Business Development From Start to Scale
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Week - 06
Business and Market Segments
Lecture - 30
Market Attractiveness and Competitive Positioning

Hi friends welcome to the NPTEL course Business Development from Start to Scale. We are in week 6 with the theme of Business and Market Segments. In this lecture the 30th in the series we discuss Market Attractiveness and Competitive Positioning.

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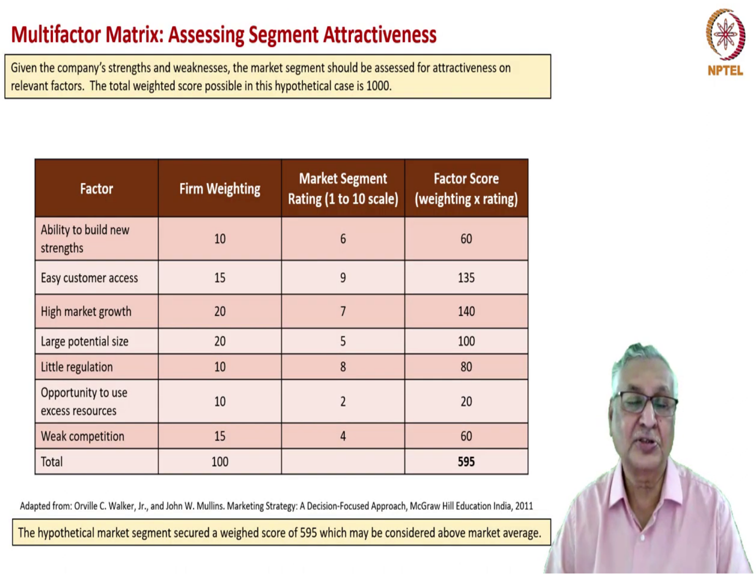

Factor	Firm Weighting	Market Segment Rating (1 to 10 scale)	Factor Score (weighting x rating)
Ability to build new strengths	10	6	60
Easy customer access	15	9	135
High market growth	20	7	140
Large potential size	20	5	100
Little regulation	10	8	80
Opportunity to use excess resources	10	2	20
Weak competition	15	4	60
Total	100		595

We have discussed these two topics earlier in the previous lecture as well. In this lecture I would provide further analysis and also take you through a case study. Given a company strengths and weaknesses we should assess the market strength for attractiveness on several relevant factors. I have presented a case below and the total weightage score possible for our analysis is 1000.

What are the factors that are required to build strengths in a market segment? First of all you should have the ability to develop new strengths. We should have customers who could be accessed easily, there should be potential for high market growth and there should also be a large potential size of the industry itself, there should be less regulation.

We should have the opportunity to leverage whatever excess resources we have the competition should be weak. In matter of fact all of these things will not pan out as I have stated here. Customer access could be difficult we may not have all the abilities to build new strengths.

Market growth could be uncertain, the potential industry direction could be uncertain, regulation could keep coming in time to time, there could be opportunity to use excess resources, but they would not be the kind of resources you want for this business. The competition could be weak. As a result, the way the market segment as part of the industry would pan out is uncertain for prediction for the future.

Nevertheless, a company should do the scoring and should wait in terms of each factor. So, that we understand where we stand. So, in this case the scores have been arrived at first on a rating scale of 1 to 10 and the form has been weighted. And in this case again the score is only 595. What does it means? That the hypothetical market segment is no bigger than the average.

In which case it tells us that it may not be prudent to enter in into the market. Let us look at a case of edible oil industry because I am going to talk about edible oils later. There are several edible oils some are really scale driven and some are niche. An oil such as groundnut oil is reasonably volume driven, but not as much scale driven as a palm oil or as a sunflower oil.

So, it has traditional usage pattern it has also a niche pattern. The customers are divided and diffused across various demographic factors

It is not that everybody would take to the oil which means that customer access is challenging for someone who wants to enter into that area. But nevertheless, it is a strong market it will not go away on its own. So, when you look at that you would read that as a 9 in terms of the market potential and customer access potential. And what is the weightage of that? It is in the mid-range weightage of 15.

Do we have as a refinery to build those strengths? We have already built one refinery for let us say rep seed oil or cotton seed oil or palm oil. So, we need to build those strengths. And from the point of view of the usage of the existing refinery you do not have that level of rating for this therefore, it is only rated 6. Does it have high market growth? Yes, as good as the population growth and as good as the urbanization growth.

Therefore, you rate it 7. Does it have a large potential industry size? Not as good as the other high-volume oils therefore, you would rate it at 5. Does it have the opportunity to use excess resources? No, we have to set up a dedicated refinery because we cannot allow cross contamination of oil therefore, the rating of that segment in respect of that particular factor is only 2. Does it have weak competition?

No, it actually has multiple competitors particularly the traditional players, in which case the attractiveness for you as a company is only 4. Let us look at the weightage. You would see in one particular case the opportunity to use excess resources should be rated reasonably well and that would really pan out if you have such resources. In this case although you have given a weight age of 10 the combined weight versus rating or weight into rating is only 20.

So, it is not helping you. Does it have potential market size from a point of view? It has 20 weightage and although you are at an average rating on this factor it has a total weighted score of 100, but the market growth the customer access these are the ones which we are interested in. And there because of the weightage of the firm in that industry and the market segment standalone thing you have got certain capability which you can wait and therefore, arrive at the combined rating.

Still overall when you look at it is just above the market average. So, it is not a great idea for you to have an entry into the groundnut oil segment although you are in different other oils and reasonably well in those oils.

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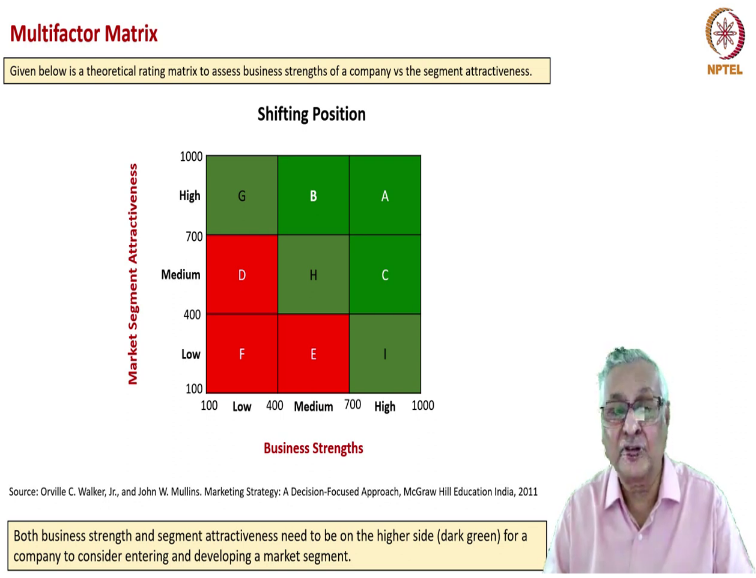

So, the multi factor matrix can be extended further to understand whether we should move into a particular market segment or not. Let us analyze our company in terms of its business strengths and also the attractiveness of the market segment.

We can classify our business strengths in terms of they being low, medium or high with a particular weightage score. Then we can have the market segment looking attractive to us in terms of its potential or weighted score as low medium and high. So, there are certain combinations that are possible when we look at business strength and market segment attractiveness together.

When the business strength is either low or medium and the market segment attractiveness is low that combination is certainly to be avoided. On the other hand, if we have a high business strength and a low market segment attractiveness, we could still attempt it because we may have the ability to improve the market segment itself or penetration in the market segment.

Again, coming back to the undesirable segments if we have our business strengths low, but our market segment only low or medium in its attractiveness again that combination needs to be avoided. But at the same time, we have high market segment attractiveness combined with low business strength we could still consider it because we may have the natural collateral advantage of using the attractiveness of market segment that is your business by itself would have certain tailwinds.

Similarly, if you have medium business strength or medium market segment attractiveness, we should still be considering it as it has got its own tailwind. But if you have high business strength and medium market segment attractiveness you have medium business strength and high market segment attractiveness we should go for such segments with resolute and try to improve upon our position in those segments.

The best to happen is to have high level of business strength and high level of market segment attractiveness. And to have high business strength we should be scoring very well on our resources, on our management style, on our leadership strength, on our ability to access markets and several other parameters that I have discussed in this lecture as well as in the previous lectures.

Similarly, in terms of market segment attractiveness it should have all the factors of demography, behavioral patterns, psychographic patterns working in favor of the market segment Both business strength and segment attractiveness need to be on the higher side that is the dark green side for a company to consider entering and developing a market segment. I have individually talked about those segments or segment combinations so far.

