

TAKING YOU THROUGH THE BISCUIT INDUSTRY

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Perhaps one of the most underrated, least talked about and low thrill industry, the biscuit business has been making waves for the last few years!

Biscuits eating habit had been inculcated into the Pakistani frame work with 'sipping of tea' post British Raj. The biscuit, a natural complement during evening tea or in large receptions and parties has been a necessity at least in the upper income tier. The lower tier though not as heavy in consumption could not abstain (being Pakistanis' with a sweet tooth) and with baking being a relatively easy concept (eating fresh biscuits being a necessity), the industry as expected started growing at a fast pace. This led to the sprouting of the unbranded neighborhood bakeries that made small quantities of large variety of irresistible snacks.

The story unfolded with the entry of English Biscuits Manufacturers (EBM) some forty years ago into a relatively virgin market. From a humble two product business, EBM started to expand in terms of product range and geographical penetration (local and exports). Other key players of note such as Union Industries with their confectionary and biscuits range have gone out of market since then.

Numerous unsuccessful entries by international brands in the 80s' led to a large void in a market that was ready to take off. Companies like Danish Cookies and McVities could not crack the market due to incorrect product mix, poor vision/management and adaptation of product to local taste (product development). Enter, Continental Biscuits (CBL) with a French brand, LU with the right product for the right market. With two major players in the market with a wide portfolio mix, the consumption habits started to change with increased usage and new users coming into the fold!

By 2001 the industry had grown to 45,000 tons; however the largest player was still the unbranded/bakery type biscuits with 90,000 tons. The real challenge hence forth was two (as with most industries at that time):

- 1) Conversion from the loose/unbranded to branded

2) Increasing market size through increased consumptions

Companies stepped up to the challenge through innovations in the form of new brands (Sooper, TUC, Candi, Tiger and Peanut Pik..), packaging breakthroughs (half roll, tikki packs..) and breakthrough product developments, (who can forget with the tag lines such as: Candi by LU; TUC kay sath chaiya, Mama Sooper.....). With the growing market size and unbranded conversions by early 2000, the industry saw the entry of several key smaller players such as Bisconni, Mayfair and Kolson. New players all wanted a slice of the pie and hence, by 2006 the market grew to 175,000 tons with successful conversions to branded; standing 130,000 at ton.

However, with the conversions from unbranded taking place a new parasite hit the industry in the form of copy/infringements/poor quality me toos'. These operators with small to medium sized set ups started operating in interiors of Punjab and Sindh under cover, safe from any government taxes or being bound by any professional code of conduct and quality standards. With little government support to fight them, larger companies gave into the premise of their existence, co existing with them!

Market share in the branded and total market still remained with top two players, EBM and CBL with 37and 26% respectively. Major upsurge was witnessed after 2004 with the growth in the soft biscuit category driven by two power brands: Sooper and Bakeri, collectively 24% of the total biscuit market! The branded industry with an average 23% compound annual growth rate showed no signs of fatigue with increased consumption coming from urban areas' and new consumption from rural penetrations.

Though it should be a highly regulated business as the part of the food industry surprising it is not, only a handful of players meet international guidelines for food safety. Following through with HACCAP, GMP, ISO and other standards becomes even more difficult when the industry is so volatile in terms of input prices for materials and hence smaller players with the need to stay competitive give into constant re engineering and low focus on hygiene standards that comes at a high price!

So how does the industry fair in respect to the international players and market. Well surprisingly the quality of products is superior to Indian products, which are lower in quality but also lower in price (hence value for money). Approximately 10,000 tons (USD 1.5 mn) is exported from USA to Africa and from Europe to CIS countries, hence wide net penetration but nonetheless a paltry amount in terms tonnage exported world wide.

Consumption per person (per annum) has come along way from 0.6 kg in 2001 to almost 1.1 kg by 2007. With international benchmarks such as India at 1.6 kg and European countries above 4 kg we have far to go; a marketers dream to reach and nightmare to attempt to get there!

