



# Reframe your future beyond COVID-19

Revival strategies deployed by  
Indian consumer brands

**January 2021**

# Executive summary

COVID-19 disrupted the consumer products (CP) industry, but it is now showing signs of recovery

Early lockdown in India helped contain mass transmission of COVID-19 as compared to other nations. However, it dented economic activity. India is now on the path of recovery with consumers adapting to the new normal and slowly shifting to cautious optimism.

The unprecedented nature of disruption has left a lasting impression on consumers' minds and we believe consumer behavior will be remolded permanently. There is a higher focus on health and well being, spiraling adoption of e-commerce, as well as heightened demand for affordable, local, authentic and sustainable products.

Although many companies have found ways to manage short-term disruptions during the pandemic, they need to revisit existing business models to maintain relevance and withstand future disruptions.



# Revival strategies

## Opportunities



Consumers would increasingly prefer healthier, locally-made, sustainable and authentic products that have value-for-money

**Companies need to prune their portfolios, innovate faster and alter communication** to cater to changing consumer preferences



Supply chains would need to become more resilient to withstand sudden, unplanned disruption

**Companies need to build demand response networks** to ensure end-to-end visibility, flexibility, speed and effective control



Channel dynamics would change significantly with exponential growth in online as consumers are likely to shy away from going to stores for a long time

**Companies need to bolster direct-to-consumer offerings and partner with online platforms** to quickly bring products to consumers



Work practices would evolve as remote working becomes more accepted and office arrangements increase their focus on health and safety

**Companies need to redesign work spaces and revisit their talent management strategies** to enhance capability and agility



Cost and cash controls would need to become more agile to achieve higher financial resilience during disruption

**Companies need to rationalize cost base and implement cash controls** to improve their working capital while hedging against future risks



Digital transformation would become critical to increase efficiency and innovation

**Companies need to boost their digital transformation efforts** to simplify operations, increase agility and build consumer intelligence



Timely transactions would be required to fill capability gaps and divest underperforming businesses

**Companies need to explore M&As and divestitures** to optimize portfolio, expand presence and gain additional capabilities at speed