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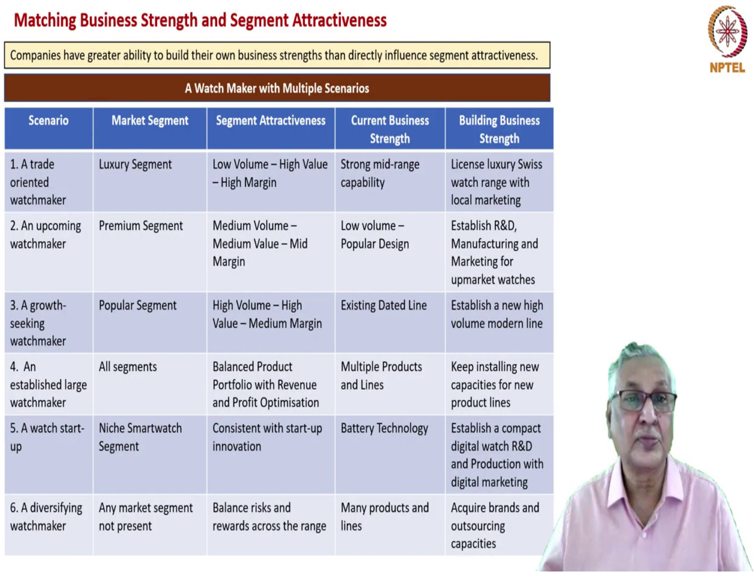

Matching Business Strength and Segment Attractiveness

Companies have greater ability to build their own business strengths than directly influence segment attractiveness.

A Watch Maker with Multiple Scenarios				
Scenario	Market Segment	Segment Attractiveness	Current Business Strength	Building Business Strength
1. A trade oriented watchmaker	Luxury Segment	Low Volume – High Value – High Margin	Strong mid-range capability	License luxury Swiss watch range with local marketing
2. An upcoming watchmaker	Premium Segment	Medium Volume – Medium Value – Mid Margin	Low volume – Popular Design	Establish R&D, Manufacturing and Marketing for upmarket watches
3. A growth-seeking watchmaker	Popular Segment	High Volume – High Value – Medium Margin	Existing Dated Line	Establish a new high volume modern line
4. An established large watchmaker	All segments	Balanced Product Portfolio with Revenue and Profit Optimisation	Multiple Products and Lines	Keep installing new capacities for new product lines
5. A watch start-up	Niche Smartwatch Segment	Consistent with start-up innovation	Battery Technology	Establish a compact digital watch R&D and Production with digital marketing
6. A diversifying watchmaker	Any market segment not present	Balance risks and rewards across the range	Many products and lines	Acquire brands and outsourcing capacities

How do you match business strength and segment attractiveness? I have a case study to discuss here. Companies have greater ability to build their own business strengths than directly influence segment attractiveness.

What this means is that, we have the ability to build our strengths this is a factor under our control. But we cannot really influence how the segment would be in terms of its attractiveness. We have certain latitude in terms of using our business strategy to improve the attractiveness of the segment by expanding the foothold, by expanding the scale and things like that.

But intrinsically our ability to influence ourselves is far more than what we can have by way of influencing the external market. So, let us look at a watch maker with multiple scenarios. We have market segment, segment attractiveness, current business strength and building business strength these are the possibilities based on the multi factor analysis which we have seen.

Let us look at trade-oriented watchmaker. The trade maker let us assume operates in the luxury segment. What is the nature of this segment? It is a low volume business catering to the rich and over rich, it has high value and it also has high margin.

What is the business strength? It can get you some hundred core two hundred cores of business, but it is a strong mid-range capability. So, how do I build this business strength further? I have to license more of the luxury brands may be from Switzerland with the ability to conduct local marketing. That would make this combination of market segment and my business strength workable, more feasible, more desirable.

Let us look at an upcoming watchmaker. Let us say the watchmaker looks at a premium segment. Because the individual is an upcoming watchmaker the volumes will be medium, value will be medium and margin also will be medium. What is the current business strength of this individual? It is a low volume popular design. You can think of the company as Titan in its early days.

So, how do you build the business strength? You have to establish your R and D manufacturing and marketing capabilities for upmarket cards. So, you move up the value chain. Let us think of a growth seeking watchmaker. The market segment is popular segment because if you want to drive growth you have got to look at the most populous part of the population and that would lead you to high volume, high value and medium margin market segments.

What is the current business strength? Because you are in the growth phase whatever has been helping you in the introduction phase would have become probably obsolete or dated.

So, you got to establish a new high volume model line that is your requirement for building business strength.

Let us look at an established large watchmaker. The market segment such a watchmaker would look at comprise everything and the segment attractiveness in such a situation is that it has a balanced product portfolio with revenue and profit optimization.

The current strength for an established person who has grown through the who has gone through the growth phase and has been dominating in the maturity phase constitutes the strength and that is in terms of multiple products and lines. For building business strength such a player requires new capacities for new product lines all the time. Let us look at the case of a watch start-up. It is a niche smart ware segment to assume.

And the segment attractiveness is not something which is predefined it is going to be consistent with the innovation level of the start-up. And what should be the business strength for a smart wearable? The battery technology apart from any other coding technology that it may need. But when you are entering the smart phone technology you need at least one of the two.

In this case I have positioned as battery technology. For the business strength revolve you need to have a compact digital watch R and D and production with digital marketing. Let us look at the case of a diversifying watch breaker. In which case the market segment of interest is any market segment that does not have the maker's presence and the attractiveness is dependent on the way the company is able to balance the risks and rewards across the range.

Current business strength could be many products and lines because the company has reached a stage where it can look at diversification and the way to build the business strength is to acquire brands and also outsource the capacities or capabilities.

So, when you look at 6 different types of watchmakers in different parts of their growth journey and with different market segments that are potentially possible you will find different features for the segments for the current business and the ways required to build the business strength. This is how you develop a strategy based on matching the business strength with segment attractiveness in your growth journey.

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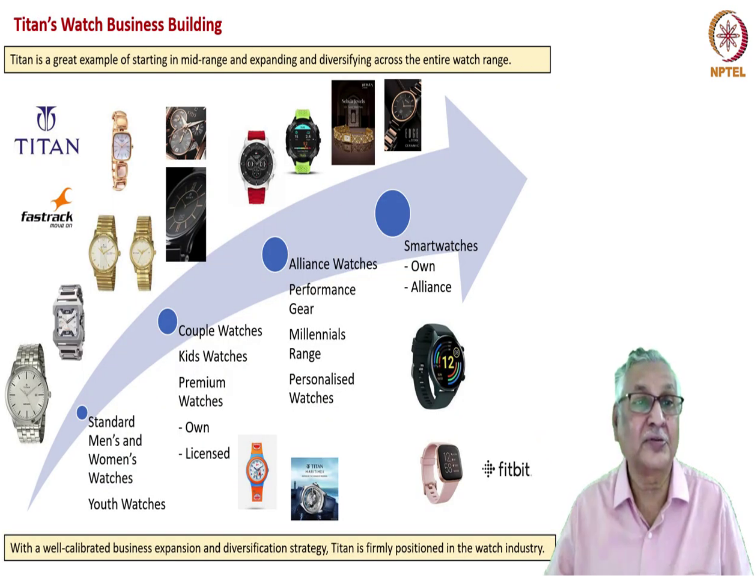

Let us look at a specific case of Titan. Titan is a great example of starting in mid-range and expanding and diversifying across the entire watch range. It started its life with standard means and women's watches then it added youth watches. In the next phase of growth it started specializing in special segments couple watches, kid's watches premium watches which are owned as well as licensed.

Then it started diversifying into alliance watches, performance gear, millennials range, personalized watches, etcetera. It also went into premium watches such as gold watches, nebula jewel watches, maritime watch highly specialized, then it also went into the worlds most thin watch which is edge watch. So, that way the company positioned itself across all the segments with an assessment of the strength of the company as of then and then getting into building newer strengths.

If you see the journey of Titan which we would see towards the end you will find that the strategy involved a focus on continuous development of the strengths over phases of its growth journey. And finally, it has entered the smart watches based on its own technology as well as in alliance with fit bit. With a well calibrated business expansion and diversification strategy Titan is firmly positioned in the watch industry and it defines the watch industry as being inclusive of smart wearables.

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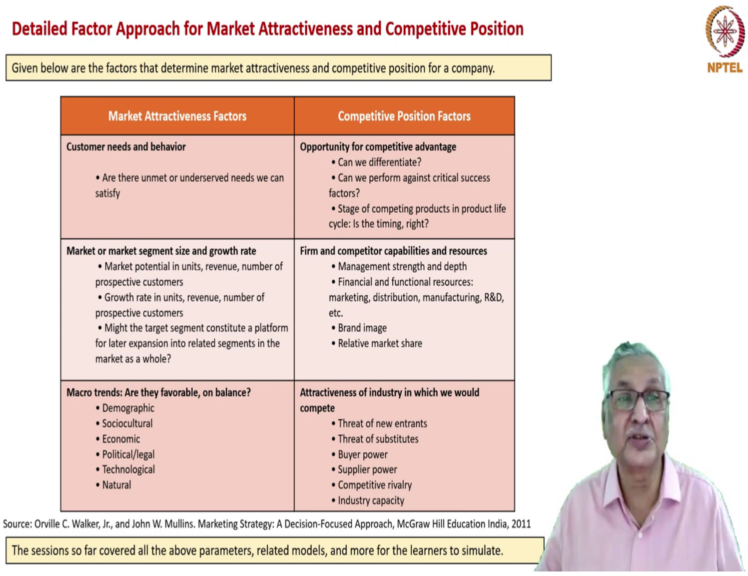

We need to have therefore, a very detailed factor approach for understanding market attractiveness and competitive position. It cannot be done in one or two headings. The more you delve into these attractiveness factors the more incisive you will get into in terms of understanding market attractiveness and competitive position. So, let us look at the market attractiveness factors first. Customer needs and behaviour are their unmet or undeserved needs we can satisfy.

