A marketing model to analyse disruptive growth - the case of Patanjali

Um modelo de marketing para analisar o crescimento disruptivo - o caso de Patanjali

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ABSTRACT
Patanjali Ayurveda Ltd. conceived itself as an ayurvedic medicinal firm. However, over time it grew diversifying itself into an FMCG firm that started disrupting the consumer space. With increasing sales, it has surpassed FMCG locals like Emami and Jyothy Laboratories (producers of Ujaala) who took decades to set their feet in the FMCG sector. A look into the marketing strategies adopted by Patanjali reveals its unique features and the latent opportunities it exploited when it had its chance. Though it is claimed there is no business model at play, the firm ‘thinks’ and acts in such a way that even market analysts are amazed by its rapid growth.

Keywords: baba ramdev, competitive marketing, FMCG market entry, lessons in market entry, market disruption, PAL.

RESUMO
Patanjali Ayurveda Ltd. concebeu-se como uma empresa medicinal ayurvedica. No entanto, com o tempo, cresceu diversificando-se em uma empresa de FMCG que começou a perturbar o espaço do consumidor. Com o aumento das vendas, superou os moradores locais da FMCG, como Emami e Jyothy Laboratories (produtores de Ujaala) que levaram décadas para colocar os pés no setor de FMCG. Um olhar sobre as estratégias de marketing adotadas por Patanjali revela suas características únicas e as oportunidades latentes que ele explorou quando teve sua chance. Embora seja afirmado que não há modelo de negócio em jogo, a empresa “pensa” e age de tal forma que até mesmo os analistas de mercado ficam espantados com o seu rápido crescimento.

Palavras-chave: baba ramdev, marketing competitivo, entrada no mercado de FMCG, lições de entrada no mercado, perturbação do mercado, PAL.
1 ABOUT PATANJALI AYURVED LTD

Patanjali Ayurveda Ltd. (PAL) is an Indian FMCG firm that entered the FMCG market in 2006 with the object of establishing Ayurveda and traditional sciences to today’s technology. However, it has come under the scope of analysts far recently as they see PAL, an unlisted firm, curbing the market share for FMCG giants like Unilever, P&G, Nestle etc.

Though they may not pose any threat to existence of such firms but all the strategies adopted by PAL are under close scrutiny by its competitors. Its major stake is held by Acharya Balkrishna who claims that they don’t have any business/marketing model to vouch its success upon. The success is just because of its vision and inherent acceptance by people. Patanjali’s sales graph is soaring upwards, registering a sales of Rs.1200 Crores in 2013-2014, Rs.2000 Crores in 2014-2015 and a Rs.5000 Crores in 2015-2016. [9] Such claims have been clearly been rejected by market analysts who propose that there is an elaborate marketing model under the table.

2 ABOUT THIS RESEARCH PAPER

This research paper focuses on the innovative marketing strategies adopted by PAL and aspects wherein such market disruption may be explained. The paper uses various marketing tools to analyse the significance and impact of PAL and the level of congruence its strategy follows with that already established in theory.

The paper moves from describing the various marketing elements required in marketing arena of FMCG companies to seeing whether the disruption is a significant one or not. There is presentation of secondary as well as primary data to elucidate and support the argument.

3 THE FMCG MARKET IN INDIA

Consumer Preference: India is a market of diverse consumer preferences. It has lot of income inequality but it is essentially a developing nation. As the income grows, people seek for better quality product. The tag of Swadeshi and indigenous produce has been carried over many generations and is a part of our Indian heritage. Moreover, the tag of cheaper but better is appealing to the psychological perspective held by the people. The primary and secondary data confirm that the shift is due to a mix of these factors— they want healthy lifestyle for them and their family. This is one important feature that
the family members have more or less overlapping baskets - people use the products what other members use.

**Distribution:** Distribution through “key” distributors: The marketing distribution channel is segment-specific. In the rural segment kirana stores are the main distribution muscle- with line of retailers and wholesalers. In the urban areas, there are malls, modern retail stores, kiranas and e-commerce. Kirana stores form around 90% of the FMCG sales outlet pie. [15]

**Marketing and Branding:** Marketing and branding are crucial, as brand perception is a key factor in consumer purchases. Consumers in these markets have high aspirations. Consumers are brand conscious and willing to pay slight premiums for quality products, especially edible products. Consumers associate brands with product quality. Generating brand awareness can be challenging, and apart from commonly used media, e.g. television, traditional marketing channels such as radio, roadshows, billboards and street plays play an important role in reaching out to the end consumer. [36]

**Competition:** Presence of well-established international FMCGs is the main competition. Local business houses have been present in these markets for a long time, and own some very popular local brands.