Note: M&A - mergers and acquisitions; Source: EY analysis

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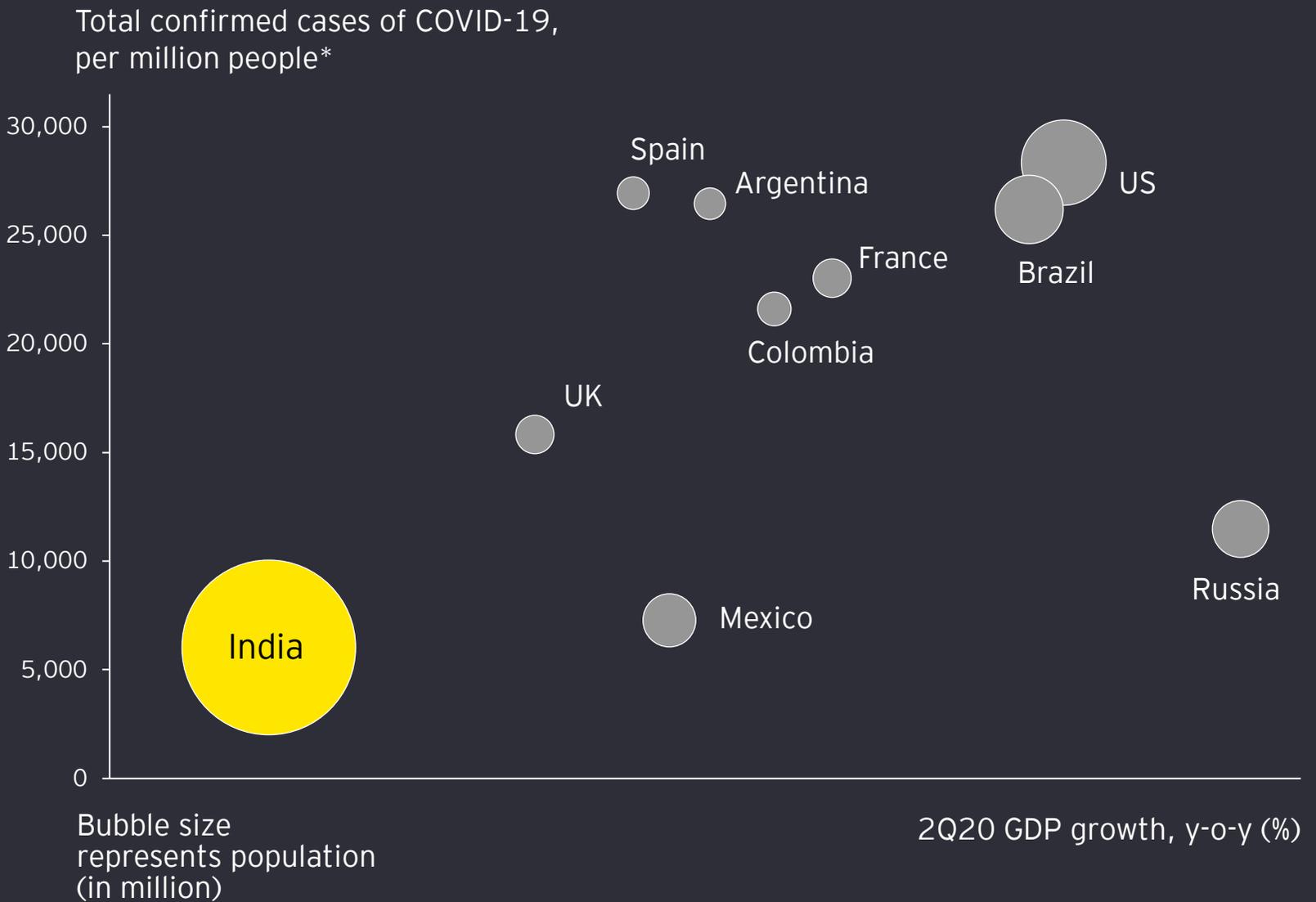
When we look beyond the headlines of COVID-19, the pace of change has been immense, be it in respect of consumer behavior, digitization, creation of new business models and destruction of longstanding ones.

**Sanjiv Mehta**

Chairman and Managing Director,  
HUL



# Early lockdown in India helped contain mass transmission of COVID-19 as compared to other nations, however dented economic activity



Note: Considered top 10 countries by total COVID-19 confirmed cases as on 4 November 2020 (Spain: 3 November 2020); \*As of 4 November 2020 (except in case of Spain for which 3 November 2020 has been considered)  
Source: Growing Beyond Borders, OECD data, [ourworldindata.org](http://ourworldindata.org) and EY analysis

# After facing the immediate brunt of the outbreak, the Indian economy is showing signs of resilience and recovery

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**8.8%** GDP growth forecast for 2021 by IMF\*, given government focuses on supporting households and firms that have been affected by the pandemic

**5.3%** growth in exports in September 2020

**56.8** Manufacturing PMI\* - the highest in September 2020 since January 2012

**49.8** - Services PMI in September 2020, showing fifth consecutive month of growth

## People are becoming more optimistic for long term



**Confident** about the future



anticipate that the **economy will recover** within the next 12 months



think that **the way they live will be back to normal** within the next 12 months



Would be **comfortable going to a mall/shopping center** in less than a year

The pandemic has left a lasting impression on both consumer behavior and business environment, requiring CP companies to undergo structural changes

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# Consumers would increasingly prefer healthier, locally-made, sustainable and authentic products that have value-for-money

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## Prioritizing health and wellness

