

Opening

Hello and welcome to Mrigashira, a podcast for communication folks. I am Charu Raizada and our guest today is a leader with over three decades of experience. Samar Singh Shekhawat the man behind brands across multiple categories known for his approach which strengthens consumer preferences.

A recent Emkay global financial services report indicates improving recovery for alcohol companies. Growth in premium spirits and faster recovery in beer since trade reopened post pandemic. This certainly is good news for the industry as economic shock of the pandemic on the alcohol industry was tremendous, while sales are looking up catering for events and large gatherings is unlikely to look up for a while. Our expert today provides insights to problems faced by the alcohol industry referencing to how communications could support.

Host

Thank you, Samar for joining us on Mrigashira.

Host

So Samar, the alcohol industry massively got hit due to corona cess drastically reduced sales, hard stop to events and parties combined with this unemployment, alcohol abuse, economic hardship, domestic violence, it's been a rough ride for the industry, right so does the industry need to reinvent?

Samar

Great question, Charu, I think the first thing that everyone really needs to do is just hunker down and weather the storm. So, I wish I had better news than that but that's, that's number one, number two as far as reinvention is concerned, see, there's a lot of noise in media about consumption at pubs, bars, restaurants, outdoor events. Now, let me tell you that this is actually a small percentage of the consumption occasion for the alcohol industry, the larger consumption occasion is actually buying from what we call off premise stores, and drinking either at the off premise or on the roadside or in parks or in your cars. I mean, that's the way India is so there's much made about pubs, bars, restaurants shutting down etc, that segment actually contributes a smaller percentage of the consumption. Now, in a situation where those shops are shut or there is a lockdown where people themselves are not allowed to go out or there is restricted access to alcohol a coupled with the fact that 70% of all alcohol consumption is out of home and 10 years ago, this used to be 90%. You know, it is a very difficult situation where people are not allowed to go out, liquor stores are shut or were shut during the pandemic. And even if they were open for the timings were restricted, stock availability was poor people stocks in-house are exhausted. Sheer access is not there and that is what is dramatically impacted the industry. And frankly, if you look at the industry's ability to enforce social distancing, it is far superior to that of food and grocery outlets, because the frequency with which you buy food and grocery outlets is at food and grocery outlets is significantly higher than at liquor stores, the number of people coming in into food and grocery outlets are much, much larger than a liquor store. And there are about 15 million outlets of all kinds of this country. Now, you didn't shut those down.

There are only 80,000 outlets selling liquor in this country of all kinds, pubs, bars, restaurants, etc. everything is only 80,000. Now you shut those down. The number of people coming to each of those outlets is far fewer than what comes to food and grocery outlet. You didn't shut down.

Charu

Surely there is an image problem

Samar

Absolutely, absolutely so in a situation, obviously the government will say that in a situation where people don't have access to food and or are, you know, locked down in their house and healthcare is an issue? How can we allow alcohol to be sold? How can we allow alcohol outlets to be open? So, it's more of a political image sort of reflection issue, then based on actual reality. The other argument I could...

Charu

That means the role of communication becomes stronger so what could it be?

Samar

Absolutely, absolutely, that's a great question. See the, the question the industry always asks is that are we a legitimate industry or not?

You've given us a license to operate. You've given us licenses to operate our breweries our distilleries. You know, we pay taxes. And in fact, in the case of the beer industry, you know, if you as a consumer are paying 100 rupees to buy a bottle of beer as a company, you know, United Breweries, and we are the we were the best you know, I keep saying we even though I've left because I was there for nine years. It's a little hard not to say we were best in class and you know, we would our gross contribution is about 18 or 20 rupees. Now, in a comparable FMCG business, it would be 60 rupees. If the same taxation structure and margin structure were followed an alcobev that is followed in, in food and grocery or fmcg businesses, UB would be a 35,000 crores company with a market cap of 100,000 crores. Now, everyone all the policymakers and the dispensation recognize this reality. But it is politically not expedient for any lawmaker or anyone in the in the ruling dispensation whether it's a state or central level, to take even an alcohol, forget about an alcohol positive stance, they will never even take an alcohol neutral stance. They always take an alcohol negative stance because they believe that's the politically correct thing to do. And they believe that it helps get them the female vote. However, they have no problems in utilizing all the funds generated by you know, from Alcobev taxation and utilizing that for the welfare of the company. Like Vijay Mallya, when he was an MP, he actually got up in Parliament and said that I've contributed this many, this many 1000, I think he used the term of 50,000 crores at the time towards the state and said **exchequer's** and I'd like to know how much of that money has been used in building roads and hospitals and schools, and so on and so forth. So I think the government needed to take a far more pragmatic view during the lockdown, they should have allowed Alcobev outlets to function. And I don't want to say that in any case, there was nothing for people to do. But if you look at other statistics, like violent crimes reported because the husbands are at home without access to alcohol, or because people are simply not used to being cramped up in small Indian houses by large and small, with all the stresses and tensions of online working, online schooling etc, the number of domestic violence cases and complaints on various helpline is dramatically increased. So, I think we need to take a far more pragmatic view of this, you know, you should have allowed the Alcobev, whenever you are allowing food and grocery stores to remain open, allow the alcobev stores to remain open and their ability, like I said, to enforce social distancing is far greater than that of food and grocery.

