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## **The rise of Ferrero in India: The sweet truth**

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### **ABSTRACT**

With the Indian economy growing, trades flourishing, the businesses from all parts of the world are making inroads to India. The India chocolate market has seen tremendous growth both in terms of volume and value in the recent years. After a decade of entering the Indian market, the Italian chocolate manufacturer, Ferrero India has revolutionized the Indian chocolate market with its range of premium chocolates. The achievements made by Ferrero during these years are significant considering the fact that it posted huge growth in spite of slow and low consumer spending. By following a differentiation strategy which is an unconventional way of not focusing on low price products, Ferrero carved a niche in the chocolate market. It has challenged the well-established multinational chocolate makers in India by some top down approach of innovating premium products to its kitty. In the year 2015 it made a stride by posting a huge sales revenue which was quite comparable to that of its competitors. The study attempts to study critically the growth journey of Ferrero India and how it has recognized a sizeable market at the top end.

**Key Words:** *Premium Chocolate, Ferrero, Indian Chocolate Market, Growth Strategy.*

## **BACKGROUND**

Chocolate is no more an occasional luxury item in India. Today in India chocolate is considered as a fun-to-eat snack and it has become an important item in consumer's shopping basket. A significant change in the consumers' preferences, taste and eating habits have given birth to new consumer categories. Completing their meals with desserts has become a trend as more and more Indians now a days prefer eating outside. Chocolate is popular in India majorly for gifting purposes and for individual consumption. Humid tropics in India is the favorable climatic condition for cocoa plantation which in turn is attracting many foreign manufacturers to thrive as well. Chocolate market is flourishing in India and with the entry of players like Ferrero, Hershey, Mars International and the other multinationals the chocolate market in all segments are witnessing cut-throat competition.

India's chocolate market is managed by the large multinational firms through various models and are expanding their business into new markets which is helping the growth of the industry in India. Rising disposable incomes, growth in young and rich population and change in lifestyle are the major factors contributing to the Indian chocolate business growth. Companies like Mondelez India Foods (previously known as Cadbury's) has introduced Rs.5/- chocolate to penetrate and tap the rural India market thus growing the consumption rate among adults. This may be the only reason behind the timely entry of the international major chocolate companies like Ferrero India, Lindt & Sprungli, Mars International, and Hershey India to capture a large chunk of the huge market. After all these international brands have entered the market, the Indian consumers have a lot of choices and not sticking to the traditional sweets anymore. They are becoming more sensitive towards satisfying their sweet cravings. So they are ready to pay the premium price for the chocolates. Premium chocolate can be referred to those chocolates whose price is more than Rs. 100. Most of the premium chocolates brands available in India like Lindt, Ferrero, Mars, Godiva, etc. import the chocolates and distribute them in the country. But, Ferrero have gone one step ahead and set up local manufacturing units.

***"I am not surprised with the interest that premium chocolate makers are showing for a market like India"***

- **Shradha Nichani, business head, Lindt chocolates, Narang Group<sup>1</sup>**

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<sup>1</sup> Pinto, V. (2016). Premium chocolates take off in India. [online] Business-standard.com. Available at: [http://www.business-standard.com/article/companies/premium-chocolates-take-off-in-india-110083000092\\_1.html](http://www.business-standard.com/article/companies/premium-chocolates-take-off-in-india-110083000092_1.html) [Accessed 17 Oct. 2016].

### **Ferrero: Beginning of a new dawn**

Ferrero started its first branch office in Chennai back in 2004 and in the year 2007 they incorporated IMSOFER (the manufacturing unit). Government of Maharashtra granted Ferrero India the mega project status. There has been stiff competition in the premium segment of chocolates among the chocolate makers like Cadbury, Nestle, Mars and Hershey etc.

When Ferrero entered India, India was not having a huge market for premium chocolate which uses to cost more than Rs 25. In a price sensitive country like India most of the brands used to offer low-price products. Today, the scenario has changed a lot as the premium chocolate is a much bigger segment and makes up around 30% of the entire chocolate market in India. Mondelez India has also expanded its portfolio and the range of chocolates in the premium segments with the latest one being 'Cadbury Fuse', a new power packed premium count line brand. According to the retail consultancy Technopak, 80% of the of India's chocolate sales are contributed by the rich or affluent Indians. But recent launch of low-priced products from the chocolate makers is attracting consumers from tier 2 and tier 3 cities where the consumers prefer more traditional sweets. Considering the fact that chocolate is not a natural sweet dish in India, the estimated domestic market potential of around INR 8000 crores is really huge. Until late the focus on the premium segment has been slow from Nestle India. Nestle has been focusing on the mass brands like KitKat and Munch. In order to tap the ever increasing rich urban demographics who are more likely to increase the spending across the categories, the chocolate companies are coming up with premium products into the market.

