

BrandLine

'A banner year for Pepsi'

PepsiCo India's Chairman Sanjeev Chadha and Managing Director Gautham Mukkavilli on summer launches, competition and what's brewing for the future...



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Sanjeev Chadha, Chairman, PepsiCo India Holdings Pvt Ltd, is quite excited about a new worldwide project that Pepsi has embarked on, where India is the lead country. The multinational is developing low-cost beverages and snacks to light anaemia among women and expects to test market the products next year. Chadha says the pesticide controversy is well and truly behind the cola companies as PepsiCo has had one of its best years ever. Says he: "The good news is that the notification is out for the new standards for water and they are the most stringent in the world – and they are black and white standards, which was the whole issue in the past – and all our products are within those standards." In an exclusive interview to BrandLine in Chennai, both Gautham Mukkavilli, Managing Director, PepsiCo India, FritoLay Division, and Chadha, spoke at length on brand Pepsi, new launches and the work the soft drinks major is doing beyond beverages. Excerpts:

It's been a prolonged summer. How has the season been for you and how have the new launches, Nimbooz and Aliva, done?

Sanjeev Chadha: On the beverages side, it's been an absolute banner year so far. We are growing at over 30 per cent in terms of volume and 40 per cent in revenue, year to date. So really it's been an exceptional year on all fronts and yes, it's been growth across all categories. Both carbonated soft drinks (CSD) as well as our non-carbonated portfolio. The non-CSD portfolio's off a smaller base and it's growing faster but, of course, in terms of volume and absolute numbers, both

are growing very well.

The growth's really driven by three or four different factors, one of them definitely is our innovation agenda. Nimbooz has been our large, new innovation this year, and it's really been much beyond our expectations, it has gone through the roof. We are struggling to supply the markets; so we had to curtail the launch to a certain set of cities. The consumer has been absolutely delighted with the product and its genuine taste – *asli Indian, asli nimbu paani*, and that's what's clicked with the consumer. Our innovation in terms of new formats, the slim cans you see, are doing well too. Our overall theme of building a powerful portfolio of products which addresses different needs of different kinds of consumers for different occasions... that's what is really working for us.

Why didn't a product like Nimbooz come out earlier?

The beauty of this product is its simplicity. We all know *nimbu pani* is the national soft drink. But the reason why not earlier is technology. *Nimbu pani* when you make it fresh and drink it fresh, is delightful, but it doesn't have much shelf life. This (pointing to Nimbooz) looks similar to any bottle of soft drink but the fact is it's a totally different technology, called hot fill, and has a shelf life of as much as four months. The same taste even if you have it a month, two months later. Given India's diverse and wide geography, it's important to have a stable, safe and hygienic product.

Did it come from local R&D?

Team work but local R&D had an important role to play.

How was growth last year over the previous year?

The beverages industry is rapidly acceler-

ating, that's what we're seeing and experiencing year on year. The year 2008 was double the growth rate of 2007, and 2009 has been higher still.

That's why you announced this recent investment?

Yes. This year, PepsiCo is investing the highest amount in India in the last 19 years, and on top of that, because of the huge growth and the significant momentum continuing, we decided to invest an additional \$110 million, taking the total annual investment in 2009 to \$220 million.

So this will essentially go into bottling capacity?

Bottling capacity, marketplace infrastructure investment, innovation and R&D and sustainability projects. But incremental investment is indeed a lot more in the first two. PepsiCo internationally and in India as well has been projecting itself as a healthier portfolio. How much of it have you been able to achieve? You also face intense competition from a host of regional brands...

Gautham Mukkavilli: We started this whole journey of portfolio transformation four-five years ago. We started with small steps – did away with MSG, introduced Quaker Oats three years ago, started marketing it for cholesterol reduction. The brand is booming, it's our fastest growing trademark today, doubling volume every year. We're the only ones in the industry to have actually made the move to rice bran oil from palmolein, though it's slightly more expensive, it's reflective of our commitment to make the portfolio transformation and we communicated it on the platform of Snack Smart. With Cheetos Whoosh, we did a combina-

PepsiCo India's Chairman Sanjeev Chadha (right) and Managing Director Gautham Mukkavilli

tion of things, not only rice bran, but the oil slurry in which snacks were put through for the outer seasoning coating was reduced, so there's less fat; it's also made of half a serving of whole grain and half a serving of vegetables.