The market has been segmented primarily into adults and kids with further segmentations in terms of taste profiles/Lifestyles and hence:

Soft & Sweet Plain	Sooper, Bakeri, Gala, Bravo, Treat...
Cream Filling	Prince, Rio, Cocomo, Jam Hearts
Salty Snacks	TUC, Saltish
Indulgent/Sweet	Candi, Chocolate Chip
Plain Glucose	Munna, Gluco, Tiger
Ingredient Based	Party, Zeera Plus
Healthy	Wheat Slices, Wheatable

Sooper dominates as a mass market favorite followed by Tiger as middle to low tier brand.

Loyalty in the category though medium to high has a high level of conjunctural usage within households. Hence segmentation becomes more difficult in the true sense with a two sets of presumably different audiences behaving in a similar way.

Biscuits traditionally have been positioned a 'in between meals' snack with 80% consumption coming from in home usage. Though strong innovations have come in to the industry none of the big players have tried to move into new segments and or positioning. Internationally there is a huge market for morning biscuits, infant biscuits, high impact energy biscuits (much like the Red Bulls..).Out of home consumption in the West is as high as 50% because the propositions, positioning and habits have been redefined.

Advertising and marketing in the industry has surpassed all other benchmarks in the previous years with serious investments in brand building. Over Rs. 0.5 bn is estimated to be electronic media spending in 2007 with a total marketing spending of no less Rs. 1.0 bn; this has grown at estimated 25% per annum over the last few years!

However, the clarity in positioning and communication routes still fair below international standards (reference India). We still strongly focus on the emotional, jingle based, in home consumption family slice of life moments communications. Very few have ventured into new routes of strong humor (reference Moongpali Plus as with Jawad going for

Wedding proposal) or strong celebrity endorsements (Rithik Roshan in Indian chocolate chip cookie ad).

Consumer behavior within biscuits follows two extremes from: indulgence to meal substitution/healthy alternative. With the advent of media exposure, international brands inflow consumers have become tired of the older brands and seek variety within their price range. Clearly the indulgent category is smaller (Candi, Chocolate chip cookies..) with room to grow but needs the stimulus of innovations.

However, the faith of the industry is still hanging in the balance with the pressure on bottom line margins. The last significant price increase for the industry took place in 2000, after which spiraling raw material prices caused havoc with the biscuit players that were forced due to intense competition and low purchasing power of consumers to absorb the prices to a larger extent; hence passing of indirectly in the form of reduction in biscuits in pack, squeezing margins of suppliers and reformulations in products itself. But that too could only be sustained for short term period with the inevitable decision to either close up shop or proceed with a direct price increase by 2007.

Hence the long awaited price increase came mid 2007 (as with most other brands such as: Pepsi snacks (Lays), Kolson (Slanty) and Confectionary..) with an immediate 20% price increase. The effect was unexpected with the volumes plummeting in the first few months for industry (or those players that increased prices). Consumers who would have in normal circumstances paid the extra few rupees were cash strapped with the general spiraling food inflation (one roti was now equal to a tikki pack!) decided to curtail their sweet tooth craving for the stomach pangs!

The side effect other than the temporary slump in consumption was the sudden revival (of the already robust) 'infringements and me too players'. If it was not already too lucrative to operate another 20% price premium/differential made the picking for them easier! Already contributing over 30,000 tons growing at 20%, this parallel, low quality, low price industry was ready to take over unless some government intervention restricted the growth. Any rupee sale sold by these operators' resulted in revenue loss to the government of over 0.25 paisa (0.15 paisa in GST, FED, duties..) and at the same time damaging perfectly well functioning competitive units that could take advantage of economies of scale that would assist in passing on subsequent benefits to end users.

A recent phenomenon with the final results yet to tabulated and decisions to be made, the next few months for the biscuit manufacturers tends to be quite challenging.

The prediction of the industry in next five years is of buoyant Rs. 35 bn with 4 to 5 key players (the remaining being edged out) with good margins and portfolio meeting international quality and product standards.