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NOURISHCO BEVERAGES LTD.: Making New Inroads

Neena Sondhi wrote this case solely to provide material for class discussion. The author does not intend to illustrate either effective or ineffective handling of a managerial situation. The author may have disguised certain names and other identifying information to protect confidentiality.

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In May 2016, Harsh K. Rai, chief executive officer and managing director of NourishCo Beverages Ltd. (NourishCo), was reading with pride the special mention of NourishCo’s performance by the chief executive officer of PepsiCo India Holdings (PepsiCo), Indra Nooyi, included in her 2016–17 second-quarter summary report. As Rai looked away from the colourful array of sample packs towards his talented team of dedicated professionals, he knew the young company had already made a mark in the beverage sector.

NourishCo began its journey on October 28, 2010.[[1]](#endnote-1) The long-term corporate vision of NourishCo was to focus on the health and enhanced wellness needs of India. The company currently had a diverse and well-conceptualized portfolio of three brands. It was founded as a fifty–fifty joint venture between one of the world’s best-known companies, PepsiCo, and one of India’s most respected and trusted brands, Tata Global Beverages (Tata). Since its inception, the two parent firms had been regularly financially supporting NourishCo.

After a considerable amount of investment in product, packaging, manufacturing, and innovations, NourishCo had successfully met the objectives of its business model. The company now wanted to continue its expansion nationwide. The NourishCo board had approved national expansion plans with Tata Gluco Plus as the company’s leading brand. This was a great step forward, but the pragmatic 46-year-old Rai knew that with great expectations came great responsibilities. NourishCo had a distinct, low-cost, and effective business model. However, the low entry barriers in that segment could lead to fierce competition from both big and small companies. Tata Gluco Plus had taken four years to establish a market presence. However, to retain its first mover advantage and achieve financial viability, NourishCo needed to be a national company within the next couple of years, or else it could lose its unique status as the on-the-go energy company.

However, there was the question of how best to carve a national footprint. Should the company begin with regions closest to its existing market or expand to regions with different climatic and customer compositions? The company’s fragile product packaging needed support from its manufacturing operations in the region. Was the decision to keep this kind of packaging viable for a national strategy? What about the variant mix; should regular flavours like lemon and mango be kept or new regional choices added? Rai expected that the company would be moving at a very fast pace over its next phase. The company would need to strike a perfect balance between managing cash flows and expansion plans.

THE NON-ALCOHOLIC BEVERAGE MARKET IN INDIA: An Overview

Although the definition of a non-alcoholic beverage varied across countries and continents, it was widely known as a drink that contained less than 0.5 per cent alcohol. The category originally referred to juice, cider, and lemonade and expanded over time to include a large variety of products in a profitable and diverse market sector. In 2016, the category was separated into carbonated soft drinks, functional or non-carbonated drinks, and hot beverages. Carbonated drinks, the largest group, accounted for 40 per cent of the category,[[2]](#endnote-2) growing at an annual rate of 10 to12 per cent in India.[[3]](#endnote-3)

Functional beverages were grouped together based on useful benefits they provided to consumers. Therefore, the category included functional water and other drinks that contained some form of healthy ingredients, such as vitamins, minerals, prebiotic or probiotic bacteria, and raw fruits and vegetables. These drinks came in the form of fruit- and vegetable-based juices, or pre/probiotic and energy drinks. The category also included ready-to-drink tea options, which were also considered to have functional stimulating benefits. Dairy-alternative beverages, which were non-dairy drinks and an important source of nutrition for lactose-intolerant consumers, were also part of this group. The energy and fruit-based juice drinks together accounted for more than 50 per cent of the functional beverage market. These two sectors were expected to see exciting growth in the future, at a compound annual growth rate of 25 per cent for energy drinks and 30 per cent for fruit-based juice in value terms.[[4]](#endnote-4)

After India created the food and beverages sector in the late 1990s and 100 per cent foreign investment was allowed (see Exhibit 1), there was a proliferation of international brands with extensive reach across all beverage segments over the entire country. Generally, three different manufacturing models were used by these beverage firms: contract-based outsourced manufacturing, franchisee operations, and stand-alone company-owned operations. Working capital management and brand building were challenging for stand-alone operations, especially for creating a national brand. Quality diversification was a clear advantage for firms that had company-owned operations. On the other end, a company with franchisee operations had a lower liability because of fixed assets, which made exiting the market much easier, compared to other models.

The Coca-Cola Company, PepsiCo Inc., and Parle Bisleri Ltd. dominated the soft-drink and bottled-water market.[[5]](#endnote-5) With very little differentiation between products, they carried out continuous product innovations and extensive brand-building exercises to create entry barriers for new ventures. They also had the advantage of well-planned wide reach through their distribution and manufacturing networks.