**80%** will be more cautious about their physical and mental health

**Demand for health and wellness will rise**

## Growing preference for local

**36%** are changing their brand preference while buying to support local economy/businesses

**Demand for local products/brands will grow**

## Focusing on sustainability

**75%** consumers will pay more attention to the environmental impact of the product they purchase/consumer

**Demand for sustainable products/packaging will rise**

## Becoming frugal

**77%** consumers will save more in long term

**Demand for value products will increase**

## Demanding authenticity and honesty

**35%** will consider authenticity as their #1 priority while shopping five years from now

**Demand for products with clear labels/verified claims will pick up**

# Companies need to prune their portfolios, innovate faster and alter communication to cater to changing consumer preferences

Key strategic areas	Key initiatives to consider	Industry examples
Revise portfolio mix and innovate fast	<ul style="list-style-type: none"> <li>▶ Review and prune SKU mix for increased efficiency</li> <li>▶ Expand health, wellness and sanitation categories such as immunity boosters, vegetable wash and laundry sanitizers</li> <li>▶ Speed up product development cycle by investing in advanced technologies like predictive modeling, Artificial Intelligence (AI) and 3D printing</li> </ul>	Indian FMCG players have launched 30-50 new products during COVID-19, primarily in health, hygiene and nutrition segments
Focus on affordability	<ul style="list-style-type: none"> <li>▶ Launch value offerings and introduce loyalty programs offering discounts on bulk purchases at e-commerce sites, etc.</li> </ul>	ITC introduced hand sanitizer sachets worth INR0.5 under its brand, Savlon, in May 2020 to drive affordability
Accelerate sustainability efforts	<ul style="list-style-type: none"> <li>▶ Revise product formulations to include more natural and eco-friendly ingredients</li> <li>▶ Use recyclable, reusable or compostable packaging</li> </ul>	Colgate has launched a bamboo toothbrush made of 100% natural, biodegradable material whose packaging is plastic-free
Revamp marketing and communication	<ul style="list-style-type: none"> <li>▶ Promote guaranteed/verified claims in communication to enhance consumer trust</li> <li>▶ Emphasize on brand's local presence to capitalize on the growing 'local for vocal' trend</li> <li>▶ Leverage chatbots, AI and social media marketing campaigns to increase online consumer base</li> </ul>	ITC's Savlon has pivoted its marketing campaign to highlight that it is the first brand in India to be verified by 'ISO 17025 accredited by the UKAS' for protection against COVID-19 virus

SKU: stock keeping unit; UKAS: UK's National Accreditation Body; Source: EY Future Consumer Index - India, Oct 2020 data, news articles, industry and company reports, EY analysis

# Supply chains would need to become more resilient to withstand sudden, unplanned disruption

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## 94%

of the Fortune 1,000 companies are experiencing disruption in their supply chains due to COVID-19

## Only 6%

of global companies are confident in their capabilities for end-to-end supply chain visibility, despite many considering it as the #1 factor in creating a successful supply chain



**Linear supply chain** is tuned mainly for cost and speed, thereby facing challenges in withstanding any severe disruptions



**Traditional demand sensing techniques** are unable to forecast erratic fluctuations in demand



**Insufficient end-to-end supply chain** visibility hampers real-time production and inventory management, and risk assessment