**Market Entry:** Hub-and-spoke model is mainly used in the FMCG sector. The basic barrier is the existence of well settled giants in the segment. Thus a direct attack may be quite useless. Instead product modification and innovation may serve the purpose. This requires catering the unserved segments or niche marketing and then expanding on brand trust. Any attempts to capture already served segments may be futile.
## 4 COMPETITOR INTELLIGENCE

### Frontier 1 Competitors - HUL, P&G, Colgate, L’Oreal

<table>
<thead>
<tr>
<th>Positives</th>
<th>Negatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>• These brands have a strong level of consumer recognition</td>
<td>• Seen as and portrayed by Patanjali as intruders in Indian landscape</td>
</tr>
<tr>
<td>• World renowned R&amp;D facilities like Vichy labs for L’Oreal, Ponds Institute etc</td>
<td>• Fake products sold under the name of their brands</td>
</tr>
<tr>
<td>• P&amp;G employs around 120,000 people, while Colgate employs 30,000 and HUL employees around 172,000.</td>
<td>• Due to many subdivisions, employee management becomes a challenge</td>
</tr>
<tr>
<td>• Have rich distribution channels and multiple brands (P&amp;G – around 300, HUL – around 50 in India itself)</td>
<td>• Their products face stiff competition from big domestic players and international brands</td>
</tr>
<tr>
<td>• High advertising, marketing and large number of factories make them indomitable</td>
<td></td>
</tr>
<tr>
<td>• Their goods are at times labeled luxury and have ‘prestige’ status</td>
<td></td>
</tr>
</tbody>
</table>

Source: Authors compilation of market data

### Frontier 2 Competitors - ITC, Dabur, Himalaya, Emami

<table>
<thead>
<tr>
<th>Positives</th>
<th>Negatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Established Marketing Reputation</td>
<td>• Most of Indian brands have low penetration</td>
</tr>
<tr>
<td>• Well grounded brands (many brands like Hajmola, Ujala, etc)</td>
<td>• Seasonality of raw materials impact production of other firms with very concentrated product placement like Himalaya</td>
</tr>
<tr>
<td>• Many are decades old</td>
<td>• Seasonality of demand for hair oils like Vatika and Dabur’s Chyawanprash (this products form the main revenue earners of Dabur)</td>
</tr>
<tr>
<td>• Few like Himalaya, Dabur are renowned for their herbal products</td>
<td>• Companies like ITC have very unrelated diversification of products</td>
</tr>
<tr>
<td>• Dabur controls 90% market in digestive edibles</td>
<td>• ITC’s over dependence on tobacco products</td>
</tr>
<tr>
<td>• Initiatives like E-choupal by ITC threaten Patanjali’s claim of being sole provider of marginalised</td>
<td></td>
</tr>
</tbody>
</table>

Source: Authors compilation of market data
5 PAL AND THE 4P MARKETING APPROACH

An analysis of PALs’ moves suggest that it has used all the approaches in the 4P Matrix. We shall discuss in detail strategies entailing each resource and its implications.

1. **Product:** One of the ultimate USP of PAL is the assurance in the quality of its products. It puts forward the keywords of ‘materialised spiritualism’ and ‘healthy alternate lifestyle’ and it seems to be appealing as far as the consumer segment is concerned. Even the advertising is cut short and straight. It has no ‘noise’ or elements except product specification. The main focus is to deliver value and fulfil the claims (which can be seen in the case of Ghee and toothpaste).

It relies much upon the ‘Swadeshi’ tag and ‘Natural Ayurvedic’ image which has been a part of Indian heritage since times immemorial. This may be a cause for natural acceptance of the product itself. Companies like Dabur and Emami, though Indian, have failed to register such growths. Perhaps this is because of their failure to use the Swadeshi tag effectively.

The product entry of PAL in FMCG markets despite the presence of giants is explained through its innovation in its products. This makes it possible for disruption in consumer space at any point of time as there are new features that cannot be replicated.