In the previous six years, an unexpected but critical market trend had emerged. Smaller beverage companies from Tier 2 cities[[6]](#endnote-6) had grown by 30 per cent. This was almost twice the growth rate of the market leaders in Tier 1 cities.[[7]](#endnote-7) In 2014, the market research firm Crisil had predicted that aggressive smaller companies would likely occupy 40 per cent of the food and beverage sector by 2019. Two regional companies were making significant gains in the market. Kali Aerated Water Works, based in Tamil Nadu, achieved success with its flagship brand Bovonto; and Hector Beverages, based in Haryana, had two successful brands: Paperboat and Tzinga. Both companies adopted, packaged, and branded traditional unbranded flavours and used innovative packaging and branding to succeed where cola giants led the market. These two brands were preparing to gain a national presence in forthcoming years.

The soft drink sector was almost constantly affected by fluctuations in the prices of raw materials including sugar, artificial sweeteners, fruit-juice concentrates, and other commodities. The base ingredient for soft drink products was water, which was a major risk factor for the sector because water stress was a global and national area of concern.

New trends, shifts, and reversals were also expected in the market share of carbonated and non-carbonated beverages based on forecasts of key market and consumer trends.

SHAPING FUTURE MARKETS: Key Market and Consumer Trends

According to market research, two-thirds of future market growth in the soft drink beverage sector would be coming from Asian nations, mainly India and China. Carbonated, non-carbonated, and packaged water were going to be the major areas of growth[[8]](#endnote-8) despite environmental and health concerns. The chief managing director of Manpasand Beverages, a fruit drink company based in Guajarat, India, compared the sector’s growth in India to other countries as follows:

As per a report, India’s per-capita consumption, annually, of soft drinks is three litres, while it is almost 90 litres in the [USA](http://economictimes.indiatimes.com/topic/USA) and 16 litres in Pakistan. In a country of more than 1.2 billion people, if consumption increases from three litres to six litres, I am sure that no company can fulfill that demand. Such is the potential size of our market.[[9]](#endnote-9)

A McKinsey report predicted exciting times for India and forecasted that by 2025, it would be the fifth-largest beverage-consuming nation in the world. The factors that the report credited for this growth included a 7.4 per cent increase in household incomes between 2015 and 2025, although the distribution of income would be erratic across income classes. A significant prediction was that employment opportunities would trickle down to the base of the income pyramid, labelled the *deprived* group, whose average annual income was less than ₹90,000.[[10]](#endnote-10) This group was expected to shrink from 54 per cent of the population to 22 per cent by 2025.[[11]](#endnote-11)

According to the report, smaller nuclear households, increased urbanization, and a rise in the number of double-income families would further contribute to increased beverage consumption. With higher consumption growth for beverages in urban areas, a considerable increase in consumption in smaller cities and low-penetration rural areas was also forecasted for the coming years. These areas, which once suffered due to a lack of adequate infrastructure, would gain with improvements in existing roads and infrastructure development, which had become a prime focus for central and state governments in India. This would be further accentuated by improvements in cold storage and supply chain facilities.

Consumers around the world, including in India, were consciously moving towards bottled water and water-based beverages for health and wellness reasons, making pure water and fortified water beverages natural choices.

Another trend of some significance was the emergence of smart consumers[[12]](#endnote-12)—well-informed customers that sought complete transparency in the ingredients and production processes of products, demanding more natural and less processed foods and beverages. An increase in out-of-home consumption of food and beverages was also expected, partly due to the fact that consumers were spending more than 50 per cent of their waking hours outside the home, engaged in either work or leisure activities. Public beverage consumption was carried out in retail and restaurant settings, while private consumption occurred at home. Roughly 80 per cent of beverage sales came from public, or out-of-home, consumption,[[13]](#endnote-13) making on-the-go, ready-to-use, single-package units the preferred choice for all consumer groups.

These consumer trends were shown to be effective in shaping the routine decision-making habits of consumers, who were seeking new flavours and packaging options. These behaviour patterns had been recognized and addressed in the product strategies of both small and major companies that looked for innovative packaging, labelling, product form, and composition for their offerings. Companies in India and around the world were experimenting with effective and innovative manufacturing processes, taking care to balance functional and health benefits with taste.

However, none of these trends could work without delivering value for consumers, as expressed by Saloni Nangia, president of the market research firm Technopak:

Some segments of urban India are becoming more health-conscious . . . there is huge opportunity linked to fortified water or milk—they have more mass appeal; [however,] if you look at it from a nutrition perspective alone, one has to look at pricing. Value-priced models will have a bigger market opportunity. As a high nutrition product, it is possible to create a new category, as long as it’s also value and not only lifestyle.[[14]](#endnote-14)

Another factor that needed to be considered while designing product forms and flavours was that India’s vastness and diversity in climate and demographic composition exhibited immense variations in beverage preferences. Regional drinks and flavours held familiarity for the localized preferences of consumers (see Exhibit 2).

