



The Institute of  
Chartered Accountants  
of Pakistan

CA  
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# FMCG Sector

## The Winner Amidst the Crisis?

PROFESSIONAL ACCOUNTANTS IN BUSINESS (PAIB) COMMITTEE



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### **Technical Experts**



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## Response to COVID-19

**Restaurants industry response to Covid-19 to cover fixed expenses and inventories, boost overall morale of employees**

1. Speculations and warnings through global companies well in advance which gave time for preparation
2. Big challenge - Change in overall standard operating systems
3. Lack of time to implement safety mechanism, food safety standards etc.

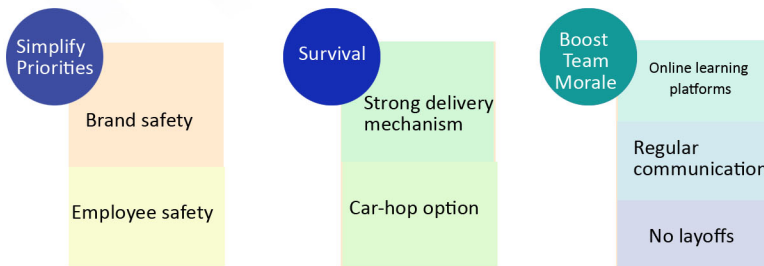


Figure 1 Guideline to managing the cash situation and overall crises

## Motivating employees

### Challenges

One part of the challenge was mobility and the second part was motivating employees to come to work.

Three priorities during covid and their action plan:

1. **Strategic clarity:** what we were doing and why so there was no confusion. For instance, cash protection and receivables were focused.
2. **Putting people first:** Clear and immediate communication to the employees regarding no lay-offs as long as the crisis persists. Commitment of monthly ration bags as long as crisis lasts. Statements and commitments of safety protocols on all factories and offices.
3. **Unlimited support** on covid testing of employees and their immediate families. Also, recognizing that the business frontline personnel are the factory workers and salesforce who are ensuring uninterrupted production and supply of products throughout the crisis.

## Consumer Trends in the New Normal

S.no	Key trends	Trends into opportunities	Examples of adapting to trends
1.	<b>Protection</b> Consumer will opt for businesses that invest in stability, hygiene, immediate personal defense.	<b>Personal fortification</b> Businesses claiming personal fortification through openness, safe spaces and ambient health will take lead.	Rise in sales of packaged milk.
2.	<b>Wellbeing</b> Consumers would opt for businesses that support the overall narrative of wellbeing.	<b>Pro-active consumption</b> There is a high emphasis on usage of proactive ingredients which offer immune boosting potential.	Rise in sales of vitamin and other food supplements.
3.	<b>Flow</b> Consumers focus on investing in products with long term goals.	<b>Essentials first</b> People are developing a renewed appreciation for essential products and services.	62% of consumers felt that their household income has been affected in some way or the other during the first three months of covid in Pakistan. This has resulted in a larger segment of value players.
4.	<b>Connections</b> Consumers are moving towards new types of connections.	<b>Generation Covid</b> There is a wave of optimism existing in the consumer segment.	71% consumers desire to know what is the role that brands intend to play in the new normal.
5.	<b>Experiences</b> Consumers are opting for new experiences .	<b>Multi-sensible experiences</b> Seeking experiences while consuming products.	Engaging audience in unique experiences is redefining fun, care and enjoyment for the audience and people are seeking out double-duty experiences.



## Effect on Consumer Spending

In the midterm, there is no concern about a major consumer shift in behavior based on the macroeconomic circumstances. Considering the history of the country, in the last 70 years and 30 years in case of P&G, every 4 to 5 years Pakistan had some sort of economic crises such as major devaluation, IMF bailout package, rise in unemployment which goes down and this is a part of the normal in Pakistan. So, this is certainly not the beginning of some slowdown in Pakistan.

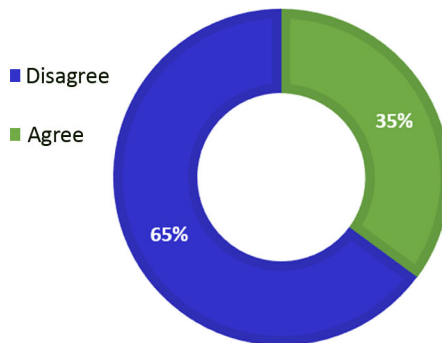
Consumer in developing markets particularly and also within Pakistan demand high value for money for the products i.e. the right combination of product and pricing. Consumers demand superiority for the brands that they buy so there will be increased accountability on brands and products to offer the right value for money to the consumers through right product and brand superiority. P&G and many other players have doubled down to offer superior value not necessarily through pricing but partly to ensure that they first understand and then address the needs of the consumers. An interesting macro factor, not economic though, is because the latest crises is also health related due to which consumers are going more conservative on their choices such as aisle consumers are returning back to safe brands, trusted brands instead of experimenting with new brands that only offer a cheaper price. This is a global phenomenon.

## Increasing Trend of Healthier Food

Although there has been a global discussion around increased trend of consuming healthier food, in Pakistan KFC is still in the safe zone because the existing food culture and cuisine was never health-focused.