This has resulted in high penetration and ‘inartificial’ soaring of consumer demand a clear example of an indirect attack on unserved market segments. The consumer demand has not been inflated by brand loyalty and fancy claims but was first brought into a niche and then expanded upon by the experience (word-of-usage propagation).

In order to have better consumer trust, there is a system of transparency and all the quality reports for its products are available on its website. Much care is taken into consideration that the product efficacy is not hampered.
The product portfolio (core business) of PAL include:

i. Breakfast Range- Cereals, Cornflakes, Milk etc.

ii. Ghee

iii. ‘Healthy’ Noodles

iv. Kesh Kanti

v. Dant Kanti

vi. Chaywanprash

According to Swanand Kelkar, despite having the market research muscle and knowledge, the existing FMCG companies have failed to cater to the drift in consumer preferences and as such a market remains uncaptured. PAL has just been responding to the changes in the demand and have been expanding upon it. An instance of this is Colgate losing 2.3% market share in toothpastes due to changing rural demand patterns.[21]

As we shall see in the pricing section, most of the products are coupled with ‘cheaper’ tags. But ultimately it is the quality that Patanjali vouches why people buy its products. One such example is that of Ghee where the product is priced over the other market rates and is sold at premium In fact its biggest seller is ghee, which contributes 30-35% to its revenue.[35] PAL is to clock double digit market share in 10 of the 25 product categories including Ghee (33%) and Chyawanprasha (30%). IIFL reports project the revenue only from sale of Ghee to be Rs.3100 Crore by FY 2020. [18]

PAL has also engaged in viral product launching such as Power Vita, a direct competition to Bournvita. It wants to replicate its success with Patanjali Noodles. Moreover, PAL’s estimate of the actual market size for FMCGs is 20000 Crores as compared to reported 6000 Crores. [2]
2. **Pricing:** PAL’s products are priced lower than its competitors. A quality product that is economical is one of the main claims of the company. The company left out brand premium during its starting years. Till 2015, advertising efforts of PAL were minimal and almost zero. It was not extracting premium for advertisement and was cheaper. Most reliance was on word-of-mouth and word-of-usage. Probably, in the earlier stages it was experimenting with the product placement and extent of acceptance of its idea by its target segment and a move to propagate perception/demand building.

This strategy wasn’t optimal in the long run, so Patanjali increased its advertising efforts and subsequently its prices rose. The prices are still lower. Despite this fact, it reaps a 15% profit margin with a 20% operating profit.

This is mainly attributed to its own production line which sources products from farmers and cuts middlemen’s cost. Moreover, the top management do not draw any money as salary and this keeps them to scale up their operations. PAL’s administration cost is only 2.5% of the revenue as compared to 10-15% in large companies. Moreover,
the packaging is not that appealing in order to save costs and invest them in product manufacture.\textsuperscript{[5][8]}

Ghee is one exception to the trend. It is one of the premium products which displays the power of ‘Swadeshi’ tag as it is most closely related to the Indian heritage. As such people prefer to buy such products which are chemical free and natural.

However, recently, there are some facts contrary to the claims. PAL has been outsourcing some of its products like other packaged product companies. For example, its biscuits are made by Delhi based Sona Biscuits and juices by a bunch of companies. This is simply an execution of division of labor and specialisation. It is better to outsource when they can be made cheaply and concentrate resources on your other products which you can efficiently make.

Moreover, according to IIFL reports, pricing of PAL products may not be sustainable and we can already see positions of revising the price like that in the case of Dant Kanti and Kesh Kanti.\textsuperscript{[18]}

![Product wise Competitor Analysis](Source: Stellarix Database)