NOURISHCO BEVERAGES LTD.: The Inside Story

NourishCo began as the dream project of the two Indian business icons, Indra Nooyi and Ratan Tata, in October 2010. The company was set up as a fifty–fifty joint venture between PepsiCo and Tata to fill the health and wellness gap in the country by delivering healthier hydration options for the Indian consumer.

The partnership agreement materialized a year later, in 2011, and NourishCo was launched as a full-fledged company. The company’s first brand and manufacturing product was the global beverage brand Himalayan. The company began its journey with experts from both PepsiCo and Tata, with each company bringing its own team of talent and experience to the project for the sale of “good for you” products to the Indian masses. These professionals worked to set up operations and business processes at the new company.

The six-year journey had seen two changes in leadership by 2015, when NourishCo announced that Rai would be its third leader. Rai had been a senior director of sales (snack foods) at PepsiCo. He was an economics major and a management graduate from S. P. Jain Institute of Management and Research. By the time Rai took over, the company had three unique brands—Himalayan, Tata Water Plus, and Tata Gluco Plus (see Exhibit 3)—with which to address the health and wellness beverage consumer gap throughout the country. At the top of the market segment was Himalayan, a product that catered to holistic wellness needs on a global scale; at the bottom of the beverage market was Tata Water Plus, a lower-priced product sold in pouches, to meet the nutritional needs of consumers. Rai explained the company’s product strategy as follows:

Indian consumers across segments have different health and wellness needs. There is one set we call the “globals,” who are at the top of the pyramid, who are evolved and seek holistic wellness options. Then, there is the rapidly-growing middle of the pyramid, for whom, apart from replenishment, energy needs are very important. And then there is the absolutely bottom end of the pyramid, where nutritional needs are greatest. At NourishCo, through the three hydration brands, we are attempting to address the health and wellness needs across the segments. Tata Water Plus, India’s first nutrient-water brand, apart from being a safe alternative, provides immunity for the bottom of the pyramid. Next is Tata Gluco Plus, for the consumer who wants to get into packaged beverages at a ₹10 price point, and for whom on-the-go energy is a strong requirement. Himalayan is natural mineral water sourced from the Himalayas, targeted at those seeking holistic wellness.

NOURISHCO BUSINESS MODEL: Developing a Formula That Works

NourishCo’s organizational vison and mandate was to become India’s number one hydration company. Tata had transferred to NourishCo its established premium brand Himalayan, which brought natural mineral water from the foothills of the Himalayas to consumers. However, for the company to meet its mandate, it needed to look at other options as well. Through a systematic and structured path, it was able to create a unique value proposition and a cost-effective business model.

Understanding Consumer Needs

The process began by first identifying the consumers’ need that NourishCo wanted to target with its product offerings. One obvious consumer need was a basic thirst quencher. Considering that India was generally a hot country with contaminated bodies of water, clean drinking water was seen as a basic necessity. NourishCo executives realized this and made a conscious decision to provide a safe drinking water option, but with a difference. To do this, a comprehensive water assessment study was carried out by Tata.

The study identified some glaring micronutrient deficiencies among the Indian population. One of them was zinc deficiency, a generally latent and little-known issue. Diarrhea was a common ailment in India due to low-quality water conditions, which could lead to heavy zinc loss in the body. The World Health Organization spotlighted this problem, which it commonly addressed with zinc tablets.[[15]](#endnote-15) The health benefits of zinc included a boost for the immune system.

Another important consumer insight discovered in the study was the perceived importance of copper to India’s consumers. Indian residents generally stored water in copper vessels overnight, which they believed was a healthy practice, and Tata recognized the appeal that copper had as a cultural value for most Indian consumers.

Another opportunity that NourishCo identified was a significant gap in the beverage market. Most of the Indian population was employed in manual labour, which was mainly carried out outdoors. This livelihood necessity, combined with the nation’s tropical heat, led to excessive sweating, causing losses in bodily electrolytes and sapping energy. Iron was also identified as an important deficiency among India’s population. Studies by major institutions showed that a significant portion of India’s population was anaemic, which was a further drain on energy for consumers. These two health-related issues created a major need for consumers, although no ready-to-drink product was currently available in India’s beverage market to address deficiencies in electrolytes, zinc, or iron in consumers. Interestingly, homemade and available-at-home options did exist, including powdered glucose drinks. However, there were no products currently on the market to meet India’s out-of-home energy beverage need.

Creating the Value Proposition

Two new brands were created to address the gaps in the market identified by the research. The first was Tata Water Plus, India’s first nutrient- and immunity-boosting water brand. The second was Tata Gluco Plus, India’s first non-carbonated energy drink, with the added benefits of electrolytes and minerals. The company ensured that both Tata water products delivered affordability and taste, as well as health. “Taste is a hygiene [core benefit] factor,” explained Rai. “You need to understand that while consumers seek a healthy drink option, it cannot be at the cost of taste.” He further emphasized that a country like India required attractive price points.