### **Ferrero India: Unpacked**

Behind the trademark, the turnover and the expansion of a multinational company, there is the story of a brilliant and strong-willed Piedmontese family that gathers its extraordinary strength for growth from the Ferrero Foundation's motto: "Work Create Give"<sup>2</sup>. Michele Ferrero has revolutionized the food and sweet taking habits of millions of consumers.

If we explore the success of Ferrero, it origins from Michele's parents Piera and Pietro who first set up a pastry shop and later transformed the same into a chocolate factory. It was Michele who had the desire to make new products with state-of-the-art ideas, transformed the company into a globally recognized family-owned group. The company was founded in 1946. Nutella and Kinder Joy were formed in 1964 and 1968 respectively. During the decade of 1980-90 the Ferrero Rocher was launched. In the year 2009, Ferrero won the reputed prize the "Reputation Award". In 2011, Pietro Ferrero died in South Africa after inspiring many years for enhancing the scope of Ferrero Social Enterprise Initiatives<sup>3</sup>. After Ferrero India was incorporated in India

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<sup>2</sup> Ferreroindia.com. (2016). Ferrero India. [online] Available at: <http://www.ferreroindia.com> [Accessed 1 Nov. 2016].

<sup>3</sup> Ferreroindia.com. (2016). A History of events. [online] Available at: <https://www.ferreroindia.com/events> [Accessed 1 Nov. 2016].

in 2004, it opened a new factory in Baramati, Maharashtra in the year 2011. It also scaled up its Kinder Joy and TicTac. In 2013 the IMSOFER got certified with ISO 9001:2008. It also merged MPG (Multi Production Group) and IMSOFER into Ferrero India Private Limited.

The company is now headed by Giovanni Ferrero, the son of Michele, after the death of his brother in 2011. He aims to reach even more goals and ensures that the core values of company are inspired and motivated by the structure based on the solid foundation values. Under his leadership the company has created the incredible premium segment in chocolates. Today, the premium chocolate segment in India makes up about 27% of the chocolate market<sup>4</sup>. The competitors in this segment are Cadbury Celebrations, Bournville, Silk and Toblerone brands. Cadbury leads the premium chocolate segment with more than 60 percent of the market. But Ferrero has taken up six percent of the market share in a decade which signifies the trustworthiness of evolving the premium segment. Future group's retail chain Food Bazaar is the biggest customer of Ferrero India.

***"Ferrero created a market for premium chocolates in India from scratch,"***

- **Devendra Chawla, CEO, Food Business, Future Group**

**How Ferrero did it?**

***"Ferrero is catering to two large gaps that existed in the Indian market — "mid-premium gifting space as well as products specifically designed for kids in India." In fact, Rocher was a favourite gifting option even before Ferrero set up its operations in 2007.***

- **Debashish Mukherjee, partner and Asia foods head at consulting firm AT Kearney<sup>5</sup>**

After Ferrero entered India in 2007, it could recognize that there exist a premium segment of customers who are keen to pay Rs.300 for a box of chocolate. At that time Rs.25 was the costliest chocolate from Cadbury. Probably, one of the best decisions Ferrero made was that they did not hire any research firm for test-marketing Ferrero Rocher. They did research of the market on their own so that they can understand the Indian consumer better. After the market research Ferrero got a few insights that, the Indian consumers are willing to buy expensive chocolates even from Kirana stores and they buy expensive chocolates mostly during festivals for gifting their near and dear ones. Rocher chocolate's success lies in its unique recipe, its shape and

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<sup>4</sup> Shashidhar, A. (2016). How Ferrero created premium chocolate market in India. [online] [Businesstoday.in](http://www.businesstoday.in).

Available at:

<http://www.businesstoday.in/magazine/features/confectionary-firm-ferrero-in-india-premium-chocolate-market/story/204086.html> [Accessed 1 Nov. 2016].