<table>
<thead>
<tr>
<th>Product Name</th>
<th>Qty</th>
<th>Retail Price</th>
<th>Competitor’s Price</th>
<th>Competitor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cow Ghee</td>
<td>1ltr</td>
<td>450</td>
<td>710</td>
<td>Parle Dairy</td>
</tr>
<tr>
<td>Samudraya Face Wash</td>
<td>60 gm</td>
<td>60</td>
<td>80</td>
<td>Pears Face Wash</td>
</tr>
<tr>
<td>Honey</td>
<td>500 gm</td>
<td>135</td>
<td>195</td>
<td>Dabur Honey</td>
</tr>
<tr>
<td>Kesh Kanti Shampoo</td>
<td>200 gm</td>
<td>110</td>
<td>159</td>
<td>Hindshampoo</td>
</tr>
<tr>
<td>Kanti Nandan Soap</td>
<td>75 gm</td>
<td>15</td>
<td>24</td>
<td>Himalaya Nandan Soap</td>
</tr>
<tr>
<td>Super Dish Wash Bar</td>
<td>175 gm</td>
<td>10</td>
<td>15</td>
<td>VIM Dish Wash Bar</td>
</tr>
<tr>
<td>Corn Flakes Mix</td>
<td>500 gm</td>
<td>145</td>
<td>182</td>
<td>Kellogg Corn Flakes</td>
</tr>
<tr>
<td>Detergent Powder</td>
<td>250 gm</td>
<td>13</td>
<td>19</td>
<td>RIN Detergent Powder</td>
</tr>
<tr>
<td>Pineapple Juice</td>
<td>1ltr</td>
<td>85</td>
<td>99</td>
<td>Dabur Real Juice</td>
</tr>
<tr>
<td>Special Chyawan Prash</td>
<td>500 gm</td>
<td>115</td>
<td>160</td>
<td>Dabur Chyawan Prash</td>
</tr>
</tbody>
</table>

3. **Position:** Pricing itself wouldn’t have worked if it were not coupled with Ramdev's own brand positioning in yoga services, his appearances on television with the products, and the policy of de-branding. The products claim to be consumer centric and sacrifices on peak margins.\textsuperscript{[1]}

One can find this line on PAL’s webpage: “link the rising destiny of millions of rural masses on one hand and many more suffering and leading unhealthy lifestyle on other hand”. It is clear that PAL’s beachhead market is rural and the urban poor market
who want cheaper and better products. This may be linked to ‘liberalism in preferences’ which is driven by product consciousness. What PAL has tried to do is to tweak the demand itself from lifestyle to a healthy lifestyle. In a sense, people believe there are ‘new’ products that would be better alternatives. Hence as discussed previously, we can see the strategy of niche marketing and then expanding on the original market segment.

This is also reinforced by the Indian appeal of ‘Swadeshi’, ‘Spiritualised materialism’ and low-priced products. Even product placement is well-planned as can be seen in the Maggi case. The political scenario is also supportive as far as a BJP led government promotes ‘Make in India’. MNCs fear IPR issues and PAL has already found its way to military area canteens. All external variables seem to build a conducive environment for PAL’s growth. But it seems more rational to see it in terms of PAL’s adaptability and making use of opportunities it faces- firstly, the unattended changing demand patterns; secondly, an unexplored market segment of rural and urban poor.

The franchisee model followed by PAL makes it look limited in quantity and exclusive. The brand follows a franchisee model but up until recently it has started placing its products at mall selling outlets like Reliance Fresh, Big Bazaar etc. but there too, the products have a special kiosk, making it appear exclusive. [5] The partnership agreement with Future Groups seems to be a win-win situation for both the parties. It is not a replacement of franchisee model but a supplement for the same. E-commerce is a strong placement position for PAL but it wouldn’t be sustainable and has to be limited as it would take a toll on the margins. [12] Moreover, as of now not more than 1% buy its products through Ecommerce site. [15]

The product and the brand itself seems to carry a distinct feature. There is an element of socio-cultural integration wherein it seems that the corporate doesn’t work ‘for’ the society but ‘with’ the society and build along their ideology. This is similar to adjusting to consumer feedback. This is not baffling the consumer with alien products, going along their ideology and then slightly readjusting their perception. This involves going beyond CSR and HR development.

But how does this position and placement strategies come into thought? Companies expend around 70% of their earnings on marketing whereas up until 2015, PAL spent only a few pennies. There is no expending on market research/survey. All these efforts are redirected for R&D, product development and quality control. There is assessment of demand by being surrounded with people and understanding their sentiments, desires and needs. This establishes that a ‘personal connect’ with common
masses leads to better trust building and firm growth. Examples of such are PAL’s production of Amla Juice to support poor farmers who were unable to sell their Amla crops. Then was the launch of Aloe Vera cream on suggestions by people following Baba Ramdev during his yoga sessions.