Secondly, market or market segment wise and growth rate. Market potentially in units revenue number of prospective customers, growth rate in units, revenue, number of prospective customers. Will this target segment constitute a platform for later expansion to related segments in the market as a whole? We should not enter into a market segment where there is no potential beyond the market segment.

The entire business strategy development should be on entering into a segment which has potential grow in that segment. But use that presence to leverage into additional segments as well. We may call them adjacencies. Then how are the macro trends? Are they favorable on balance? Let us say you are looking at potential increases of gold prices on a continuing basis.

Is it important therefore, to enter into a gold watch does it make sense? So, we should look at various factors which are important demographic, socio culture, economic, political legal, technological and natural factors. So, the deeper we go into these factor sets that drive market attractiveness the better it will be in terms of understanding the market in the overall. Then we go to the competitive position factors. What is the opportunity that we as a firm have for competitive advantage?

How can we differentiate, how can we perform against critical success factors. If you are going to be having cost leadership as our strategy how competitive are we going to be in terms of least cost production. And what is the stage of competing products in product life cycle is the timing right.

The other set is firm and competitor capabilities and resources who has what in greater measure and in greater effectiveness management strength and depth, financial and functional resources such as marketing distribution manufacturing R and D finance, etcetera.

Brand image, relative market share. So, where do our capabilities and competencies lie? And then finally, the attractiveness of industry in which we would compete. What are the five forces of what that would operate here? Threat of new entrants, threat of substitutes, bio power, supply of power, competitive rivalry and industry capacity in the overall.

We have in the session so far covered all these above parameters related models and more factors than what I have described here for the learners to simulate your own companies as well as your own industries situation in terms of marketing and business development.

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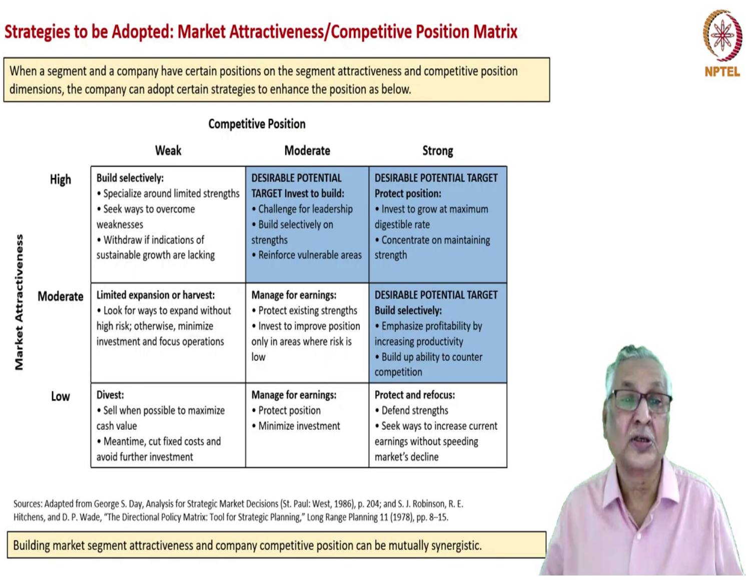

When you have identified the market attractiveness and competitive positioning, you have certain framework by which we can develop the business.

And this is adapted from the authors works as I have indicated here. When a segment and a company have certain positions on the segment attractiveness and competitive position in dimensions, we can certainly adopt strategies that enhance the position as below. If your market attractiveness is low and if your competitive position is weak, what should you do?

You should divest. Because the market is not attractive you do not have the ability to bleach that floor level. Therefore, sell when possible, to maximize cash value and until that happens cut cost to avoid further investments. Let us say the market attractiveness is moderate, but your own competitive position is weak then you do very little or limited expansion or harvest whatever you have invested. Look for ways to expand without high risk.

Because of the residual market attractiveness which is at moderate level you would not want to exit you would try to expand and utilize the attractiveness with minimal investments. And you focus on operations to be able to be successful. Let us say competitive position is weak that is you do not have the competitive strength, but market attractiveness is high in which case there is this tailwind of the market working in your favor.

And because you would have had certain limited strengths you specialize around them. Pivot the strengths as you have new capabilities, seek ways to overcome the weaknesses, withdraw if indications of sustainable growth are lacking that is the strategy that is recommended for moderate market attractiveness and weak competitive position.

Let us say you have moderate market attractiveness and moderate competitive position, in which case what should you do? You should manage for earnings, you should take cash out of the business keep investing to improve the position in areas where risk is low, you have to defend your position. Let us understand how the strategy will vary if the market attractiveness is low and your competitive position is moderate.

Then you protect your position, minimize your investment and if possible, try to be more advantageous compared to the other competitors. You have a strong competitive position, but the market attractiveness is low in which case you should protect and refocus defending your strengths and seeking ways to increase current earnings without speeding markets decline.

These are the ways in which you can perform using your competitive position and your market attractiveness. All the combinations I have talked about are having certain limitations in terms of market attractiveness and competitive positioning. Therefore, your strategies are going to be optimizing whatever you have and whatever the market offers.

Let us go to these blue quadrants three of them. Let us say the market attractiveness is high and you have a moderate competitive position, there is definitely a case in such combinations to invest and build for leadership strengths and reinforcement of vulnerable areas. You can strengthen your competitive position and use the high market attractiveness to achieve higher capabilities and higher revenue potential.

Let us say you have moderate market attractiveness, but you have very strong competitive position in which case you have to build selectively. So, that you can get profitability through productivity and you have the ability to counter the competition. If you have very high market attractiveness and you have very strong competitive position you are again in the sweet spot. You protect your position invest to grow at maximum digestible rate and you concentrate on maintaining the strength.

Building market segment attractiveness and company competitive position can be mutually synergistic. There could be tailwinds that arise out market attractiveness and there is competitiveness coming out of your competitive position, you could synergies both these factors to keep building your revenues and position in a particular market segment based on your particular competitive position.

Ultimately your goal will be to be in the high market attractiveness segment with high competitiveness capability. But it is also ok, if you are in a moderate market attractiveness position with strong competitive position or have high market attractiveness position and have strong competitive position you can try out these combinations as well for sustained and high growth rates.

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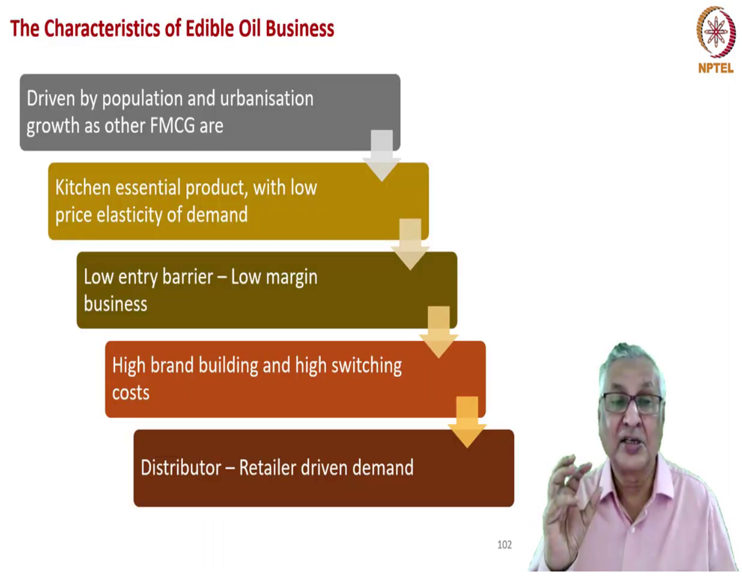

Let us look at the case study of the edible oil industry. What is an edible oil? An edible oil is a kitchen essential item it is on the whole driven by population and urbanization growth as other FMCG products are. It is a kitchen essential product with very low-price elasticity of demand; that means, whether the price is 100 rupees or 200 rupees that item gets bought, at the same time it is a low entry barrier low margin business.

You will recall that decades ago oil was being produced by will circulating over the oil seeds which are crushed and oil is extracted and that was the kind of cottage scale of the oil industry edible oil industry in India. Therefore, anyone with the ability to have a small refinery can get into the business because you can import crude or you can take the seeds from the Indian farms crush them in case of seeds and refine if it is the crude and then get into the business.

Therefore, it is a low entry barrier business which means that anyone who has the passion for this particular oil business can enter the business. So, it is a low margin business. But at the same time, you have to differentiate your product because it is an FMCG product all said and done. Therefore, you need to have high broadband strengths and ensure that there are high switching cost.