Tata Water Plus

The first Indian states where this product was launched were Tamil Nadu and Andhra Pradesh, which were very large beverage consumption markets in 2013. The targeted population group for this product was the lower end of the consumer pyramid. The NourishCo team recognized that the likelihood of nutrient deficiencies was more common among this group because of their limited food and beverage resources. After extensive consumer research, the company also realized that at the lowest level, consumers would not be willing to spend more than ₹2 to ₹3 for a thirst-quenching option. Therefore, the company worked towards developing a packaging innovation that would help the company deliver the product at this price point, arguably one of the lowest prices from a major company anywhere in the world.

Although existing local brands did offer laminated pouch water, they came with a plastic odour that affected taste. NourishCo’s technical and operations team developed a special quality of laminate that did not create an odour or taste in the water, and that had a shelf life of two months even in the challenging Indian climate conditions. This enabled Tata Water Plus to offer a zinc and copper fortified water for as low as ₹2 for a 200-millilitre serving. In 2013, the company changed the product’s packaging and labelling to a copper coloured design. By 2014, Tata Water Plus was available in three states—Tamil Nadu, Andhra Pradesh, and Gujarat—in both pouch and polyethylene terephthalate format.

Tata Gluco Plus

Tata’s non-carbonated product had to address the instant-energy needs of the consumer by providing electrolyte replenishment, as well as having a satisfying taste. Therefore, the next step was to collect further insights on what would be the right flavours. Research revealed that the safest (most liked) flavours were orange, lemon, grape, and mango. Based on these insights, PepsiCo’s research department worked towards creating a water-based, non-carbonated drink that blended essential dextrose with electrolyte replenishment through sodium and potassium salts, plus iron at 10 per cent of its recommended daily allowance. The challenge in this composition was the iron content, which could leave an aftertaste. However, after considerable trials and reformulations, the team got it just right.

The product was to be manufactured indigenously, and thus a plant was set up in Aurangabad (Maharashtra). Initially named Lehar Gluco Plus, the lemon-flavoured, non-carbonated rehydration drink was test marketed in February in Maharashtra at an introductory price of ₹5. Later the company decided to change the Lehar name to Tata and formally launched Tata Gluco Plus in the hot and humid state of Tamil Nadu in 2012, in a first-of-its-kind peelable cup. The packaging was a key enabler to making the drink affordable at a price of ₹6 for a 200-millilitre cup. By the end of the year, the brand was launched in two new flavours—orange and mango. Subsequently, the new flavours of grape (in 2013) and apple-cinnamon (in 2014) were added. The product also changed price, first to ₹8 in 2014 and then to ₹10 in 2015.

Three years after the launch of Tata Gluco Plus, the company decided to revamp the brand, and significantly changed the packaging and labelling in 2015. This change was accompanied by new flavour names and the new tag line *Gas Minus Energy Plus*. That same year, the first television advertisement was aired for the brand, and widespread contests and events were launched in the states of Tamil Nadu and Andhra Pradesh to support the brand’s positioning.

ONSET OF A NEW JOURNEY: Why Tata Gluco Plus?

With success came the desire to replicate and expand the success story. Himalayan already had a national presence, but it catered to a very small niche market. Therefore, to emerge as a major hydration company, NourishCo needed products with a wider appeal. NourishCo executives recognized that although Tata Water Plus was unique as the only nutrient water in the country, it lacked a distinct taste, making it nearly impossible to distinguish the core benefit from other similar branded packaged water. The brand would need an immense awareness campaign for consumers to seek out the branded water for its core added benefits: zinc and copper. With such a considerable investment in marketing and time, the company decided to launch Tata Gluco Plus nationwide. The product was promoted as an on-the-go product that provided energy replenishment through essential salts and, at the same time, the core benefit of great taste, in popular flavours.

Crafting the Value Proposition in Tata Gluco Plus

Rai reflected on this next phase as NourishCo moved toward crystallizing the business model with Tata Gluco Plus. “After we rolled out this brand in Tamil Nadu and in the neighbouring state of Andhra Pradesh, we felt that it was time to scale up, and we went to the NourishCo board, with a proposal for expanding nationally.” The challenge for a product rollout was the fragile cup as the product’s packaging, which could not safely travel 300–400 kilometres to reach consumers across the country. Therefore, the manufacturing and supply of the product units had to be close to where consumers worked and lived. With the average size of an Indian state at approximately 500–700 kilometres in radius, at least one plant per state was needed—more than one for bigger states like Uttar Pradesh. While the board was not averse to expansion, the concern was the considerable capital expenditure required. A single plant needed an investment of close to ₹180 million, so if the firm looked at 10 states and needed 10 plants, it meant an investment of ₹1.8 billion. This kind of investment was risky. Underutilization was one concern, especially in the initial years, when demand for the drink would likely still be low.