If you put all of these in a continuum, you'll see we've relentlessly kept up the momentum even as we've grown our core business. We've been category leaders. For the last 10 years, Frito Lays has been the fastest growing packaged consumer goods business in the country and has done that by doing new things – we created a potato chip business, an agro footprint, launched Indian flavours, brought in local relevance through launch of Kurkure. Our core is growing nicely but it's time to draw the next curve of growth.

Aliva is trying to bridge two very big and fast growing categories – salty snacks and biscuits. We want to be just like Kurkure in the sweet spot between sweet and salty. It's also a baked snack, so it's part of the continuum. We would rather create a category versus referencing ourselves to one or the other.

The foods and beverages business has been integrated now – so how much do foods contribute to revenues? Have you been able to leverage that? What percentage of Pepsi India's revenues come from the non-CSD categories? Also, you don't seem to have leveraged the great Pepsi marketing machine for Tropicana? What's the status with the joint venture with HUL for Lipton?

Chadha: Foods contribute 33-35 per cent of the business. Beverages the rest. Non-CSDs contribute as much as a third of the revenue from the beverages. As for Tropicana and Lipton, Tropicana is the fastest growing juice in the country today, and is the market leader among the 100 per cent, good-for-you juices. The overall focus is category by category, so we don't want to go too wide too quick. We won't be really leveraging the opportunity there. There's massive momentum now on Tropicana 100 per cent juice. Last year we got an endorsement by the Indian Medical Association. We are trying to work with the doctor community, you wouldn't have thought about PepsiCo doing this, but we have medical detailing.

There's not much presence of the Lipton HUL venture?

We've chosen not to ramp up that. It's an on-premise brand. We are going to evaluate based on other brands vis-à-vis portfolio expansion as to what's the right time to get into iced tea as well.

Consumers haven't taken to that category?

There's a lot of latent potential – the key

is how to unlock. The Indian consumer's perception of tea has been hot tea and that is one barrier and it certainly can be addressed but then it's not working again. We're working on that but there are so many opportunities in the marketplace and we first want to maximise the potential of our current portfolio which is very comprehensive and very powerful.

When Pepsi entered India there were some conditions in exports – that is how you started work on tomatoes and later potatoes and oranges – where does all this stand now? Are you still working with Punjab farmers on this?

Chadha: We have a very powerful agri-outreach programme, one of the largest in the country right now, with as many as 22,000 farmers. It's driven by our snacks business but there are partnerships on other fronts. Snacks drive potato and other crops. With focus on juices, we want an indigenous supply chain for fruit.

As part of our initiative with the Punjab government, we have opened the largest outdoor nursery at Jhalawar with 5,000 different plants and 32 varieties of citrus from Brazil, Florida. Punjab is on the same latitude as Florida so we're hoping it can be India's Florida! There are trial crops going on right now.

We're exploring apple and a couple of other fruits too. Our initiative ties in with the company's water conservation agenda. PepsiCo India will be 'positive water balance' this year, which means that it will generate more water than all that its beverages consume in India. Both conserving and recycling – we have reduced water consumption to a third of what it was five years ago and (intend) to regenerate more water outside. We are most excited about direct seeding. When you think of paddy fields, what comes to your mind?

Flooded with lots of water!

Yes. Flooded with water. This method removes that phase entirely. There's this machine which is a Pespico innovation that seeds directly into the field and Pepsi is in the process of patenting the machine. Direct seeding saves as much as 30 per cent of water used in paddy cultivation. Agriculture uses 85-90 per cent of the water in India. Industry uses 4-6 per cent. Beverages use less than one per cent of that. The company has brought 5,000 acres of paddy across a few States under this kind of cultivation.

If half the paddy cultivation in our country is done that way, it will save more water than all industries combined in India use. In fact, we are looking at ways and means to build a multiplier effect.

(The entire text of the interview can be read at www.blonnet/webextras)