And it is a product which can be reached to the households not directly by the company, but through the distributors and retailers. So, the demand is influenced by the power of the distributors and retailers and it works more so in respect of the individual brands. So, the characteristics of the edible oil business or it is a FMCG product, it is a kitchen essential product, it has low price elasticity of demand, from an industry perspective it is a low entry barrier low margin business.

But at the same time it requires high brand building and high switching cost business and distributor retailer driven in terms of the overall demand management on a monthly basis or an yearly basis.

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Packaged Food Type	Market Size FY 2015 (Rs Cr)	Market Size FY 2020 (Rs Cr)	CAGR FY 2015 to FY 2020	CAGR (Est) FY 2020 to FY 2025	Market Size FY 2025 (Rs Cr)
Packaged Dairy (Fresh)	55,000	96,800	12%	12%	1,67,000
Packaged Meat	12,000	15,000	5%	6%	20,000
Packaged Staples – Edible Oils	1,11,000	1,56,000	7%	7%	2,14,000
Packaged Staples – Others	40,000	70,000	12%	15%	1,40,000
Other Processed Packaged Food	1,28,000	2,16,200	11%	13%	3,95,000
Packaged Beverages	30,000	48,000	10%	10%	77,000
Total	3,76,000	6,02,000	10%	11%	10,13,000

Source: Compiled from Public Domain Data

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When we say it is part of the FMCG business, what are the packaged food retail categories? Why are we calling this packaged food in the scenario which I described of decades ago manufacture of edible oils it was what is called loose oils.

The oil used to be in loose huge containers and people would come and take the oil into their own containers that is why we call it loose oil industry. If you take rice from a [FL] and then take into the measure which you require it is a loose business. But when you package it in terms of consumption packs, in terms of consumer packs it becomes a packaged food. So, what are the packaged food retail categories that are available today?

We have packaged dairy that is the fresh milk, we have packaged meat that is the Licious fresh cuts kind of meat business, packaged staples edible oils. Why do we call it staple? Because it is essential item other essential staple items are pulses, then washing elements, soaps, etcetera. Then we have other processed packaged food it is like the readymade to pass ready to eat foods then you have packaged beverages be it the Pepsi, Colas, Coca Colas or ah this one Daburs real and various other packaged Tropicana and those kinds of packaged beverages.

And when we look at the total market size of these in terms of Indian rupee crores it was 3,76,000 in 2015. And of this the largest segment is the other processed packaged food because a huge universe. But next to that is the packaged staples edible oil industry. So, to operate in this industry you automatically get one advantage that is the scale of the industry.

When you look at the market size in 2020 how did it grow? It grew by 7 percent. And when you look at further down the road you look at another 7 percent growth. So, what is 1,11,000 crores in 2015 is going to be almost double by 2025 which means it is a growth industry. But is it the highest growth industry? Not necessarily we have higher growth industries as we have seen.

But should we be there should we not be there are the questions. And that is where the market attractiveness and the competitive positioning criteria come into play. So, package tables has got higher growth potential between 2020 and 2025. Therefore, it is growing faster. Similarly, certain items which had lower growth potential are going to have marginally higher percentage.

But as I said edible oil industry which is a kitchen essential item is going to have a stable industry. Food precious will increase, but at the same time there is going to be a consciousness about the excessive use of oil that would be a dampener for this industry. So, urbanization, increased consumption of oil per capita could be certain growth drivers, but at the same time some kind of circumspection on the use of oil could be a dampener.

So, this is the market size requirement for the industry.

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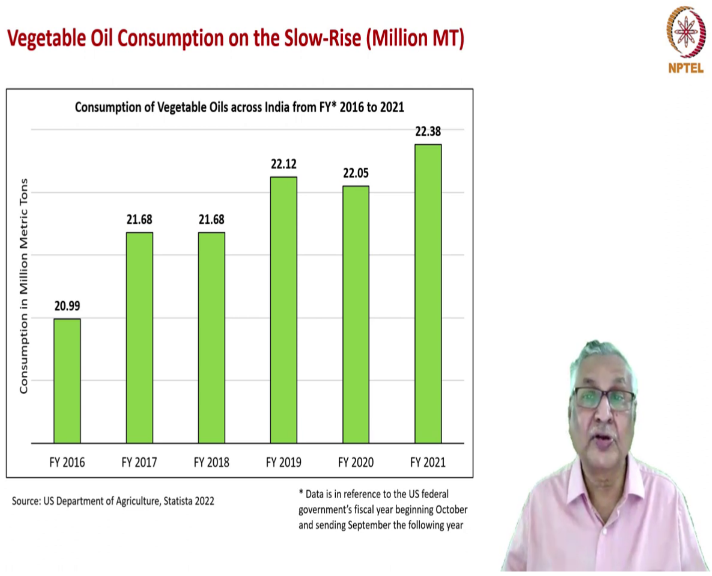

So, when you look at the vegetable oil consumption, we cannot say that its going on a high spring. Between 2016 financial year and 2021 financial year the consumption has grown over the 6 years only by 2 million metric tons that is all that is from 20.99 it has gone up to 22.38.

So, can we say this heavy we cannot say that it is heavy, but it is reasonable this is in terms of the tonnage.

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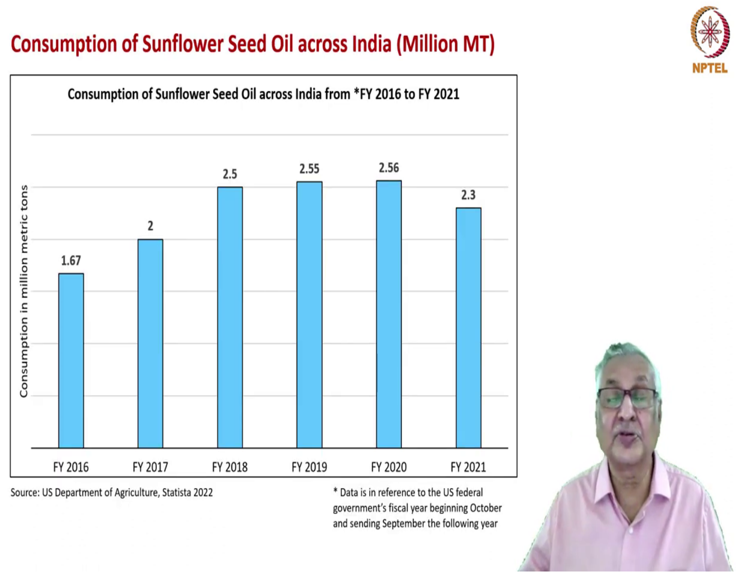

But in terms of the pricing and therefore, financial tonnage it could be different. Let us look at the one of the leading categories of the edible oil industry this is the sunflower seed oil. It has had a very rapid growth between 2013 and 2018 virtually doubling in its growth stage.

But after that it has kind of plateau. From 2.5 million metric tons in 2018 we have hovered around that figure and in 2022 financial year also it is going to be that much only. So, what has led to this there are two factors which are relevant to this one fast increase in the pricing of sunflower seed oil making therefore, certain other oils cheaper. And also, in certain states other oils which were premium came on path with the sunflower oil.

Therefore, the consumption of sunflower seed oil has not grown at the rate of urbanization and at the rate of middle-class population as it could have in an otherwise constant pricing scenario.

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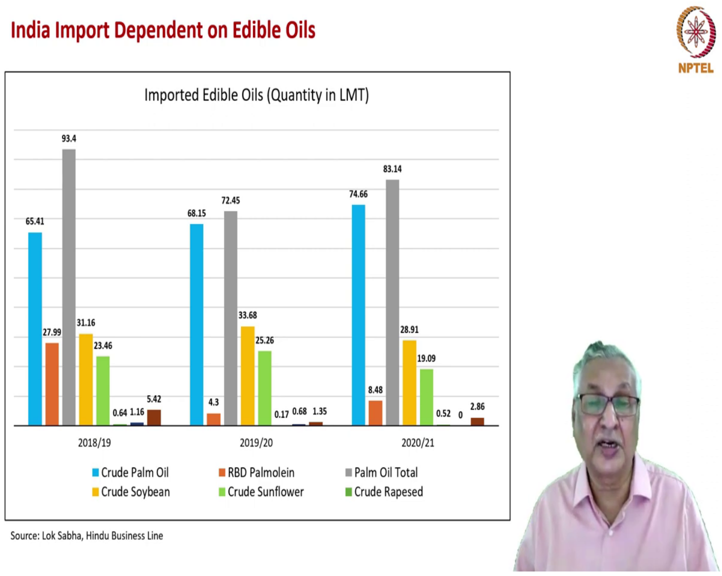

Another factor which impacts edible oil industry and more particularly sunflower oil industry is that the country that is India is dependence on imported edible oils. This is a graphic which shows the imported edible oils in terms of lakh metric tons.

You will find that virtually every popular oil is imported to some extent or the other. In the gray shade you have palm oil which is imported in huge quantities that is the largest imported edible oil in India 93.4 lakh metric tons in 2018-19 and continues to be 83.14 lakh metric tons in 2021. Sunflower oil is another important oil which has shown high level of import.