The NourishCo team recognized that it had the right level of product, but needed to somehow justify and considerably reduce the capital investment. The technical and operations team, which was given the task of solving this problem, came up with an indigenous solution that would cost only 12.5 per cent of the original proposed capital expenditure (see Exhibit 4). Rai and his team again sought the board’s support for piloting and testing this manufacturing solution, and the board quickly approved the project. The first indigenous plant was eventually set up in Hyderabad (in 2016). The product was pilot-tested and subsequently launched in that region, obtaining positive results within three months.

However, the company encountered other challenges. A viable expansion required the right margin structure to be sustainable, but at a price point of ₹10, the company’s profit margins would be limited.In-house manufacturing would provide some relief in terms of expenditures, but the packaging material was still a concern, as Rai explained:

Next, we looked at somehow working toward reducing the manufacturing cost. So, we said, “In this cup format, can we improve on this format also and can we use a weight of a lower order?” Thus, we worked toward reducing the weight of the cup. So, experiments were done around that. Alternate vendors were identified so that we could get the right kind of pricing for our raw material. All this was done so that our margin structure becomes viable in order to replicate this model and expand nationally.

The strategies worked, and profit margins started to improve. The company then experimented with some local (regional) flavours. Upon examining consumer habits in Tamil Nadu, it was determined that children in Northern India had grown up on something called *paneer* soda, made from curdled milk and used to make special vegetarian food dishes. However, in Southern India, paneer referred to the rose flavour, which was used to create a rose-flavoured drink designed especially for this state.

To test the market potential in neighbouring states, Tata Gluco Plus was made available in a few select cities in the states of Karnataka, Kerala, and Maharashtra. The product’s availability was managed by making use of the distribution resources of the parent company, PepsiCo. In some areas, the product was distributed through franchise partners. At this early stage in the product’s marketing process, testing was done without setting up any manufacturing facilities in these states, even though it was important to manage the supply chain for the fragile cup format in an effective way. NourishCo eventually established a manufacturing plant in the state of Jammu in 2015, and Tata Gluco Plus was rolled out in that state in the summer of 2016.

THE DECISION DILEMMA: Marching Into the Future

Looking at the future, Rai shared his vison for the company:

NourishCo has been very nimble-footed and an extremely cost-conscious organization. Our credo is “Think fresh and act fast.” Our focus will be on building great brands, but constantly challenging ourselves in terms of improving cost efficiencies. At this stage, I do not have a clear-cut answer that I can articulate for what the future holds for NourishCo. But rather than giving you a specific answer, let me give you a sense of the sort of organization we would like to see it evolving into. We would like to be known as *the* hydration company of the country, which addresses the health and wellness need, straddling the entire socio-economic pyramid.

Himalayan was the company’s established brand, but the surprise element that had captured the imagination of consumers was Tata Gluco Plus. The brand had taken the market by surprise and carved a niche among the traditional beverage consumer market in two large geographic areas of the nation: Tamil Nadu and Andhra Pradesh. Tata Gluco Plus was the vehicle through which NourishCo intended to move ahead on its national journey. Rai emphatically supported that vision for the brand:

NourishCo has the potential to enter the 10 billion club in the next couple of years. And as we march ahead to make our presence in five to seven more states, lots of local players will pop up. There are two things that we are trying to work on to address this issue. One is the speed. The first thing is how quickly I can scale it up in multiple geographies, so that there is no loss of time. And second is how can we develop a generic identity for the brand so that, if it is about instant energy, the only name that surfaces in your mind is Tata Gluco Plus? You don’t think beyond that.

NourishCo had been a successful business thus far. However, investing in the company’s expansion strategy came with a cost (see Exhibit 5). The company was successful in making use of product trials and innovation to create a unique and value-based beverage proposition. However, Tata Gluco Plus still needed to establish itself as the everyday choice of the targeted audience across the country for an on-the-go energy drink. With small regional companies looking to imitate the cup format and ₹10 price point, Rai had to move fast, before the brand lost its unique identity.

Rai had a weekend to prepare for his national rollout plan presentation to the Tata Gluco Plus management team. He still needed to resolve three key factors: the region, the flavours, and the product’s unique advantage.

The Region

With 29 Indian states, there were just too many possible combinations to consider. The brand had already established a presence in the southern states. However, several questions remained:

* Should the company expand into neighbouring southern states? Or would this decision define the brand as a southern product and make it less acceptable in other states?
* Because the brand also had a presence in the northernmost corner of the country (Jammu and Kashmir), would it be wiser to begin there?
* However, as beverage consumption was lower and more seasonal in those northern states, should the company instead consider states with a hotter climate, like Rajasthan and Gujarat?
* Should the company maybe consider a combination of southern and northern states, or all regions?

The Flavours

After starting with flavours that had national appeal (lemon, orange, apple, and mango), the company had experimented with local flavours such as paneer soda. However, three questions remained:

* What combination of flavours should the brand adopt?
* Should the company consider only generic flavours such as lemon and orange?
* Would localized flavours had better regional acceptance?