Moreover, PAL has adopted an umbrella branding strategy to improve recall rate and assure the customers that they are buying genuine PAL products. This is where it defies the FMCG principle wherein the consumers search for PALs products as the association and recall is high. This is blurred in case of P&G, HUL etc. where the product may be known but the brand is unsought of. Thus, the brand image is being transferred to the product and only branding and advertisement of the brand (PAL) is required and not the individual product. This will also reduce prices and improve trust at the same time. This coupled with brand consistency may lead to greater trust and projected brand loyalty.

4. Promotion: One of the most interesting aspects of PAL is its dramatic promotion strategy. Up until 2015, its marketing efforts were minimal and almost zero on advertisement. It mainly was focused on word-of-mouth and word-of-usage built up via yoga classes. Clearly it has been using reverse marketing but there is one unique strategy. It has been trying to network and ‘distribute’ its idea first via yoga classes (followed by 1/6th of the population), build trust among the target segment and then sell them the ideated products. This is somewhat an indirect and reverse entry. One can see the strategic genius involved in the promotion strategy. Let us elucidate the reverse entry a bit.

In order to get a non-profit lens, there has been quite a gestation period. First a yogi guru gains reputation and there is promotion of yoga which is a part of Indian culture. Then there is promotion of Ayurveda Vidya among the masses which is subsequently adopted for health care purposes. There is then an element of elemental and spiritual syncretism and there is the origin of PAL; with an already established base through the chain described above. The gestation period of non-advertising may also be an attempt to look for product appreciability or just an initial market push.

To remain close to the Indian society, PAL has adopted Baba Ramdev as its brand ambassador. Here the celebrity endorsement seems to work more than fine. There is a high connect between the endorser and features of the brand and the cultural heritage itself. It seems to be a narrow spectrum where all the three overlap to a major extent and it has increased the appeal and brand connect/recall.
As discussed above, in order to gain youth appeal Ramdev seems to be customising his promotion strategy. There is a change in the way goods are sold/customers are viewed. One example is starting his yoga session and aasan with Bollywood music. Basically, there is age-specific segmentation at play and PAL doesn’t want to not use the demographic window.

Now as PAL gears up to expand its business and claims to double the revenue, it has decided to resort to carpet bombing advertisement of its product. To enhance its revenue, it needs demand. For the company, supply constraints doesn’t seem to be a big deal. The advertisements after 2015 have seemed to saturate the users with the awareness for Patanjali’s product. As was on February 2016, PAL was the biggest FMCG advertiser according to the data set from BARC (aired 17000 times). Its commercials were played in a large number of channels in many genres across India – both regional and national. More than Rs.300 Crore is allocated to get a monthly viewership of 300 million. It has its own channel- Aastha. Patanjali claims that expenditure on advertisement is only 20-30 Crores due to discounted rates on news channels. Advertisements are mainly focussed on 7 products out of a portfolio of 30 products. Patanjali has tried to increase its awareness by targeting ‘intelligent audience’ and making it a ‘recallable brand’. It has engaged with firms like McCann and Mudra group for this purpose. [16][17]

Figure 4 TV Ad-spots secured by Patanjali

Source: Broadcast Audience Research Council (India) website
Brand evangelists claim that simple advertisements has helped PAL to win customer confidence. There is only straight talk- the product and the promise. According to Harish Bijoor Consulting, 32% of ads released by brands are tagged as ‘false’. But as far as PAL is concerned the story is different. Moreover, the policy of debranding followed by Ramdev, especially for MNCs, seems to be working for PAL. The brand ambassador has been quite in news for his controversial statements but the flak has in turn been seen as increased appeal for PAL as it seems to staunchly stand for ‘Swadeshi’ and non-profit empowering of India.

The far-fetched advertising concept seems to be weakening. The TRA’s Brand Trust Report suggests that PAL is among the seven most trusted Ayurveda brands in the country. There has been some recent issues of PAL with ASCI (Advertising Standards Council of India) regarding misleading advertisements of hair oil and other disputed ads like the one aired on 15th August, 2016 in India. Such strategies of ‘false claims’ can downplay its whole game if consumer expectations are broken. One more example is the selling of Atta Noodles when it is actually a 50-50 blend of atta and maida.