On the contrary, KFC had a huge uptake on delivery channel due to the shift towards trusted brands and because consumers had no other way of entertainment but to order food since everything was closed.

**IN THE NEXT TEN YEARS KIRYANA STORES WILL BE COMPLETELY REPLACED BY LARGE SUPER STORES.**



## Revisiting Innovation and Investment Strategy

Both, innovation and investment, are important. Over the last ten years, with global media and internet access, businesses are realizing that consumers' needs are becoming more fragmented and sophisticated and there is an increase in niche product offerings and brand offerings to fulfill those needs. Therefore, companies must focus more on innovation to understand what the consumers want and offer the product and brand propositions accordingly.

Having said this, the base business i.e. the non-niche part of the business contributes 60 to 90 per cent of the turnover of different companies and brands. This shows that a huge number of consumers are choosing to buy base offerings and therefore a big part of innovation should also stay focused on making the non-niche part of the business as superior as possible. Sometimes businesses distract their innovation resources so much on the niche products that the base offerings overtime start to become non-competitive and non-superior.

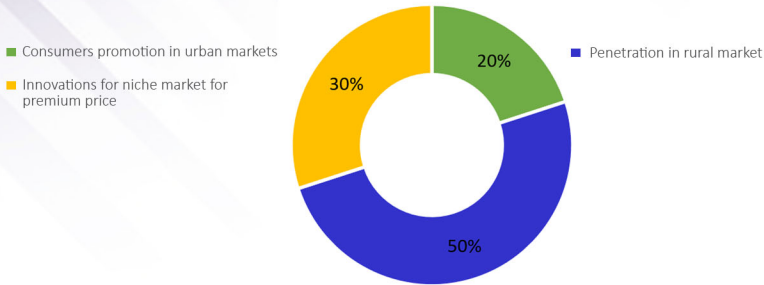
Today more niches are needed than the past but base continues to be the number one priority, primarily for innovation but also for marketing space. Niche social media support must happen to reach those pockets of consumers but communication of your base through mass media is equally important.

### Local brands – A threat to top-tier brands?

While for some consumers, pricing is not a concern, for others it becomes a part of their decision making. There is a large middle tier for whom value is the critical aspect of making decisions of which product to buy. The winners and losers in the market will not be decided by price or product performance alone but a combination of hitting that very critical sweet spot when the product is just right and the price is good enough that the brand becomes absolutely irresistible.

For example, one of Tapal's tea brands 'Chenak' is a different blend from Danedar and Family Mixture. It offers just the right blend i.e. taste and pricing to the niche market of Interior Sindh consumers. In comparison, there are several players trying to enter the market by offering lower price and some other brands with slightly higher price but the product performance is not worth the premium that consumer has to pay. Product tier-ing in Pakistan is such that as long as the companies get the product performance and pricing right, after careful analysis and understanding of the consumers, they will succeed but those that get it wrong will be swept away by plethora of players below and above them.

## IN THE NEXT FIVE YEARS THE MOST SIGNIFICANT GROWTH DRIVER FOR FMCGS IN PAKISTAN WILL BE



## Digital Revolution in the FMCG Industry

The speed at which internet penetration in both, industrial and consumer side is getting tech-savvy is incredible. The digital foot print expanding across corporate and consumers in Pakistan is in multiples of hundreds. There will be some leaps that Pakistan will make just like social media in Pakistan is gone beyond from where it can be pulled back. It is just a matter of one app after another getting adapted. If the infrastructure of digital space moves as fast as it is for the next five years, Pakistan will be in a different place than it was a year ago. The digital revolution has already happened and it is only going to accelerate.

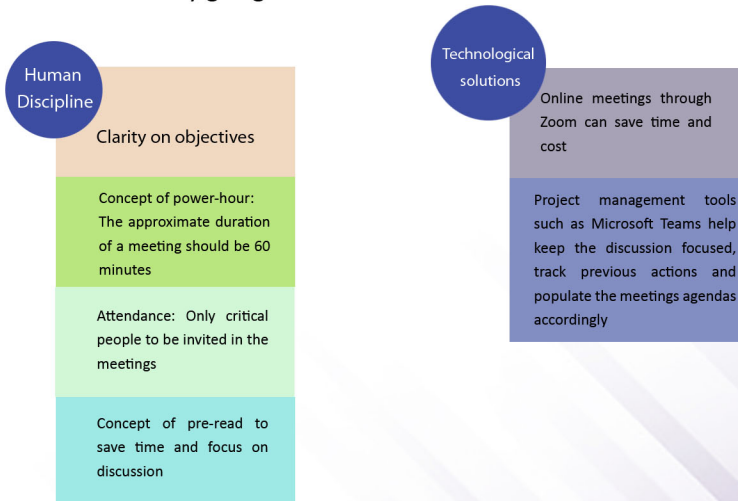


Figure 2 Solution to the culture of meeting madness



## Business Viability of Franchises

The shift to online delivery started even before Covid. When technology began to take over and businesses started to shift more towards out-of-store and delivery options. This shift will change the entire dynamics; the operations, the layouts and decisions etc. Dine-in is now going to be more experiential and every retail brick and mortar will have to enhance their experience, technology and online delivery to be more driven by value and offerings. Eventually, the model and cost structure is going to change.