The light green the 23.46 in 2018-19 and 19.09 in 2021. Why did it happen? It happened because the Russia Ukraine war. Ukraine is the world's largest supply of crude sunflower oil and it supplies in the best of the quality. The other alternatives which are Russian crude sunflower oil and the Argentine crude sunflower oil do not have the same kind of quality parameters. Therefore, it has been a supply induced restriction on the growth of the sunflower oil market.

And also because of the various other dimensions we have also seen some kind of prosperity that has happened on the edible oil front in the overall.

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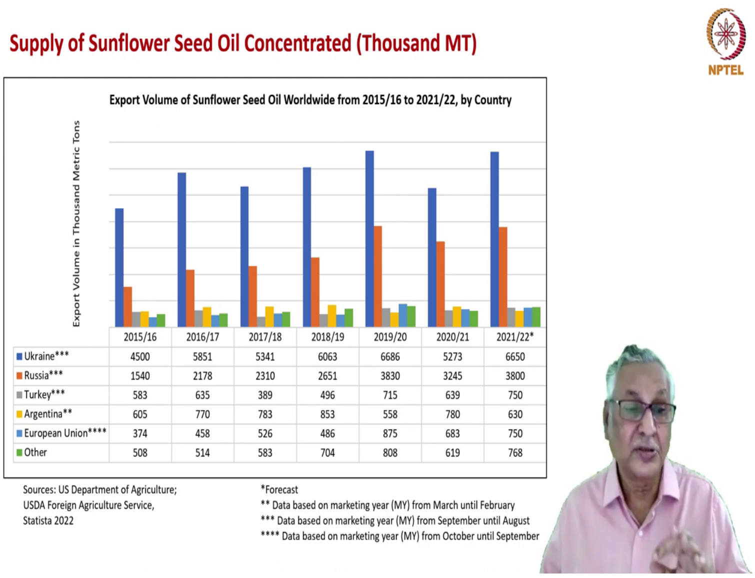

As I said from the point of view of the exporting countries Ukraine is the largest exporter of sunflower seed oil, it has reached its peak exporting capability in 2019-20 before the war at

6686 metric tons in thousands. And in 21-22 it has picked up to 6650 after the shops dip in 2021.

Now, Russia has been having only 1540 and it has increased to 3800 Argentina continues to be low because its crude oil is not as good as any of the other two options that are available. So, pretty much this industry is import dependent and more particularly one geography dependent for its source this is a knife edge work in such a situation.

If a company is dependent on only one oil the competitive strength could be high in that particular market segment and that particular product segment, but in the overall edible oil market as well as in the overall company strength there could be some vulnerability that needs to be kept in focus in terms of development of markets as well as development of company streams.

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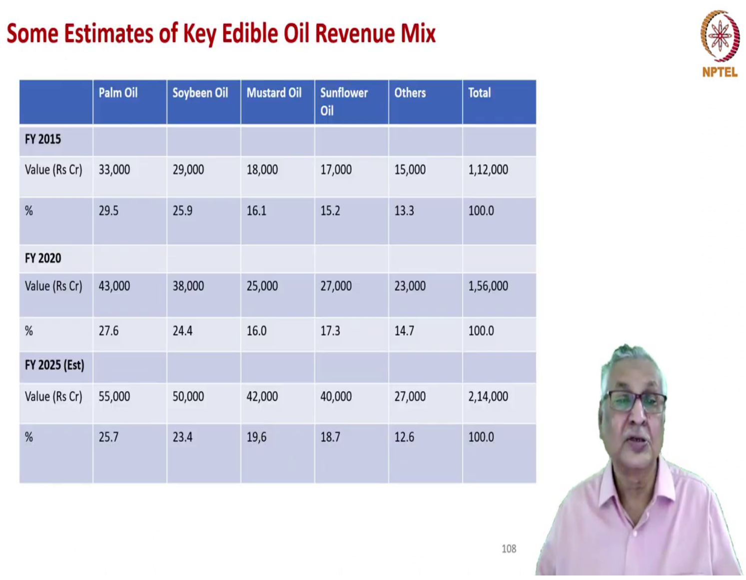

	Palm Oil	Soybeen Oil	Mustard Oil	Sunflower Oil	Others	Total
FY 2015						
Value (Rs Cr)	33,000	29,000	18,000	17,000	15,000	1,12,000
%	29.5	25.9	16.1	15.2	13.3	100.0
FY 2020						
Value (Rs Cr)	43,000	38,000	25,000	27,000	23,000	1,56,000
%	27.6	24.4	16.0	17.3	14.7	100.0
FY 2025 (Est)						
Value (Rs Cr)	55,000	50,000	42,000	40,000	27,000	2,14,000
%	25.7	23.4	19,6	18.7	12.6	100.0

So, what will happen in future will they grow individually these palm oil is expected to grow from 33,000 in 2015 grown to 43,000 and it will grow to 55,000 in terms of rupee crore its share in the overall edible oil basket which I have chosen is only 25.7 percent compared to 27.6 percent in the past.

Soybean oil also would see a marginal decline, mustard oil will see an increase from 16 percent to 19.6 percent, sunflower oil will also see a marginal increase from 13.3 in 2020 to 18.7 percent. Others will see a decline from 14.7 percent to 12.6 percent. What does it mean? You are in an industry segment which is reasonably high growth segment where your position is going to be strong.

So, you should pursue that particular segment. While, also diversifying into other adjacencies.

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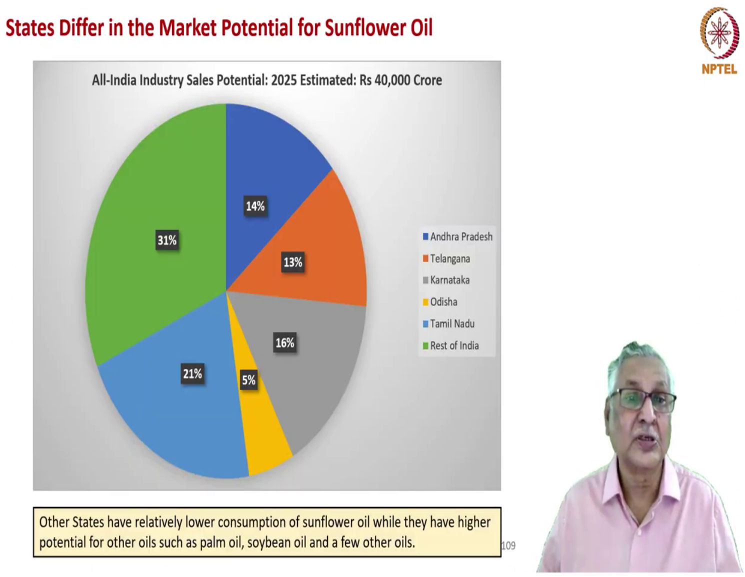

When you look at the all India industry sales potential some states are oriented towards certain oils. In the case of sunflower oil you have high level of usage in Andhra Pradesh 14 percent, Telangana 13 percent, Karnataka 16 percent, Odisha 5 percent and Tamil Nadu 21 percent. The all these are may be 6 states.

But all the other states have 31 percent only. Whereas, these 6 states are contributing to 69 percent and that provides an opportunity in terms of choosing your geographic market size and staying focused on those markets which has the largest consumption capability in terms of the sunflower oil industry assuming of course, as we did at the beginning that you are a sunflower oil refinery.

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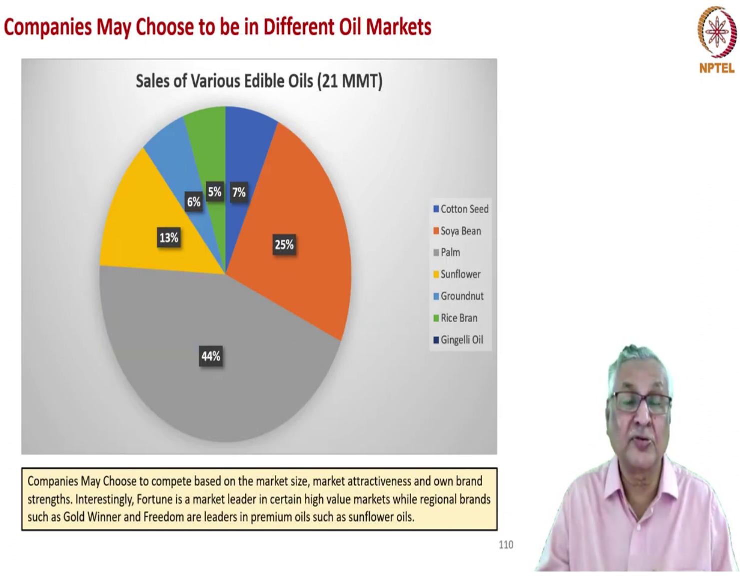

But it is not that one would like to be only in that particular oil. Different companies may choose to be different oils. When you look at the overall basket of various edible oils with 21 million metric tons as the annual consumption, you can see that cotton seed is only 7 percentage, but soybean is very high in terms of 25 percent, palm is even higher at 44 percentage, sunflower is lower at 13 percent.