The Unique Advantage

Tata Gluco Plus had several unique assets: the plastic cup format, non-carbonated and non-caffeinated energy benefits, an attractive price point, and a great taste. However, two questions remained:

* As the company planned the national launch, what should be the brand’s key differentiators?
* What benefits should the brand focus on as it developed its brand communication?

Staying ahead of the competition while remaining true to its vision of constant innovation backed with operational efficiency was critical to NourishCo. Tata Gluco Plus was the launch vehicle that the company had chosen for the next phase of the journey. Could this relatively new brand deliver on the promise that it had created?

The author would like to acknowledge the help preparing this case received from Mr. Harsh K. Rai, chief executive officer and managing director, NourishCo Beverages Limited.

EXHIBIT 1: Government policies Affecting India’s Food and beverages segment

|  |  |
| --- | --- |
| **Scheme** | **Details** |
| Foreign direct investment | Except for at plantations such as spices and coffee, 100 per cent investment is allowed in food processing. |
| Food parks | Financial assistance at 75 per cent of the project cost is permissible (to a maximum of ₹500 million). |
| Equipment (import duty) | A 5 per cent custom duty is imposed on the import of capital goods and machinery (including second-hand goods). |
| Income tax exemption | An income tax rebate of up to 100 per cent on profits for the first five years and 25 per cent for another five years is allowed for new units to process, preserve, and package fruits and vegetables. |
| National mission of food processing | State governments set up food processing units or parks, and the central government provides technological and logistic support. |
| Regulations including the *Monopolies and Restrictive Trade Practices Act* and the *Foreign Exchange Management Act* | Rules and regulations for both acts have been relaxed to encourage large conglomerates to invest and expand in the food and beverages sector. |
| Priority lending status by banks | Since 1999, banks have been given priority for lending. |

Source: Prepared by the authors based on data from “Ministry of Food Processing Industries,” Government of India, accessed September 8, 2016, http://mofpi.nic.in.

EXHIBIT 2: Snapshot of India’s cold beverage consumption by state

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **State (Area in km2)** | **Population** | | **Cold Beverage Consumption (in litres per month)** | |
|  | **Urban** | **Rural** | **Urban** | **Rural** |
| Andhra Pradesh\* (275,045) | 28,353,745 | 56,311,788 | 0.078 | 0.258 |
| Arunachal Pradesh (83,743) | 313,446 | 1,069,165 | 0.316 | 0.085 |
| Assam (78,438) | 4,388,756 | 26,780,516 | 0.122 | 0.016 |
| Bihar (94,163) | 11,729,609 | 92,075,028 | 0.070 | 0.009 |
| Chhattisgarh (135,191) | 5,936,538 | 19,603,658 | 0.098 | 0.037 |
| Delhi\*\*(1,490) | 16,333,916 | 419,319 | 0.472 | 0.185 |
| Goa (3,702) | 906,309 | 551,414 | 0.215 | 0.080 |
| Gujarat (196,024) | 25,712,811 | 34,670,817 | 0.623 | 0.064 |
| Haryana (44,212) | 8,821,588 | 16,531,493 | 0.542 | 0.132 |
| Himachal Pradesh (55,673) | 688,704 | 6,167,805 | 0.303 | 0.048 |
| Jammu & Kashmir (222,236) | 3,414,106 | 9,134,820 | 0.323 | 0.144 |
| Jharkhand (79,714) | 7,929,292 | 25,036,946 | 0.175 | 0.021 |
| Karnataka (191,791) | 23,578,175 | 37,552,529 | 0.505 | 0.075 |
| Kerala (38,863) | 15,932,171 | 17,455,506 | 0.365 | 0.056 |
| Madhya Pradesh (308,245) | 20,059,666 | 52,537,899 | 0.076 | 0.018 |
| Maharashtra (307,713) | 50,827,531 | 61,545,441 | 0.217 | 0.023 |
| Manipur (22,327) | 822,132 | 1,899,624 | 0.049 | 0.044 |
| Meghalaya (22,429) | 595,036 | 2,368,971 | 0.129 | 0.037 |
| Mizoram (21,081) | 561,977 | 529,037 | 0.062 | 0.009 |
| Nagaland (16,579) | 573,741 | 1,406,861 | 0.094 | 0.039 |
| Odisha (155,707) | 6,996,124 | 34,951,234 | 0.116 | 0.025 |
| Punjab (50,362) | 10,387,436 | 17,316,800 | 0.438 | 0.270 |
| Rajasthan (342,239) | 17,080,776 | 51,540,236 | 0.159 | 0.029 |
| Sikkim (7,096) | 151,726 | 455,962 | 0.098 | 0.024 |
| Tamil Nadu (130,058) | 34,949,729 | 37,189,229 | 1.460 | 0.218 |
| Tripura (10,486) | 960,981 | 2,710,051 | 0.077 | 0.012 |
| Uttar Pradesh (240.928) | 44,470,455 | 155,111,022 | 0.501 | 0.038 |
| Uttarakhand (53,483) | 3,091,169 | 7,025,583 | 0.153 | 0.042 |
| West Bengal (88,752) | 29,134,060 | 62,213,676 | 0.250 | 0.018 |

Note: km2 = square kilometres; \* the state of Andhra Pradesh was divided into Andhra Pradesh and Telangana. However, the most recent census data is for 2011, when it was still a single state, as it has been shown here; \*\* although Delhi has not been recognized as a full state by the Government of India, the national capital includes a number of suburbs, so it is included here as a state.