## Technology as a Facilitator for FMCG Sector

Since the last 5 to 10 years, there were incremental transformations in technology such as increasing efficiency, cutting cost and driving growth through technology. It was more about digitization of existing business processes however, as the transformation caught up, the penetration of technology increased, making it an enabler for new business models. Most of the FMCG sector were already implementing ERP such as SAP to become more efficient.

Due to Covid, technology enabled enough consumer and industrial base to be ready for a business model shift. Currently, there is 135 million mobile base in Pakistan – a number comparable to any large country in the world. The country is in the top 5 countries, right after India, China, Indonesia, Brazil and US. This is called silent penetration.

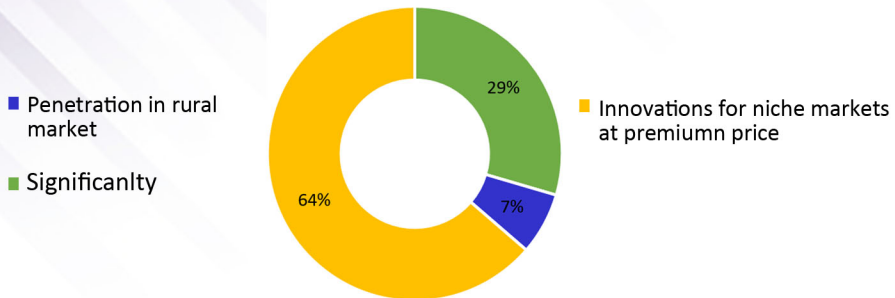
The retail segment business-to-business e-commerce is a new segment which is now emerging very rapidly. People are questioning the need for physical contact for a business to business transaction. For example, SAP globally launched SAP market place where Coca Cola manufacturer can procure bottle caps from multiple markets. Similarly, FMCG sector will also have a gradual technological transformation. Pakistan happens to be the top 5 market for many FMCG categories but it lacks the type of infrastructure required to catapult a digitized sphere.

Along with the challenges, organizations had a couple of realizations,

- The realization that black swan is real and it is not something that can be put up in the SOPs and as a business contingency measure.
- The forced major clause in the contracts became quite evident.
- A different perspective of technology that is not only for incremental gain, RFIDs or for inventory management but as an enabler for new business models.

In Covid, while e-commerce was booming, there was a rise in vicinity shopping so organizations are investing in digitization of the value chains. To conclude, it is fine to look at incremental investments for technologies but technology has to be looked at as an enabler for complete business model. Businesses with powerful brands without a distribution grid to consumers will not be able to extract much value from the consumer.

## TECHNOLOGY AND AUTOMATION WILL INCREASE UNEMPLOYMENT FOR LESS SKILLED WORK FORCE IN PAKISTAN



### Expectations from Finance Department

The most important job of management is resource allocation and finance department can play the most significant role in shaping these strategic choices such as what are the opportunities, what is the size or price of each opportunity, what are the fundamental abilities to compete in each of those areas and eventually what is the value for the company return for the shareholders.

Secondly, regarding offering superior values to consumers, productivity is the biggest part of the offering with superior values unless you work hard on productivity and efficiency. While this is an area where every department has to contribute but finance plays an important role by providing thought leadership to other functions.

In the corporate world, there is this mindset that finance is about managing the books or keeping things in order etc. Over the years, there has been a real evolution on strategic analysis so finance becomes a key leader in an organization on strategic analysis helping top management make choices and guiding them on the value that exists in those choices. Not 100% of the finance community in Pakistan understands or embraces this role, although in some organizations it is more evolved than others and globally it has gone to another level. One of the things that would be good for anyone aiming to have a career in finance is to understand that the role is not just financial management but more strategic in nature.

## Key Learnings

We are living in an era of information with immense data particularly in the FMCG industry. The key is to filter relevant data and convert it into meaningful information and insights for business application. AI and IoT technologies will be involved into information systems; the sooner it happens, the better it will be.

Today, technology and automation continue to make significant changes in the corporate world and society at large. Therefore, the key influencers must initiate a comprehensive plan to educate and train untrained and unskilled workforce to transform them into valuable sources ready to deal with the new demands.

On the other hand, climatic change due to global warming is probably the biggest threat for FMCG and Food Industry since it may damage the agriculture sector and create massive food security issues. To mitigate this high risk, businesses require backward integration – for more than ever – to secure their supply chain.

Few more takeaways include,

- Consumers are now more concerned with their health and wellbeing and accordingly functional communication may play an important role in FMCG future growth which leads to a possible shift in future investment and communication strategy
- New business models are emerging and may disrupt the existing Rout to Market strategies
- E-Commerce and its emergence as a direct to consumer channel

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*This paper is an extract from the ICAP Webinar on 'FMCG Sector – The Winner Amidst the Crisis?'. The paper is reviewed by Mr. Shakaib Arif, FCA Director Integrated Supply Chain, National Foods.*

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