Groundnut is more niche at 6 percentage, rice bran another hot health oil is only at 5 percent, gingelly is at 7 percent. So, those company which believe in economys of scale and high revenue potential would go in for soybean oil or and the palm oil. Whereas, companies which are willing to have a differentiated position with appropriate marketing investments and also have a healthy margin could go into segments such as sunflower oil.

That is where the strategy aligning with the market potential takes place. So, companies may choose to compete based on the market size, market attractiveness and own brand strengths. Interestingly, Fortune that is Adani Wilmar brand is a market leader in certain high value markets while region brands such as Gold Winner manufactured and marketed by Kaleesuwari refinery and Freedom manufactured and marketed by Gemini oils and fats or leaders in premium oils such as sunflower oils.

And Freedom, Gold Winner, Saffola they all represent health-oriented oils. People believe that there are certain benefits of health arising from the consumption of these oils. In particular we should give due credit to Gold Winner because it is a start-up that has been established in 1970s, but from a trading background it has moved into manufacturing and marketing not only that it converted the customer base in terms of using a health oil which is the sunflower oil.

So, the shift in the market has been done by the company almost single handedly from the 1980s and achieved a pre-eminent position in Tamil Nadu being the biggest market leader and also in Karnataka which is in neighboring state. The company has its task cut out in establishing a similar position in other states.

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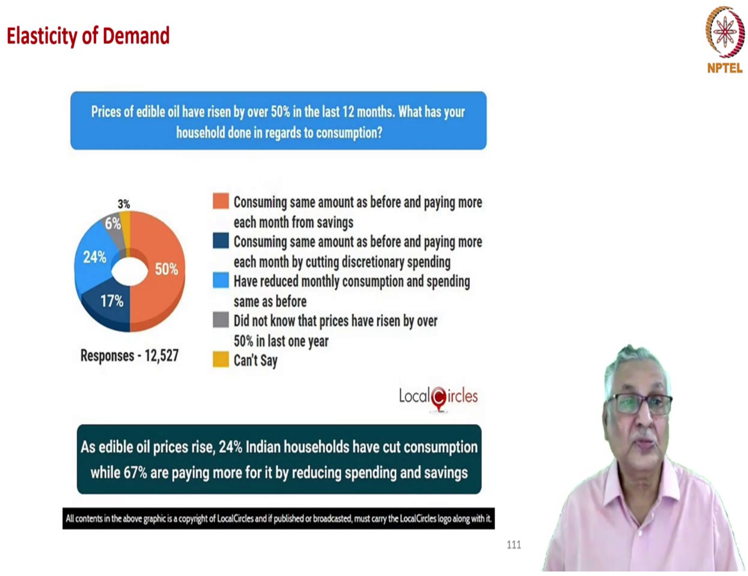

I have talked about this being a kitchen essentially item and therefore, having low elasticity of demand. But also, I said that it could have its own characteristics. So, let us look at a market research that has taken place and because of the price increases that have taken place due to the Russia Ukraine war the imported crude started becoming dearer. And the edible oil prices locally also becoming dearer has been a month-to-month scenario.

This is the study of 12,527 responses carried out on use of edible oil in a price escalating situation. The five categories were there. One category is set that is 50 percent of the category set of the responses, we are consuming the same amount as before and paying more each month from our saving that is they are completely inelastic to the price increases another 17 percent set we are consuming the same amount as before and paying more each month by cutting discretionary spending.

So, together 50 percent and 70 percent constitutes 67 percent and that represents those who are committed to buying the same level of oil and consuming the same level of oil irrespective of the pricing of the edible oil. Then 24 percent have reduced monthly consumption, but they kept the spend level same as before. So, if you are devoting 500 rupees in your monthly budget on edible oils that 500 has been kept constant, but the amount proportionately has been reduced.

Some were blithe they did not know that prices have risen by over 50 percent in last 1 year and therefore, their purchasing behavior cannot be quantified as such and 3 percent were completely ambivalent, they did not know what to say. So, as edible oil prices rise 24 percentage households have cut consumption, but significantly 67 percent are paying more for it by reducing spending and savings, that is important.

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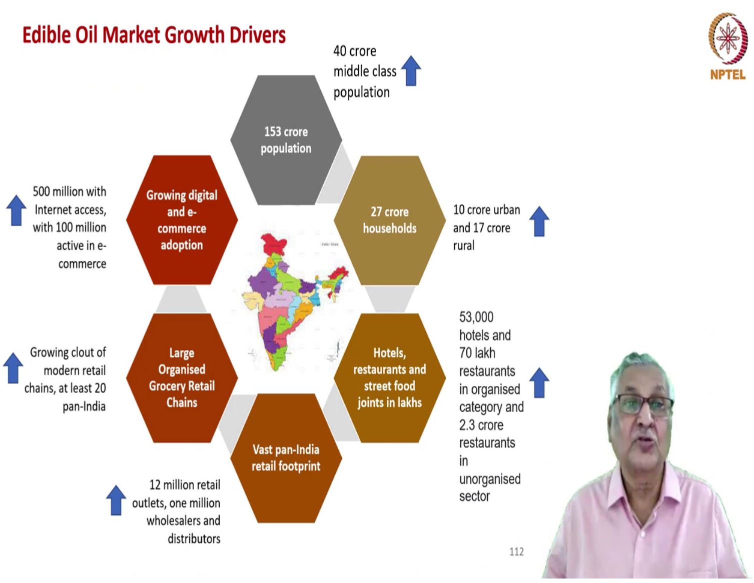

So, what are the growth drivers for edible oils? 153 crore population of India with 40 crore middle class population as of now, 27 crore households of each 10 crore urbans and 17 crore rurals are there. Growing hotels restaurants street food joint business happening in lakhs 53,000 hotels and 70 lakh restaurants in organized category and 2.3 crore restaurants in unorganized sector.

Then vast pan India retail footprint, 12 million retail outlets 1 million wholesalers and distributors. Maybe they are unorganized or less organized, but the real and sheer scale of reach in country is formidable. Large organized grocery retail chains, the growing clout of modern retail chains at least 20 are their Reliance, more, Grace, DMart, V-mart and things like that.

Growing digital and E commerce adoption 500 million with internet access in India with 100 million active in E commerce. So, these are definitely the growth drivers for the edible oil market and you therefore, are aware that this is an industry in which you are in having started your business there or having considered this as your entry option.

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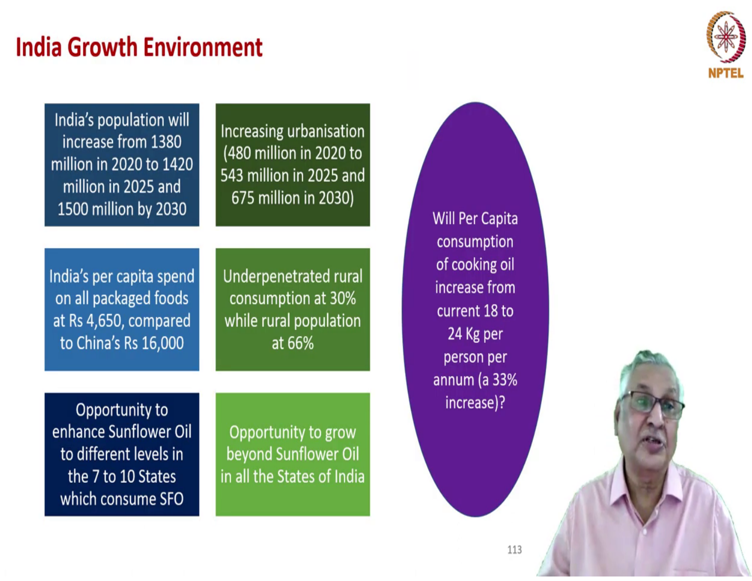

And what is India growth environment? Our population will increase from 13 to 18 million in 2022 1420 million in 2025 and will become 15,000 million by 2030. Population growth rate has decelerated from 2.6 percent of the ester years or decades to just 1 percent or marginally below. Nevertheless, the population will keep increasing because of the higher base adding more numbers in an absolute term.

Important thing is the urbanization level is increasing from 480 million in 2020 we already are closer to 540 million and would touch 675 million in 2030. India's per capita spend on all packaged foods is just 4,650 compared to china at 16,000 rupees. We are very much under penetrated because rural consumption is only 30 percent while rural population is at 66 percent.

There is opportunity to enhance sun flower oil to different levels in the 7 to 10 states which consume sunflower oil. There is also an opportunity to grow beyond sunflower oil in all the states of India. Then the question is will per capita consumption of cooking oil increase from current 18 to 24 kilograms per person per annum a 33 percent increase that is a mood question.

But if that happens there will be further tailwind to the fortunes of the Indian edible oil industry.