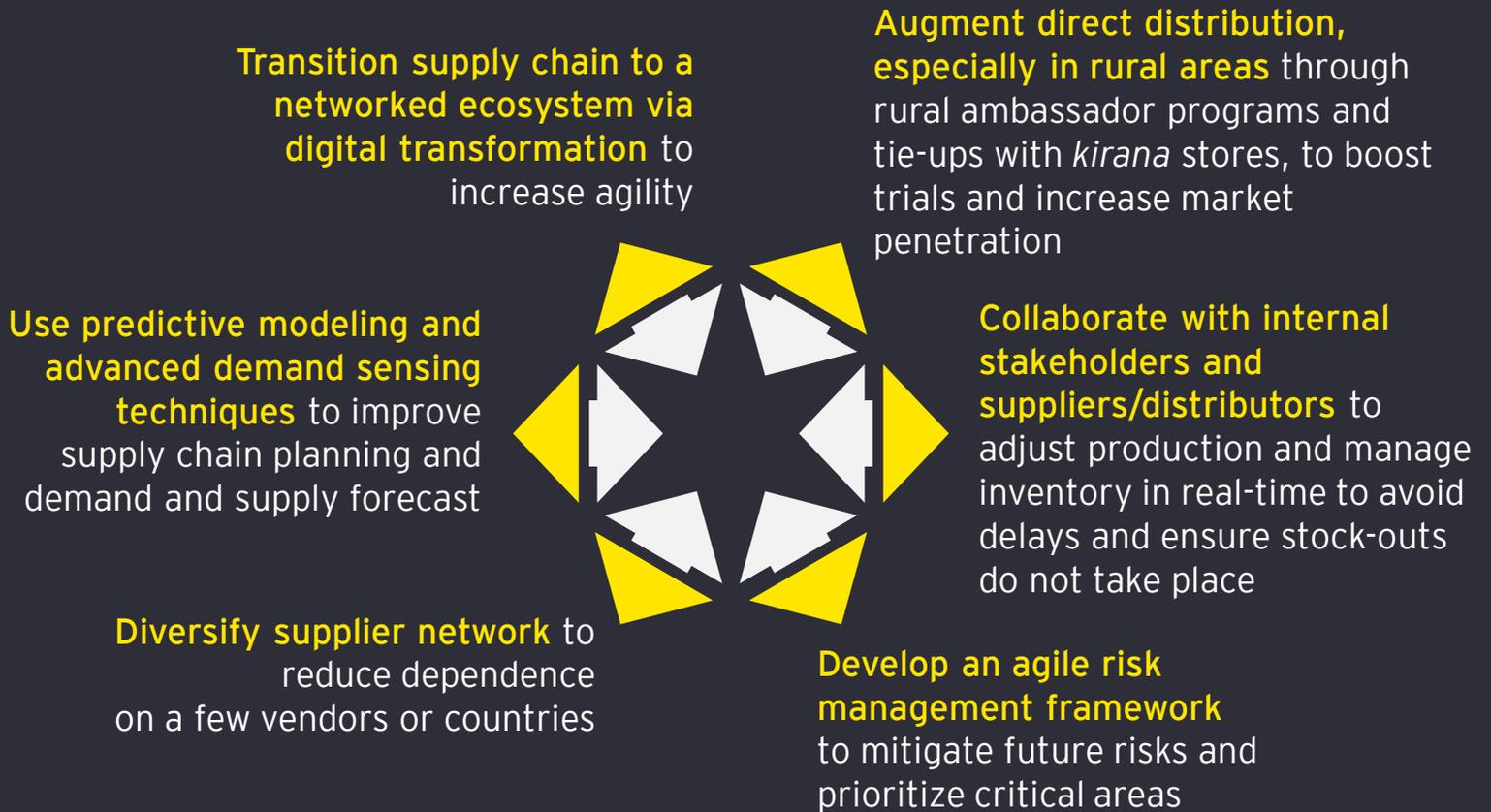


**Overdependency on a few suppliers and intensifying global trade** restrictions adversely impact efficient supply-chain planning



**Uneven distribution of infrastructure** hinders adequate reach in rural and

# Companies need to build demand response networks to ensure end-to-end visibility, flexibility, speed and effective control



**Britannia** is implementing S4/HANA analytics system to integrate its supply chain and enhance distribution efficiency

**HUL and GCPL** are replacing raw materials from China with indigenous ones as part of their strategy to reduce/eliminate China sourcing

**Coca-Cola India** has partnered with CSC\* to list products on CSC's Grameen eStores for direct delivery to rural consumers via local entrepreneurs and e-kirana stores

\*CSC - Common Services Center; Source: News articles, industry and company reports, EY analysis

Channel dynamics would change significantly with exponential growth in online as consumers are likely to shy away from going to stores for a long time

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**69%**

Of Indian consumers will shop more online for groceries in long term

▶ **Limited online capabilities** restrict availability of products to consumers during times of disruption like the COVID-19 pandemic

