convince that same retailer. Because, the retailer can say, “Hey, I've already got this. It sells well. They're treating me right. I don't need to keep you and take a risk, and if I keep you, then I have to not keep something else in my store. And why should I do that?”

In those kinds of situations, I think particularly in the open trade, because it's kind of like the sampling example. Anything that requires a lot of physical feet on the street; wide reach; it's not easy for somebody to come in and unseat you overnight. So, that's definitely something that you can do.

[23:33] In ecommerce the companies which gotten very early and made sure they showed up first in search– the next person who comes in the conversation in ecommerce becomes even more complicated because it's not just about being listed on an e-retailer, it's also about search and reviews and nobody buys anything without checking reviews. Nobody looks beyond the first page. So, if you got an early and you have all those reviews and you land up at the top of every search and you know you don't have to be paying to be right on top, that can be a moat. Now, the person who has to up-seat has to now spend a lot of money to get to that level.

[24:32] So, I think distribution can definitely be a moat, maybe not as long as some other kinds of moats, but definitely it would be high up there in moat creation and whoever comes next has to spend a lot of money and effort and time.

Sue Ying [24:47] So then if we think about if you're a mid-size company in Southeast Asia. The key here really is to get in early, and if you're in a country where there's, a lot of unorganized trade or GT.

Nayantara Bali [25:01] Yes, or if you have a market leader who is not playing in a channel. This happened frankly to all the, I would say the P&Gs and the Unilevers and the L'oreals who were very strong in traditional trade and particularly in Asia and in China, in skin care, and beauty care, in particular. And we have so many stories of very successful beauty care brands which came out of nowhere and they led with ecommerce because the Doves and the Olays and the L'oreals and all of these brands were still so focused on big box and physical trade like 10-15 years ago.

[25:59] For the company and especially for mid-size companies, look for opportunities where the big guys are leaving themselves exposed and see if you can enter through that. There's lots of examples of, you know, brands that did that very successfully.

Sue Ying [26:22] Thank you! This has been a very insightful conversation Nayantara, and we look forward to having you back for more discussions in this or other topics.

Nayantara Bali [26:35] Super! Glad to be helpful in any way and I hope firms have a lot of success with some of these thoughts.