Analysing all the resources of the marketing mix, we can clearly see that all the resources have their own importance but Product and Promotion strategies are held more important and their returns are more. This is evident from the budget allocation and the emphasis of the brand on the same. For the product, we can see that the quality compromise doesn’t come into question. Pricing is a follow-up to it. Promotion is another
resource up the hierarchy where carpet bombing and saturation has been seen fairly recently.

Figure 6 Marketing mix: The two in the 4Ps that work for Patanjali

Source: Author’s representation on Jerome McCarthy’s “Basic Marketing: A Managerial Approach” (1960)

6 DISTRIBUTION AND RETAILING

As discussed earlier PAL follows a franchisee model. For an FMCG company to have its own retail shops is a different proposition. The distribution muscle of PAL increased from 150 in 2012 to 10000 in 2015. PAL chose brand outlets as best medium to spread awareness of products from word-of-mouth and word-of-usage. But this was not the first choice as when PAL tried to approach retailers, it was unwilling to pay shelf-price and low margin to retailers. Thus, there was channel resistance. PAL was willing to pay 12.5% on modern shops and 8-9% kirana shops vis-à-vis 19-20% and 12% other firms are willing to pay.

PAL is trying to increase its retail presence through 4000 distributors, more than 10000 company owned outlets, 100 Patanjali branded stores and supermarkets. Currently, it has 3 factories and a bunch of contract manufacturers. It expends Rs.1000 Crores on new production units and Rs.150 Crores on research. But it won’t be able to satiate demand unless it can distribute it. There is a huge gap in demand and supply mainly due to lack of distribution muscle. It has 1200 chikitsalayas, 2500 Aarogya Kendra, 7000 Open stores and 5600 market vehicles. Still there is an existence of a gap.
In order to increase its reach, PAL has invoked a partnership with the Future Group and has been shelving its products now in mall outlets. It has also increased modern retailer margin to 16%. Many retailers claim that although the margin is less there is higher earnings as people plan and search to find PAL products.

One concern is that modern trade forms only form a 10% of FMCG sales pie. PAL’s strategy of not pursuing the Kirana stores can lead to it making a loss. It needs to have high penetration and this may prove to be a make or break point.\[14\]\[15\]\[19\]

According to Nielsen & Nielsen, availability is biggest driver of FMCG sales (33%). 30-40% of the consumers shift to other goods if the goods they are searching for is unavailable. This may be a trouble for PAL as the Kirana shops are currently not stockpiling their products. PALs’ products are a thought-through buy and not an impulse buy. But PAL has only 1/30\(^{th}\) visibility in product shelves as compared to others.

7 CORPORATE STRUCTURE

The management space of PAL’s functioning is quite different from other such firms. It is a live example where decision making process is speedy and portrays that formal management structure can over sophisticate and slow down growth and product launch disruption. The hiring structure requires that the person has similar beliefs and vision as of PAL and doesn’t practice vices like smoking and drinking. Moreover, he is expected to keep costs low by all means possible. For example, a sales person would be required to take the public bus to travel for sales promotion.

Figure 7 Share of major brands in Indian kirana stores (tuck shops)

There is delegation and clear cut hierarchy to facilitate work specialisation. This leads to the general chain of command system. Instead of decentralising, it has adopted a centralisation practice with span of control. The only thing is that formalisation is only to the extent of guidelines based on vision.

8 CRITICAL ANALYSIS AND MARKETING

Patanjali started off manufacturing bulk ayurvedic medicines later branching its operations into FMCG markets as well. Since, the FMCG market has low entry barriers (high competition but lot of vacuum), Patanjali soon established itself as a major consumer goods’ manufacturer. The recent trends clearly imply that the company’s priorities are shifting from medicines to consumer goods, perhaps because the net revenues earned through FMCG are on par with ayurvedic medicines. This suggest that capturing the changing demand pattern or perhaps fine tuning it in the long run direction (as PAL did) could fetch you results.