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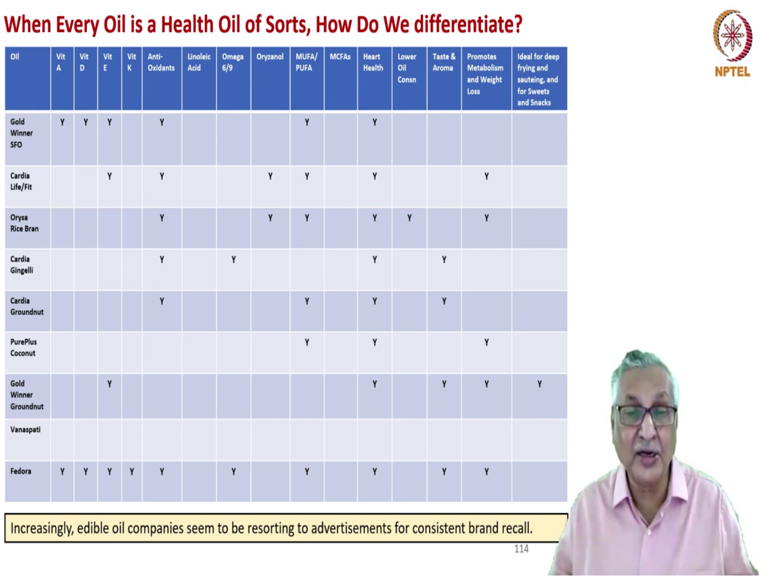

But then how do you differentiate having a market having a presence and getting market share these are all independent things in a manner of speaking. You should have the overall market as we have described and it is good that the overall market is there, it is good to have an industrial position.

Again, it is good that it is there and what we need to remember is that capacity has to keep increasing. But the third is to capture the market, capture the market share and for that two things are required. One cost competitiveness and the second differentiation. How do you differentiate yourself? When every oil is promoted as a health oil of sorts how do we differentiate?

Let us take the claims by different manufacturers of different kinds of oil for different health purposes or nutritious purposes. We have these types of oils for comparison Gold Winner sunflower oil, Gold Winner main companies that is called Kaleesuwari refineries, Cardia life fit, Oryza rice bran, Cardia gingelly, Cardia groundnut, Pure plus coconut, Gold Winner ground nut, Vanaspati, Fedora.

Now, these are the oils which are there and they are present in various vitamin mineral activity. Within its own total edible oil brand, you will find that most of the oils have antioxidant capability and some oils have got MUFA, PUFA capability, some have got heart health capability, some are good in taste and aroma, some promote metabolism and weight loss.

But overall if you see the ability to distinguish is less because this differentiation of having vitamin A, D, E is not proprietary antioxidants are not made present in those oils by your capabilities it is an intrinsic nature of the oil. Similarly, the MUFA, PUFA balance is intrinsic to sunflower oil; the heart health considerations are intrinsic to this. So, anybody who makes a sunflower oil with a reasonable industrial capability is likely to have the same differentiating parameters.

The same applies to other oils as well anybody who makes rice bran oil can take claim to these parameters. Then how would you really distinguish yourself? The way you can do is to let us say get into an olive oil business which has far more wise than any other oil that is one way or you can get into something which is like gold nut which is something like ground nut oil wherein there is an additional capability in terms of deep frying and sorting and for sweets and snacks that could be one way.

The other could be that the palm oil itself could be cost competitive and it could be common mans oil although it is injurious to health in relative to other sunflower and ground nut oil products. So, there are ways in which you can differentiate yourself, but the option does not seem to be so easy after the initial entry and expansion. So, what else can companies do? Two things they can do.

Technologically they can add more innovative nutrients in a way that even at high heating temperatures those nutrients retain their capability that is one thing which we can do, then you can convert deep frying oils into shallow frying oils, you can convert misty colored oils into clear light-colored oils. Those are the technological things you can do you can make a highly health beneficial olive oil become more relevant for Indian style of cooking that you can do.

You can bring ghee in a much greater fashion, vanaspati which is not so great and therefore, lacking any of these wise could be made healthy hot healthy and made a preferred choice by hotels with their cost, with their blending and with their health requirements.

So, those kinds of things can be made. So, technology as well as cost competitiveness, as well as positioning could help, then how do you position? Most companies resort to advertisements for consistent brand recalls. Heavily TV based advertising evocating family situations, evoking health recalls are dominant in the TV clips commercials related to these kinds of oils.

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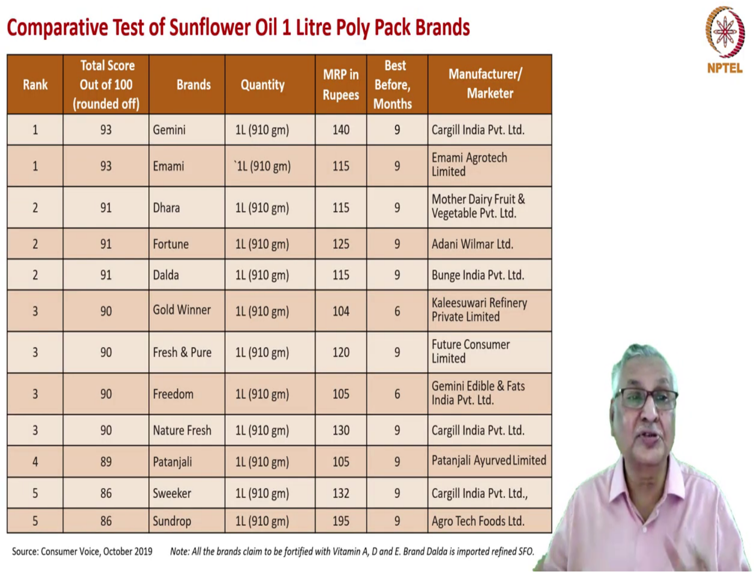

Rank	Total Score Out of 100 (rounded off)	Brands	Quantity	MRP in Rupees	Best Before, Months	Manufacturer/ Marketer
1	93	Gemini	1L (910 gm)	140	9	Cargill India Pvt. Ltd.
1	93	Emami	`1L (910 gm)	115	9	Emami Agrotech Limited
2	91	Dhara	1L (910 gm)	115	9	Mother Dairy Fruit & Vegetable Pvt. Ltd.
2	91	Fortune	1L (910 gm)	125	9	Adani Wilmar Ltd.
2	91	Dalda	1L (910 gm)	115	9	Bunge India Pvt. Ltd.
3	90	Gold Winner	1L (910 gm)	104	6	Kaleesuwari Refinery Private Limited
3	90	Fresh & Pure	1L (910 gm)	120	9	Future Consumer Limited
3	90	Freedom	1L (910 gm)	105	6	Gemini Edible & Fats India Pvt. Ltd.
3	90	Nature Fresh	1L (910 gm)	130	9	Cargill India Pvt. Ltd.
4	89	Patanjali	1L (910 gm)	105	9	Patanjali Ayurved Limited
5	86	Sweeker	1L (910 gm)	132	9	Cargill India Pvt. Ltd.,
5	86	Sundrop	1L (910 gm)	195	9	Agro Tech Foods Ltd.

But fundamentally would there be a technological way of differentiation that is where continuous comparison of the characteristics of a particular oil becomes important. When you look at several sunflower oils it has emerged that certain products are scoring high in terms of their overall score. And when you look at the shelf life as well as its capability you will find that customers may be used to preferred certain oils compared to other oils.

This is one way in which you can do. And a company which wants to be most competitive can keep edging up in the total score. So, that from it being at 90 it can become 95 through technical capabilities that is one way. The second way is to reduce the pricing of the product or enhance the margin between the price and the cost position by improving the quality of crude that is brought in, improving the process loss levels that is reducing it from whatever x level to x minus y level.

And also ensuring that the characteristics that I mentioned are in built into the refined oil. These are the ways in which it can work. And to be able to do that the company must have certain basic infrastructure.

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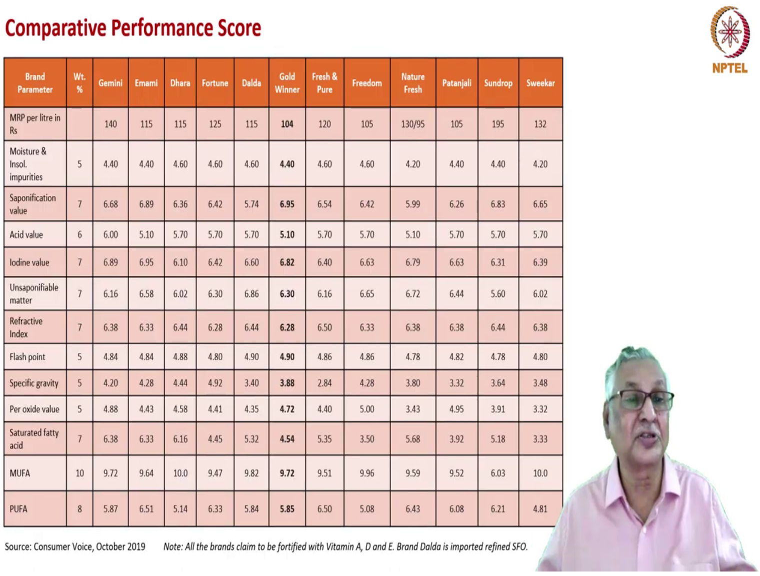