**70%**

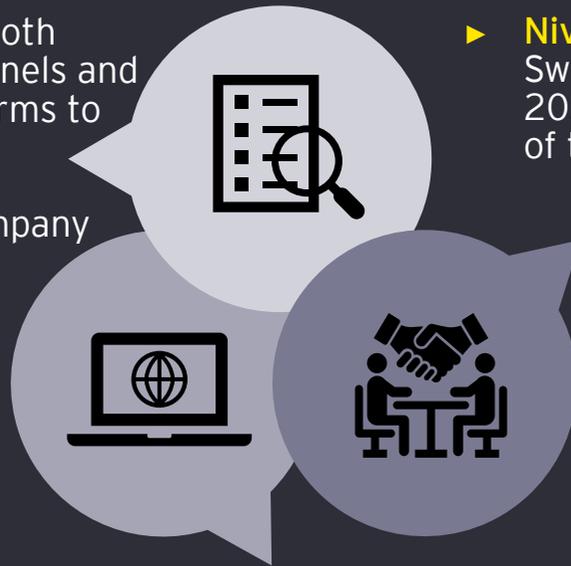
Of Indian consumers will shop mainly online and will only visit stores that provide great and safe experiences

▶ **Lack of sufficient investment in capabilities that allow agile transitioning between channels,** moving from offline to online as the need arises

▶ **Limited direct delivery capability** to serve consumers' growing online demand during the pandemic

# Companies need to bolster direct-to-consumer offering and partner with online platforms to quickly bring their products to consumers

- ▶ **Assess portfolio and curate differentiated portfolio strategy for e-commerce platforms** like launching digital-first brands
- ▶ **Partner with last-mile delivery platforms** to increase online demand and reduce future disruption risks
- ▶ **Marico** leveraged both modern trade channels and e-commerce platforms to launch several new products during COVID-19. The company saw 37% y-o-y growth in online business in 1Q21
- ▶ **Nivea India** partnered with Swiggy and Zomato in April 2020 for contactless delivery of their hygiene products
- ▶ **Build own e-commerce platforms or tie-up with marketplace** to ensure product availability during uncertain times
- ▶ **HUL** has created an online platform 'Cleanipedia' to provide cleaning tips to consumers while also gathering their data and cross-selling some of its flagship home care brands like Comfort, Surf Excel, etc.



Note: AR - Augmented Reality, VR - Virtual Reality, y-o-y - year-on-year; Source: News articles, company and industry reports, EY Future Consumer Index - India, Oct 2020 data, EY analysis

Work practices would evolve as remote working becomes more accepted and office arrangements increase their focus on health and safety

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**87%**

Employees in India are concerned about their jobs



**Inadequate infrastructure and performance review mechanism** to support long-term remote working arrangements



**Loss of productivity** due to employee absenteeism linked with poor health and well-being

**51%**

Employees in India expect to travel less for work in long term



**Need to review hiring and training policies** to become fit for future skillsets (e.g., analytics, AI, ML, RPA)



**Possible decline in employee loyalty** due to layoffs and salary cuts during uncertain times

**78%**

Employees would be comfortable getting their temperature checked before entering their workplace in long term



**Redesigning existing office and shop floor layouts** taking into consideration the need for employee safety and hygiene

# Companies need to redesign work spaces and revisit talent management strategies to improve capability and agility

**Use digital collaboration tools** to build an agile remote working model and **define new KPIs** (like tracking results, not hours) to measure performance

**Stagger employee movement at factories/offices** to avoid gatherings and **put floor stickers** to ensure social distancing

**Partner with preventive healthcare providers** (like nutritionists, psychologists) to help employees manage their health and well-being for improved productivity

**Pool and prioritize talent** by flexibly reallocating resources across businesses leading to lower lay-offs during crisis



**Create new strategic roles, such as chief insights officer, by upskilling and hiring** people with strong digital acumen to accommodate rise of online engagement and emerging consumer-facing technologies