Despite being a corporate entity, Patanjali adheres to Baba Ramdev’s consumer-centric ideals. Therefore they focus on revenue and not on profitability. The company achieved its targeted revenue of ~INR50-60bn in FY16 (INR20.2bn in FY15). Even though the thrust was not on profitability, the company managed to clock ~20% EBITDA margin in FY15, aided by better cost management (latest machinery and strong R&D capabilities) and lower A&P spends. Over FY12-15, Patanjali registered revenue CAGR of 64.7%. The company has aggressive plan to enter every consumer category (keeping aside those that impact lifestyle and health). At the current juncture, though its presence in many categories may not queer the pitch for other consumer goods companies (each category not too big to impact except Ghee, which is expected to be INR12bn in FY16), over the long term, gaining palpable distribution prowess could pose a serious threat to
In January 2016, IIFL said “Patanjali Ayurveda Ltd has, in a short span of less than a decade, recorded a turnover higher than what several companies have managed to achieve over several decades. There is no doubt that Patanjali is a disruptive force in the FMCG space and is a credible threat for the incumbents.” The industrial data indicates that the brand has a market share of 4-5%.

Patanjali boasts of a strong new products’ pipeline. The products are not only innovative, but reasonably priced too. A central R&D facility equipped with latest technology along with a separate new product department has helped in lining up a series of new launches over a few months. This has been achieved by providing world-class products at a reasonable price and pushing whatever profits they earn back into business. An innovative R&D facility equipped with latest technology, Patanjali has also launched a mobile app which helps the consumer to locate retail outlets and for online ordering of Patanjali products.

Growth is being driven by the company’s largest selling product, cow’s ghee (expected to be INR12bn in FY16) followed by Dant Kanti and Kesh Kanti. Patanjali operates via 3 business segments, viz., foods (foods, supplements, digestives, dairy, juices, etc), FMCG (cosmetics (shampoo, soaps, facewash), home care (detergent cakes, powder, liquid), etc) and ayurvedic products (healthcare products for blood pressure, skin diseases, joint pain, etc). In FY15, of the total sales of INR20.3bn, food and cosmetics contributed INR8bn each, while healthcare products comprised the balance.

Patanjali is working on a kitchen concept, as part of which it will launch products that will touch all categories of the SKU (stock keeping unit) used in an Indian kitchen. For instance, the company already has products that are used in the Indian kitchen such as dishwash bar, ghee, rice (has 3 variants of rice), pulses, spices, mustard oil, flour and madhuram (replacement for sugar made out of jaggery) under the Patanjali brand name. Patanjali has adopted the unique information-based advertising. For instance, the company highlights the positives of cow’s ghee, which automatically helps sale of Patanjali Ghee. In the recent past, the company’s print advertising has seen a marked increase.

Many people complain that due to Patanjali’s weak distribution network its products are not easily available everywhere and they are unable to buy them. To address this concern, the company has chalked out an aggressive plan to improve its presence on the online platform. Currently, it is already selling its products through its web-site,
www.patanjaliayurved.net, from where consumers can order the products and get free delivery of the same if the order value exceeds INR499.

As for reach, the company has close to 0.2mn outlets and 10,000 franchisee model of Chikitshalyas and Arogya Kendras. Patanjali herbal products are available at Post Offices across the country. Distribution-wise, the company operates through 100 super distributors (this will be bolstered going forward) who in turn supply to the wholesalers and retailers (who operate through a 500-600 strong sales team). As of now, the company has no plans to have direct reach.

As far as manufacturing is concerned, Patanjali does 90% manufacturing in-house. However, going ahead to meet demand and therefore enhance capacity it is open to even third-party manufacturing or opening new plants. The company has zero waste technology wherein whatever is left after usage of the raw material is further processed for further usage. There Mega food park employs close to 10,000 personnel (from in and around the city within a radius of 25kms). The infrastructural facilities at Patanjali Yogpeeth includes an OPD for free medical consultation, IPD of thousand beds, laboratory for test investigation of radiology, cardiology and pathology, a yoga research department, free yoga classes, high quality ayurvedic medicines manufactured by Divya pharmacy, facilities of library and reading room along with a cyber café, a huge auditorium, apartments for senior citizens, a grand museum and a sale outlet of 11,000 square feet for literature related to yoga and Ayurveda.

Though Patanjali might not be regarded as a complete corporate set up, but the company has been taking significant steps to professionalize the management and incorporating the necessary processes and technology in the work culture. Patanjali is emerging as an Employer of Choice” as many professionals are independently coming forward to work with the company. During our visit and interactions we found there any many professionals who are managing different units and have past work experience in companies like Dabur, Shehnaz Hussain, SGH Labs, Alkem Laboratories, etc.

9 FROM THEORY TO GROUND REALITY

The primary data research of 2 mall outlets, 3 retail outlets and 50 PAL customers yielded results which were bifurcated. Some data set were according to the allegations and claims while the other seemed to be opposite in nature.