<sup>5</sup> Bhushan, R. and Malviya, S. (2016). How Ferrero India's surprise toy inside Kinder Joy helped it beat Nestle's chocolate division - The Economic Times. [online] [The Economic Times](http://economictimes.indiatimes.com). Available at:

<http://economictimes.indiatimes.com/industry/cons-products/food/how-ferrero-indias-surprise-toy-inside-kinder-joy-helped-it-beat-nestles-chocolate-division/articleshow/19685954.cms> [Accessed 1 Nov. 2016].

<http://economictimes.indiatimes.com/industry/cons-products/food/how-ferrero-indias-surprise-toy-inside-kinder-joy-helped-it-beat-nestles-chocolate-division/articleshow/19685954.cms> [Accessed 1 Nov. 2016].

attractive packaging. At the center of each Rocher chocolate is a perfectly roasted hazelnut surrounded by the layers of crisp wafer, milky cream, smooth filing and delicately chopped pieces of hazelnuts<sup>6</sup>. Ferrero Rocher perfectly refers to all three levels of a product the core, the actual and the augmented product.

Most of Ferrero's success can be contributed to the factors which are discussed now. It tried to premiumize the products through innovation. According to Ferrero it is the combination of innovation and paying close interest in customer requirements that has led to the creation of distinctive products. It is quite evident that Ferrero launched Rocher chocolate in a pack of 12 chocolates priced at Rs. 300 and still acquire customers at such high price levels. Ferrero followed it up with Kinder Joy, an egg shaped chocolate for the kids which comes with a small toy and Tic Tac in 2009. The healthier segment has increasingly become aware and equally complemented by the sale of such products. Ferrero's chocolate brand kinder joy is promoted as a healthier product that contains more milk and less cocoa which encourages mothers to prefer this for their children. It has reached such a time of significant change in a situation that it has become broad-based. That's the basic motivation behind the mass campaign by Ferrero.

Innovative distribution strategy was one more attribute that contributed to Ferrero's growth. But, that never build any reason for Ferrero to compromise on the quality. In addition to the supermarkets and department stores it allowed Kirana stores also to reach deeper rural markets. As per the distribution strategy, it didn't allow the kirana stores to stock more than 3-4 boxes during the festivals. If we study the product mixes of the chocolate, the rounded shape and golden wrapper gave Ferrero Rocher a laddoo like look which also hit suitably with the consumers both in metro and small cities as well.

Ferrero has constantly tried to improve in its packaging which it believes is a very constitutional part of the product mixes. Packaging is to safeguard the product, check deterioration, and avoid breakage, contamination and tampering in order to maintain taste experience months after the production. It has adopted the 5R packaging strategy to produce functional and environment sustainable variables. The 5Rs are removal, reduction, recyclability, reuse and renewal<sup>7</sup>. Ferrero's packaging informs the customers about how to dispose the packaging after the use of the product. Ferrero has only few of its product offerings in India shows the strategy "to focus on a few things and do them well" as said by Rudolph Sequeira, general manager for Southeast Asia<sup>8</sup>.

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<sup>6</sup> <http://ferrerochocolatesusa.com>

<sup>7</sup> [www.packagingeurope.com](http://www.packagingeurope.com). (2013). Ferrero's Packaging Strategy in 5 Points. [online] Available at: <http://www.packagingeurope.com/Packaging-Europe-News/52063/Ferreros-Packaging-Strategy-in-5-Points.html> [Accessed 20 Oct. 2016].

<sup>8</sup> <http://corp.smartbrief.com/s/2015/04/ferrero-gains-nestles-market-share-india-sales-soar>

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## **Conclusion**

The consumers' taste has been diverse throughout the world. Lately, Indian consumers have changed the preferences and taste when it comes to sweet. They are not hesitant to try more choices and have moved beyond the traditional taste. The foreign chocolate companies who are trying to tap the Indian pie have realized that the key to success is to maintain the right mapping of the price points to income. Ferrero is really focused on the products launched in India and not in a haste to introduce all of its portfolio of products in India. This shows Ferrero's promise to play long and safe, but profitable. The focus is on the superior segment of products and its aggressive investment are the highlight of its presence felt. But more than everything its variety of innovative products has created an appropriateness of a new sweet tooth for Indian consumers.