Comparative Performance Score

Brand Parameter	Wt. %	Gemini	Emami	Dhara	Fortune	Dalda	Gold Winner	Fresh & Pure	Freedom	Nature Fresh	Patanjali	Sundrop	Sweekar
MRP per litre in Rs		140	115	115	125	115	**104**	120	105	130/95	105	195	132
Moisture & Insol. impurities	5	4.40	4.40	4.60	4.60	4.60	**4.40**	4.60	4.60	4.20	4.40	4.40	4.20
Saponification value	7	6.68	6.89	6.36	6.42	5.74	**6.95**	6.54	6.42	5.99	6.26	6.83	6.65
Acid value	6	6.00	5.10	5.70	5.70	5.70	**5.10**	5.70	5.70	5.10	5.70	5.70	5.70
Iodine value	7	6.89	6.95	6.10	6.42	6.60	**6.82**	6.40	6.63	6.79	6.63	6.31	6.39
Unsaponifiable matter	7	6.16	6.58	6.02	6.30	6.86	**6.30**	6.16	6.65	6.72	6.44	5.60	6.02
Refractive Index	7	6.38	6.33	6.44	6.28	6.44	**6.28**	6.50	6.33	6.38	6.38	6.44	6.38
Flash point	5	4.84	4.84	4.88	4.80	4.90	**4.90**	4.86	4.86	4.78	4.82	4.78	4.80
Specific gravity	5	4.20	4.28	4.44	4.92	3.40	**3.88**	2.84	4.28	3.80	3.32	3.64	3.48
Per oxide value	5	4.88	4.43	4.58	4.41	4.35	**4.72**	4.40	5.00	3.43	4.95	3.91	3.32
Saturated fatty acid	7	6.38	6.33	6.16	4.45	5.32	**4.54**	5.35	3.50	5.68	3.92	5.18	3.33
MUFA	10	9.72	9.64	10.0	9.47	9.82	**9.72**	9.51	9.96	9.59	9.52	6.03	10.0
PUFA	8	5.87	6.51	5.14	6.33	5.84	**5.85**	6.50	5.08	6.43	6.08	6.21	4.81

Source: Consumer Voice, October 2019 *Note: All the brands claim to be fortified with Vitamin A, D and E. Brand Dalda is imported refined SFO.*

That is how to judge, how to test the moisture levels, insoluble impurity levels, saponification levels, acid value levels, iodine levels, unsaponiable matter levels, refractive index, flash point, specific gravity, peroxide level, saturated fatty acid, MUFA, PUFA, etcetera. And what does this say?

This says that differentiation in the marketplace is not just advertisement it is a technical job. Technology provides the basis for competent development and competent manufacture and that provides the basis for cost leadership at the factory level and also differentiation at the market level.

So, we need to have that capability of assessing technical performance of various brands over time and that also will lead the company to keep thinking of improvements from time to time in terms of the additives which can help the product to be better positioned in a highly competed marketplace.

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So, how do you plan the growth strategy? Any company which has several product market segments has also high potential for high growth this requires a prioritization of growth segments based on balancing between investments and profits as well as risks and rewards. There exist well proven analytical constructs some of which I have considered in this lecture to support such prioritization one such model follows.

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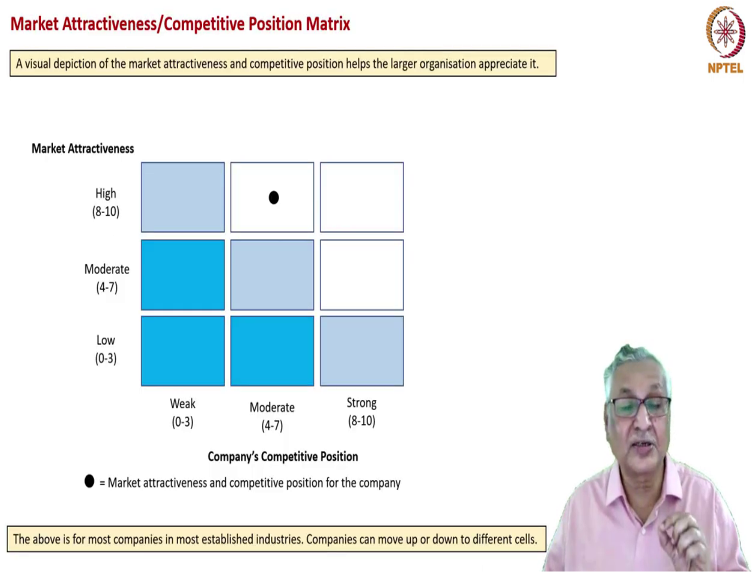

This is the market attractiveness model. We have to judge where we are the strongest and where we are the weakest and we also have to judge where the market is the most attractive and where the market is the least attractive. And having a visual depiction of market attractiveness and competitive position helps the larger organization to appreciate it. And when you do that you will find that certain oils are not the ones to be chosen and certain markets are not the attractive ones to pursue.

But on the other hand, you will have markets which are reasonably and highly attractive and our competitive strengths which are reasonably and highly deliverable in terms of superior competitive advantage in the marketplace. And when companies are in these positions, they need to protect those white quadrants as much as possible or white cells as much as possible.

They must seek to protect and grow in those white cells and also avoid the risk of getting pushed down.

In terms of relative competitive strength or see the market dwindling in its attractiveness. And this this is the reason why what I described in the earlier part of the lecture in terms of market attractiveness and competitive positioning is relevant I have taken the case study of the edible oil industry to demonstrate this particular feature.

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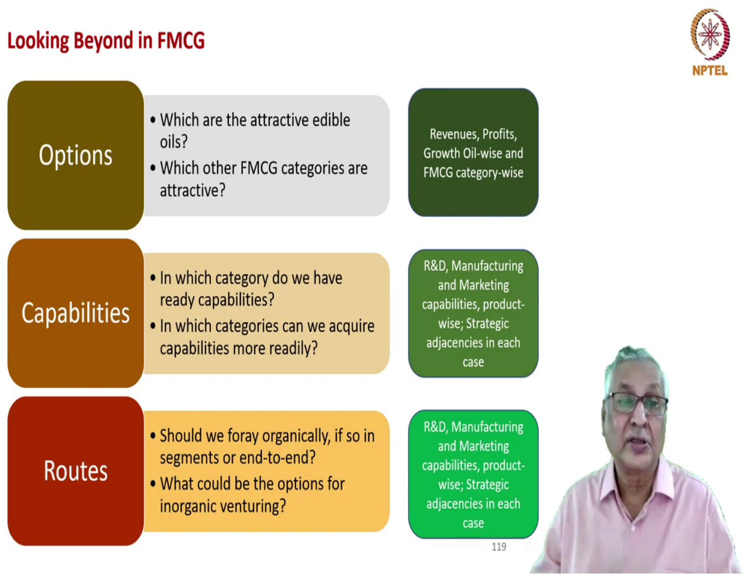

Then should you look at a market scenario in the broader FMCG. Options what are the attractive available oils which are FMCG categories are attractive. In which category do we have ready capabilities and in which categories can we acquire capabilities more easily. And what are the routes that we can adopt for this. Should we foray organically? If so in segments or end to end what could be the options for inorganic venturing?

So, options are the other edible oils in the basket or the other FMCG categories that could be attractive. What are the other edible oils the company may not have seen? It could have not seen soya bean oil, it could not have seen rice bran oil to the extent that is required, mustard oil we have seen is a high growth segment we may not be there in that.

So, that such an analysis all based on revenues, profits, growth, oil wise and FMCG category wise. What could be the other FMCG categories? It could be energy bars; it could be other kitchen essential items. So, that the homemaker whenever the purchase are taking place could be positioned in terms of those products. So, FMCG adjacencies ready to eat foods could be one ghee could be another, dairy products could be another anything to do with the kitchen could be a qualifier for the consideration.

Then what are the capabilities you may have? Being an oil refinery helps you diversify easily into other edible oils, but it may not be so easy to get into ready to eat food it requires totally different infrastructure. But that capability could be useful if you want to get into the dairy business or ghee business. Therefore, there are categories in which you can acquire those capabilities more easily relative to other categories.

So, you got to analyze your R and D manufacturing and marketing capabilities product wise and identify the strategic adjacencies in each case. And should we go organic or inorganic and the pros and cons of those will be discussed by me in some later lectures. But it is important to have this route should we put all our money up front or should we start buying even though they are at higher cost initially, but ensure very quick production base and very quick marketing base.

So, to be able to do that we should understand our R and D manufacturing and marketing capabilities product wise and develop strategic adjacency in each case again. So, this is how you look beyond the edible oil industry into the FMCG industry.

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When you do that, you got to create a product market growth format, increase the current core products in the current core markets, increase the future core products in the current core markets.

Increase the current core products in the future core markets and finally, increase future core products in the future core markets. That is the classic product market growth driver for edible oil company or for any company. Thank you for your kind attention we come to the end of this lecture with this slide hope to see you in the next weeks lectures.

Thank you very much.