And let me tell you, most alcobev consumers are very, sort of very orderly in their buying. I mean, you know, there's a joke about Kerala that in Kerala, the only time people stand in line is where they are buying Alcobev there are, I mean, I've seen it myself and you know, in other states that people patiently wait in lines, with their money or their tokens depending on what the system is. Unfortunately, the we pander to populist sentiment we, we pander to, to media that sort of plays it up. But I'm saying very simply Charu it's a legitimate business, it contributes, it contributes jobs, directly, indirectly, it employs, you know, over 100,000 people, it contributes several 100,000 crores in taxation revenue, whether you're talking about the imfl industry, beer industry, organized country liquor industry, wines, etc, it gets investment into the ecosystem. So, from which point of view is it an illegitimate industry.

Host

The Journalist and media, they also have a role to play. So, obviously, you know, there have been, there have been misinterpretation of things or the both sides of the coin have not been revealed, you know, I mean, because clearly this industry suffers from a communication and image problem.

Samar

That is true, but that is, I would say, the incomplete truth you see have to understand, if you go back to the Constitution of India and the Directive Principles, it is actually enshrined that the government's shall and shall endeavor to enforce prohibition, that's the sense of the, of the that's the sensibility, or, and the wisdom of the founding fathers under Ambedkar, who wrote the Constitution. So, it's emanating from there now, that shapes the political discourse, to an extent.

On the other hand, there are moralistic views. I mean, it's not just alcohol, it's, let's say consumption of beef. It's, you know, discourses on religion, and, you know, divides on, on, on lifestyles, and, you know, the entire

atmosphere in general, in the last 10 years or so, it's become so polarized, between the left and the right, the have's and have nots, the open minded and the closed minded.

And we forget our history, you know, I don't want to get your show into trouble. But the reality is that there is enough recorded evidence of Hindus being beef eating, being a beef eating community, in this country, and look at our sculptures, you look at Konark look at Ajanta look at Ellora. I mean, we were a very liberal country, whether you look at in terms of our clothing, our food habits, our wedding rituals, our attitudes towards sex and sexuality. I mean, how did we get to 1.4 billion, right? But it's sort of, we want to brush away that reality and interpret it in the way that is convenient to us. Like in any.

Host

You've opened up Pandora's box there, but I'm gonna take you back to the complicated taxations and, you know, I mean, clearly every state has different set of regulations and how can you know, can really strategic public affairs help navigate issues and paved the way to ensure ease of doing business in the country?

Samar

The short answer is yes. And we've actually, you know, the industry has done a lot. I mean, if you go back 15-20 years, most state governments didn't even have separate roles on Taxation for spirits and for beer. So, for many years, we lobbied with state governments to have actually separate rules, because they're two different alcohol categories, and therefore should be treated differently. I mean, spirits have 42.8% alcohol in most cases, and beer has either less than 8% if it's strong beer, or less than 5% of its mild beer barring Kerala, where the rules are different.

And over a period of time, we have definitely seen success in terms of most state. Now, all state governments actually have different, you know, rules and regulations and policies, but the thinking is still the same. So, when people ask me, I'll use an example to illustrate this. Now, the beer industry is 360 million cases of 7.8 liters each so 400 million cases, nine liters each 360 million cases 7.8 liters each, that volume split is 55--45. Now, in terms of 80-20, that's the value because the spirit value of spirit is obviously much higher than the value of beer. So, in terms of revenue, rupee value is 80-20. But in terms of alcohol percentage, in terms of the percentage of alcohol in India that is consumed in the form of spirits, versus what is consumed in the form of beer, that is 93-7.

Now, the taxation is such that therefore 93% is consumed in the form of alcohol, the values 80. And they're taxed according to that. So therefore, for spirits, the index is actually less than 1, 80 over 93. In beer, even though it is 7%, of the of the of the alcohol consumed in the country is in the form of beer, but the taxation is on the basis of 20 of revenue. So that factor 20 over seven is three, and in spirits 80 or 93 less than one, which means that beer is disproportionately taxed compared to spirits, which is why beer is an expensive alcohol delivery mechanism in this country, which is why the spirits industry is much larger than the beer industry. Globally, it's the other way around in India 75 to 80% of the industry is spirits and 20% is beer overall across the world in the developed world, in the Western world and other places, it's the other way around. So that explained and there's a reason for it. The reason is that in India, people drink to get drunk, to get high to get, that buzz, and it is cheaper and easier, easier and quicker and faster to do it through spirit than through beer. Also Charu it suits the government because they earn much more revenue from spirits taxation than they do from beer.