**Take advantage of the gig economy** to get access to diversified and untapped talent

**Nestlé India** has launched 'Entrepreneur for Youth' platform to grow its franchise business. It allows young entrepreneurs to establish Nestlé kiosks, while ensuring strict adherence to food safety and quality monitoring process

Note: KPI - Key Performance Indicator, Source: News articles, industry and company reports, EY analysis

# Cost and cash controls would need to become more agile to achieve higher financial resilience during disruption

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**High fixed costs along with accumulation of poor performing businesses**, block funds for reinvestments at speed during disruption like COVID-19

High built up of non-essentials inventory and delayed receivables **impacting cash conversion cycle and hurting liquidity**



**Incremental overheads necessitated by COVID-19** (like permanent health and sanitization costs) pressurizing margins

**Inability to estimate enough contingency fund for disruption** leading to non-availability of finances for business continuity

Source: News articles, industry and company reports, EY analysis

# Companies need to rationalize cost base and implement cash controls to improve their working capital while also hedging against future risks

Develop leaner fixed cost structure	Revisit variable costs, wherever possible	Focus on agile liquidity management	Manage cash flow proactively
<ul style="list-style-type: none"> <li>▶ <b>Shift fixed costs to variable</b> via contract manufacturing, transportation fleet leasing, and 3P warehousing</li> <li>▶ <b>Review and assess supplier and vendor contracts</b> to reduce fixed costs and optimize available funds</li> <li>▶ <b>Consolidate/shut underperforming assets</b> (stores, warehouses)</li> </ul>	<ul style="list-style-type: none"> <li>▶ <b>Enable tele-ordering/app</b> to reduce physical visit and lower sales overheads</li> <li>▶ <b>Rationalize A&amp;P spend</b> by spending only high demand categories, new launches or digital platforms</li> <li>▶ Move away from central procurement-led annual sourcing to a more <b>agile procurement strategy</b> for cost efficiencies</li> </ul>	<ul style="list-style-type: none"> <li>▶ <b>Use scenario modeling</b> to forecast and build enough contingency fund for unforeseen situations</li> <li>▶ <b>Maintain constant connects with financing partners</b> for speedy financing (borrowed/existing reserves/equity infusion) to meet urgent working capital needs during future disruption</li> <li>▶ <b>Leverage government schemes</b> and special provisions for financial assistance</li> </ul>	<ul style="list-style-type: none"> <li>▶ <b>Provide financial support to distributors</b> for quick inventory movement during crisis</li> <li>▶ <b>Impairment of inventory</b> including provision and write-off obsolete inventory or goods nearing expiry or out of season stocks</li> </ul>

<b>HUL</b>	<ul style="list-style-type: none"> <li>▶ Partnered with SBI to provide digital payment and instant paperless overdraft facility of up to INR50,000 to retailers and distributors</li> <li>▶ Its business-to-business (B2B) tele-ordering app, "Shikhar" is now being used by ~0.15 million retailers and has witnessed ~two times increase in average order value and SKUs compared to pre-COVID-19 levels, thereby reducing sales overhead.</li> <li>▶ Lowered A&amp;P spend* by ~400bps in 1Q21, cutting down 20% of its SKUs permanently, undertaking digital transformation to curtail costs and drive margins.</li> </ul>
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Note: 3P - third party, A&P - advertising and promotions, SBI - State Bank of India, SKU - stock keeping unit, bps - basis points; \*as percentage of sales; Source: News articles, industry and company reports, EY analysis

# Digital transformation would become critical to increase efficiency and innovation

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**53%**

Of global companies find it more difficult to predict future trends and operational costs

**Lack of advanced digital capabilities** to take quick and real-time decisions basis fast changing consumer preferences

**41%**

of global executives are increasing spend on automation

**Non-agile supply chain due to technology gaps** is restricting companies to adjust and operate at optimal levels during disruptions like COVID-19