Source: “Urban and Rural Population of India,” indiafacts, July 20, 2011, accessed October 11, 2016, http://indiafacts.in/india-census-2011/urban-rural-population-o-india; “Household Consumptions of Various Goods and Services in India,” Ministry of Statistics and Program Implementation, Government of India, accessed July 11, 2017, http://mospi.nic.in/sites/default/files/publication\_reports/Report\_no558\_rou68\_30june14.pdf.

EXHIBIT 3: NourishCo product portfolio



Note: INR = ₹ = Indian rupee; $US1 = ₹67 on May 31, 2016; PET = polyethylene terephthalate; ml = millilitre; US FDA = U.S. Food and Drug Administration

Source: “Brands,” NourishCo, accessed September 18, 2017, www.nourishco.com/aboutus.html.

EXHIBIT 4: The NourishCo backbone—achieving Capacity and operational efficiency

The initial plant for Tata Gluco Plus, which could manufacture 300 cups per minute, was imported from China. Installation and start-up costs for this plant were very high. To achieve financial viability, a large plant required adequate, if not optimal capacity utilization. And for new products and new markets, this was not always easy because demand generation required both time and effort.

Given the mandate of cost cutting for the manufacturing unit, the company took immediate steps that were extremely cost-effective. The first thing it did was to identify plants that were set up to make mango-based juices and drinks. These units were owned by local entrepreneurs who had gone into the business after a major rise in the market for mango-based drinks. However, the projects failed due to a lack of strategic know-how and marketing strength to truly build the brands. The idle manufacturing units worked for the company because the mango juice functionality was similar to the needs of the Tata Gluco Plus product. With some indigenization, and by installing mechanisms for packing and sealing the drink in cups and stacking these in cartons, the manufacturing unit was set up.

The company then set up smaller units and chose distributed, rather than centralized, manufacturing. This option reduced the freight and damage costs associated with long-distance travel. The other advantage with a smaller plant was that instead of getting the packing material from large vendors like Tetrapak, the company could use smaller suppliers who had similar offerings at a much lower price. In summary, NourishCo used a defunct existing capacity, developed our own customized and localized solutions, and partnered with smaller local suppliers and vendors to bring down the manufacturing cost considerably.

Source: Prepared by the authors based on information from an interview with Anil Sondhi, NourishCo’s chief of technical operations and supply chain, June 2, 2016.

EXHIBIT 5: NourishCo financial statements, 2012 to 2015 (in ₹ Thousand)

Balance Sheet

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **March 2015** | **March 2014** | **March 2013** | **March 2012** |
| Share capital | 1,550,000 | 1,250,000 | 700,000 | 350,500 |
| Reserves and surplus | –1,377,640 | –1,014,760 | –621,004 | –231,900 |
| Total shareholders' funds | 172,360 | 235,240 | 78,996 | 118,600 |
| Other long-term liabilities | 843 | 4,828 | 3,372 | 1,335 |
| Long-term provisions | 988 | 585 | 260 | 121 |
| Total non-current liabilities | 1,831 | 5,413 | 3,632 | 1,456 |
| Trade payables | 198,382 | 183,538 | 183,707 | 142,350 |
| Other current liabilities | 37,447 | 31,983 | 33,442 | 23,544 |
| Short-term provisions | 67 | 15,371 | 1 | 1 |
| Total current liabilities | 235,896 | 230,892 | 217,150 | 165,895 |
| Total equity and liabilities | 410,087 | 471,545 | 299,778 | 285,951 |
| Tangible assets | 66,535 | 4,455 | 2,256 | 468 |
| Tangible assets capital work-in-progress | 3,468 | 50,493 | 1,454 | - |
| Total fixed assets | 70,003 | 54,948 | 3,710 | 468 |
| Long-term loans and advances | 883 | 31,607 | 64,589 | 10,302 |
| Other non-current assets | 505 | 495 | - | - |
| Total non-current assets | 71,391 | 87,050 | 68,299 | 10,770 |
| Inventories | 63,319 | 41,553 | 31,583 | 25,582 |
| Trade receivables | 25,918 | 27,080 | 16,675 | 16,850 |
| Cash and bank balances | 159,436 | 284,430 | 124,090 | 186,181 |
| Short-term loans and advances | 88,659 | 30,743 | 58,851 | 43,855 |
| Other current assets | 1,364 | 1,184 | 280 | 2,713 |
| Total current assets | 338,696 | 384,990 | 231,479 | 275,181 |
| Total assets | 410,087 | 471,545 | 299,778 | 285,951 |