Now, GST kept alcohol, real estate and petroleum out of its ambit, because these are state subjects. And one state doesn't necessarily agree with another state, and therefore, the advocacy that you were talking about needs to be at state level, you cannot go with a one solution fits all at the central government level. So that's number one. Number two, there are five or six different models in this country that are government owned market that are private markets. I won't, I won't get into the details of that. And even within government or what we call cooperation markets. There are states where the government owns both wholesale and retail, in some states it owns only retail in some states, as owns only wholesale. So there are just so many complications. It's like the European Union without Brexit, frankly, you know, dealing with every state government, so you need definitely an outreach program. And when I was there as CMO, I used to always advocate for a much stronger government outreach program. But somehow, we've always been a soft target, we always feel that our license to operate can be taken away at any point in time. If you look at the wording of

the license. It says that this is the privilege of the state government which means it is a privilege that has been accorded to you and that privilege can be withdrawn at any point in time. And I used to say, I disagree. It's a legitimate industry, it provides employment, it provides taxation, it provides investment, it keeps the economy going. And some would argue that it provides a lot of happiness to people as well. Why are we, why are we Why are we diffident? Why are we hesitant? We need a fast, stronger outreach program. we are not as strongly engaged with government and advocacy is not as high on the agenda as it should be because there's always this sense that we're a soft target, what we're doing is not right. And that's because of the political dispensation and you know, the fact that we've always been fighting public perception in many ways as well.

Host

Now, another when talking about public perceptions, another perception and for which the industry is always under the scanner is high consumption of water and very little work has been done in that direction to you know, for zero waste, the sustainable practices, things are being done in bits and pieces, but is it not time to truly make a difference?

Samar

Absolutely, again, this you see, when does the world change? There are only two ways of the world can change. Either the law mandates it or consumer awareness and activation, citizens participation in governance, you know, and now with social media becomes so powerful and strong that you have no option but to do it. I mean, pardon my saying so but left to themselves as what is the corporate concern, corporate concerned with I will do whatever is legal, bare the bare minimum legal and no more, by and large, most corporates feel that way. Not everyone is the Tatas or many other companies. Same thing with CSR, but over a period of time and this is a larger global movement, climate change, sustainability, the environment, and newer, younger generation coming in pressure from consumers and you know, younger brand. younger consumers of brands always want to purpose beyond just making money, etc. So over the last 15-20 years, I know that most leading and responsible manufacturer, marketers in this industry have done a lot of work on water. Speaking for myself and United Breweries, we were actually, we won awards from UNESCO on our water conservation program whether it was on rainwater harvesting, or water recycling, the global average is best in class companies use four liters of water for every liter of beer that is made. And in many breweries, we actually went below four liters. In fact, by the time I left, our national average was below four was at about 3.12 or so. And that is actually better than international breweries in terms of water conservation. And the aim was by 2030, to become a water neutral company or a water positive company, which means you charge back into the ground as much water as you're taking from it. And if you look at Diageo, Anand Kripalu has said similar has voice similar sentiments in his investor calls and, you know, AGM and board meeting that Diageo has also taken it upon themselves to become a water positive company by a certain amount of time. Budweiser is doing the same thing, Carlsberg is doing the same thing. So, like I said, I think it's a definite and you know, we've seen when it doesn't happen, look at what's happening with the Coca Cola and Pepsi plants in Kerala, Plachimada and forgotten I think Palghat plants. There's been so much citizen activation around it. And especially if you're using groundwater and you're operating in a water stress state, you have no option but to do it. So, it comes in from government mandating, it comes in from citizens sort of voicing opposition. And it's not just water, they're just so many other things, the way you treat your effluent discharge, the way you look at, you know, and our industry doesn't produce bio hazards or toxic waste. But you know, industries have to look at that Nether sugar, for instance, produce that, chemical industries, you know, fertilizer industries produce that. So it's what we we've taken up water, the two other things that we took up, primary education and primary health. So in a five kilometer radius of our breweries, which are typically in, you know, rural areas, or what we call category C areas. You know, we made education free for all the inhabitants in the villages within a five kilometers radius. I mean, you know, people could send their children to schools, and obviously, we partnered with the relevant NGOs to deliver that I've myself gone and inaugurated certain schools and inaugurated science centers there. Then there's primary health, you know, from mobile dispensary units to AIDS checkup clinics to free treatment for women who are pregnant, you know, health checks for their fetus. You know, just so much that has been done even at the schools is not just school, providing desks, providing uniforms, providing books, etc. And, I promise you Charu I've been to places Rajasthan, Telangana, Andhra Pradesh, Karnataka, in rural areas where you are, inaugurated a science center and they take you on a tour. This is prior to COVID. And I see a village girl, bare feet and a skirt and a shirt with two ponytails talking to me in fluent English on scientific experiments, your hair stands on end.