**Absence of a dedicated digital control team** to measure digital success

**37%**

increase in cyberattacks in India in 1Q20 vs. 4Q20\*

**Rising cyber attacks** due to rapid shift to digital ways of working

# Companies need to boost their digital transformation efforts to simplify operations, increase agility and build consumer intelligence

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- ▶ **Use data analytics and forecasting models** to capture and analyze consumer data quickly for agility
- ▶ **Invest in RPA** to automate repetitive tasks and **leverage other advanced technologies such as cloud, AI and IoT** to integrate supply chain and improve efficiency (prioritize slow-moving shipments, route planning, order consolidation, etc.)
- ▶ **Set up a digital control team** to track critical data-driven KPIs to take real-time business decisions
- ▶ **Ensure data privacy through cloud-based cybersecurity measures** to minimize the risk of data theft, malware and misinformation

## Case study: Godrej Consumer Products

- ▶ Uses analytics and Machine Learning (ML) to enable sales team to effectively service 0.6m+ retailers
- ▶ Identified ~25 Robotic Process Automation (RPA) cases such as for picking up orders from consumers and data crawling
- ▶ Deployed IoT and Artificial Intelligence (AI) to identify supply chain bottlenecks
- ▶ Also uses IBM Private cloud, AWS cloud and Microsoft Cloud services in its operations

# Timely transactions would be required to fill capability gaps and divest underperforming businesses



**Portfolio reviews**  
necessitated by surge in demand for health and hygiene categories



**Absence of a dedicated M&A advisory team** to fill immediate capability gaps



**Underperforming businesses**  
blocking funds for reinvestments

**65%**

of corporate leaders globally are **actively seeking to reshape portfolio** for the post-COVID-19 world

**26%**

of global executives **pursue M&As** to acquire new technology, new production capabilities and innovative start-ups

**72%**

Of global companies mentioned that they hold onto assets too long when **they should have divested them**

# Companies need to explore M&As and divestitures to optimize portfolio, expand presence and gain additional capabilities quickly

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- ▶ **Explore partnerships in emerging or adjacent businesses** to spur innovation, enter new markets and enrich portfolio mix
- ▶ **Set up a dedicated M&A advisory team** to identify opportunities to fill capability gaps such as last-mile delivery, e-commerce, data and analytics, etc.
- ▶ **Divest underperforming assets and non-core businesses** to unlock funds for reinvestments

## Recent acquisitions

- ▶ **ITC acquired spices manufacturer, Sunrise Foods** in May 2020 to expand its presence in the branded spices category as and generate synergies on sourcing and distribution
- ▶ **HUL** expanded its food and refreshments business under its nutrition category by **acquiring GlaxoSmithKline Consumer Healthcare (GSKCH)** for INR317 billion in April 2020; invested INR30.5 billion to acquire the "Horlicks" brand in India from GSK

# Conclusion

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**1** After disruption due to the COVID-19 crisis, the consumer products industry is entering an era of the 'new normal'. Thriving into the future will require businesses to convert challenges into opportunities with speed.

**2** Consumers are prioritizing health and wellness and are demanding more affordable and authentic products, those that can strengthen their portfolio around health, immunity and protection – stand to gain.

**3** Rapid shift to online shopping has forced business leaders to ensure that their companies are continually challenging their assumptions about what the digital consumer wants, how they want to purchase it, and what it takes to meet those needs. Thus, building digital capabilities would entail investment in relevant technologies and data analytics to understand consumer sentiments, while also creating demand-responsive supply chains to withstand any future disruption.

**4** Strict control on cost base and optimizing working capital will be imperative for businesses to continue even during unforeseen business conditions. It will also help them unlock sufficient funds in hand to bridge capability gap by M&As and stay relevant in the market.

**5** It is clear that companies that want to stay relevant – through the crisis and into the future – must be equally bold about the depth and pace of their own transformation.

**Survey methodology:** The EY FCI tracks changing consumer sentiment and behaviours across time horizons and identifies new consumer segments that are emerging, globally. For India, it is based on a survey conducted during October 2020, covering 1,000 respondents.

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