Exhibit 5 (continued)

Profit and Loss Account Statement

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **March 2015** | **March 2014** | **March 2013** | **March 2012** |
| Other operating revenues | 13 | 56 | 134 | 122 |
| Total revenue from operations other than finance company | 866,325 | 754,866 | 497,165 | 196,366 |
| Total revenue from operations | 866,325 | 754,866 | 497,165 | 196,366 |
| Other income\* | 203,808 | 23,336 | 7,154 | 7,239 |
| Total revenue | 1,070,133 | 778,202 | 504,319 | 203,605 |
| Cost of materials consumed | 76,955 | 30,327 | 37,644 | 26,458 |
| Purchases of stock-in-trade | 662,127 | 635,834 | 450,152 | 202,699 |
| Changes in inventories of finished goods, works in progress, and stock in trade | –6,673 | –7,254 | –2,990 | –22,346 |
| Employee benefit expense | 52,798 | 40,144 | 13,040 | 9,638 |
| Depreciation expense | 2,005 | 480 | 172 | 72 |
| Total depreciation, depletion, and amortization expenses | 2,005 | 480 | 172 | 72 |
| Other expenses\*\* | 645,801 | 585,727 | 484,999 | 302,284 |
| Total expenses | 1,433,013 | 1,285,258 | 983,017 | 518,805 |
| Exceptional items before tax | - | 113,300 | 89,594 | 83,300 |
| Total profit before extraordinary items and tax | –362,880 | –393,756 | –389,104 | –231,900 |
| Total profit before tax | –362,880 | –393,756 | –389,104 | –231,900 |
| Total profit (loss) for period before minority interest | –362,880 | –393,756 | –389,104 | –231,900 |

Note: ₹ = INR = Indian rupee; ₹1 = US$0.0149 on May 31, 2016; \*The brand Himalayan was formed for NourishCo by the parent company Tata Global Beverages. In the first few years of operations, the brand was not able to break even, and incurred losses. In 2014, the parent company agreed to compensate the joint venture annually for operating losses. However, because this amount did not accrue from NourishCo operations, it was treated as other income in the financials; \*\*This includes sales and distribution, advertising, and promotional expenses.

Source: Company documents.

Endnotes

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2. “India Carbonated Drinks Market Overview 2016 Featuring Thums [sic.] up, Coca Cola, Pepsi, Sprite, Fanta, Limca & Mirinda—Research and Markets,” BusinessWire, April 6, 2016, accessed September 7, 2016, www.businesswire.com/news/home/20160406005601/en/India-Carbonated-Drinks-Market-Overview-2016-Featuring. [↑](#endnote-ref-2)
3. Technopak Advisors, “Kit: Non-Alcoholic Beverage Market in India,” *Business Standard,* October 17, 2011, accessed September 7, 2016, www.business-standard.com/article/management/kit-non-alcoholic-beverage-market-in-india-111101700049\_1.html. [↑](#endnote-ref-3)
4. Ibid. [↑](#endnote-ref-4)
5. Ratna Bhushan, “Soft Drinks, Packaged Water to Drive Beverage Consumption Growth,” *Economic Times,* June 13, 2016, accessed September 7, 2016, http://retail.economictimes.indiatimes.com/news/food-entertainment/grocery/soft-drinks-packaged-water-to-drive-beverage-consumption-growth/52724735. [↑](#endnote-ref-5)
6. Cities in India are classified based on their population into tiers. For example, Tier I cities are cities with a population higher than 100,000. [↑](#endnote-ref-6)
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10. ₹ = INR = Indian rupee; all currency amounts are in ₹ unless otherwise specified; ₹1 = US$0.0149 on May 31, 2016. [↑](#endnote-ref-10)
11. Jonathan Ablett, Aadarsh Baijal, Eric Beinhocker, Anupam Bose, Diana Farrell, Ulrich Gersch, Ezra Greenberg, Shishir Gupta, and Sumit Gupta, “The ‘Bird of Gold’: The Rise of India’s Consumer Market,” McKinsey & Company, accessed July 6, 2016, www.mckinsey.com/global-themes/asia-pacific/the-bird-of-gold. [↑](#endnote-ref-11)
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14. Shonali Advani, “Health Conscious Urban Consumers Sip on Functional Beverages,” *Economic Times*, July 26, 2015, accessed September 7, 2016, http://economictimes.indiatimes.com/industry/cons-products/food/health-conscious-urban-consumers-sip-on-functional-beverages/articleshow/48212003.cms. [↑](#endnote-ref-14)
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