For instance, we found that irrespective of the claims of separate shelf space for PAL products (as was according to the Future Group claims), the products were docked
alongside with the competing products like any other brand. Poor visibility, no docking or lower shelves were predominant for most of the PAL products like paste, skin care, hair color and oil, shampoo and conditioner, noodles, biscuits, detergent etc. Only a few of the cash cows of PAL enjoyed adequate shelf space like soaps, exclusive items (aloe vera juice, bel candy, moosli pak, digestive goli, amla juice), honey, vinegar, ghee, chaywanprasha etc.

The retailers claimed that the sale was more of an image and price game. Promotion had increased sales but there were other outlets also to serve them now. The major sources of promotion were Aastha channel and the carpet bombing advertisement. In effect, the promotion strategy seems to be working. There is high retention and word-of-mouth wherein the customers return back to purchase the product. An interesting point to know that only the Swadeshi and spiritual tag is not sufficient. One retailer who originally started the outlet for products of Shri Shri’s Art of living switched to PAL as sales for PAL products were higher. Thus, TV promotion, branding, de-branding, fan following of yogic classes etc. all have added to the mental space of the customer. PAL FMCG products were also available in Patanjali Chikitsalayas and the retailer claimed that sale of commodities was higher. This shows the acceptance and increasing market capture for PALs products.

Majority of the customers claimed that they preferred PAL products due to its healthy nature and it has *no side-effects*. As such mothers would prefer to use it for their family. Most famous PAL products that were purchased were Dant Kanti and Ghee. Most of them had been using PAL long ago but many shifted recently due to extensive promotion and intrigue. Very few (about 10%) said that price was an important factor. This could be a floor effect as people may not feel open to say that they bought it as it was *cheap*. Some customers said that they bought products as there was no alternative to it (like Bel Candy). Billboard advertisement, Aastha Channel and news channel advertisement seemed to turn people at least to try PAL products once and then become returning customers.
Figure 9 BCG Matrix for Patanjali (adapted from the famous Boston Consulting Group product portfolio matrix)

Source: Authors’ work on data taken from “Patanjali is disrupting India's consumer space”. IIFL. 6 February 2016 | “Baba of all Trades”. Business Standard. 6 December 2015.

Figure 10 ANSOFF MATRIX - Patanjali

Source: Authors’ work and compilation of market data

10 SUGGESTIONS AND FUTURE MOVES

One of major drawbacks that PAL is facing now is the lagging capacity of its distribution muscle. As stated above, entering into partnership with modern retail outlets
may not help PAL according to the segment it targets. It needs to target kirana retailers in order to cater to the demand it has created for its products.

Careful advertisement positioning is also required as too much of carpet bombing of the same product can lead to a negative impact. This may be seen soon as the market viewers has already been saturated with the advertisements.

The BCG matrix tells us as to which products it should focus and which it should phase out (the dogs) eventually. It should focus on its core business as too much of portfolio diversification (as of now 130 products) may lead to increased costs and lost potential of your stars and cash cows. The Ansoff Matrix tells us that for the products which now require product development would be needed to be shifted to market penetrating product by extensive advertisement and improving quality. The market leaders’ resources can be transferred hereby.

Right now it might be too early to expand at a global scale as PAL wishes to do so as the same swadeshi card may not work over there. In the end, it might just stop at a point where all Indian audience is reached.
Figure 11 SWOT analysis of Patanjali

Strengths
1. Natural, ayurvedic, swadeshi
2. Brand Ambassador 'Ramdev'
3. Competitive Pricing
4. 'Make in India' and in accordance to socio-cultural heritage

Weakness
1. Competitors with large market share
2. Low Exports
3. Weak distribution muscle and lower than potential rural reach
5. The question whether the brand can continue on the value added only without Baba Ramdev also

Opportunities
1. Large unserved segment and changing demand pattern
2. Untapped rural potential
3. Increasing promotion and distribution strength
4. Competitive pricing means more real income for later purchase
5. Increasing exports

Threats
1. FMCG giants developing ayurveda products (like HUL)
2. Riding of Swadeshi tag by Dabur & Emami
3. Sector slowdown in later phases as demand is inelastic

Source: Authors’ work and compilation of market data
REFERENCES


