

Paper Boat in India : Beating the Giants



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“A business is simply an idea to make other people's lives better.”

— Richard Branson, Founder of Virgin Group

Abstract

The beverage industry in India is growing as the income levels of the people are rising. Also, more and more people are becoming health conscious due to their lifestyles issues. In such a scenario, offering affordable and healthy juice drinks with traditional flavours by Hector Beverages has been a welcome move in the market. This brand, known as Paper Boat, targets the younger generation, and has been growing by leaps and bounds due to innovative and traditional flavours. The objective of this case study was to highlight the growth of this indigenous brand, identify the challenges and strengths, and to discuss expansion strategies. The key finding is that the USP of Paper Boat in this product category among the presence of giant players is not pricing, but the emotional connect. It can be concluded that the brand, targeting a correctly identified profitable niche, is expected to rise fast in the future with a better distribution network and appropriate communication strategies.

Key words: Paper Boat, traditional flavours, emotional connect, diverse portfolio

JEL Classification: M130, M300, M310

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As per a study by the McKinsey Global Institute, if India continues to grow at the current pace, the average household incomes will triple over the next two decades, and it will become the world's 5th largest consumer economy by 2025 (Ablett et al., 2007). Driven by robust GDP growth, Indian average household income is expected to rise to ₹ 318896 in 2025. Between 2005 and 2025, the average household income is expected to grow at a CAGR rate of 5.3% (Figure 1). Furthermore, in terms of size, food, beverages, and tobacco are expected to be the largest consumption category in 2025 (see Figure 2). This suggests that the beverage industry in India is set to grow in a big way. The beverage industry in India currently accounts for around

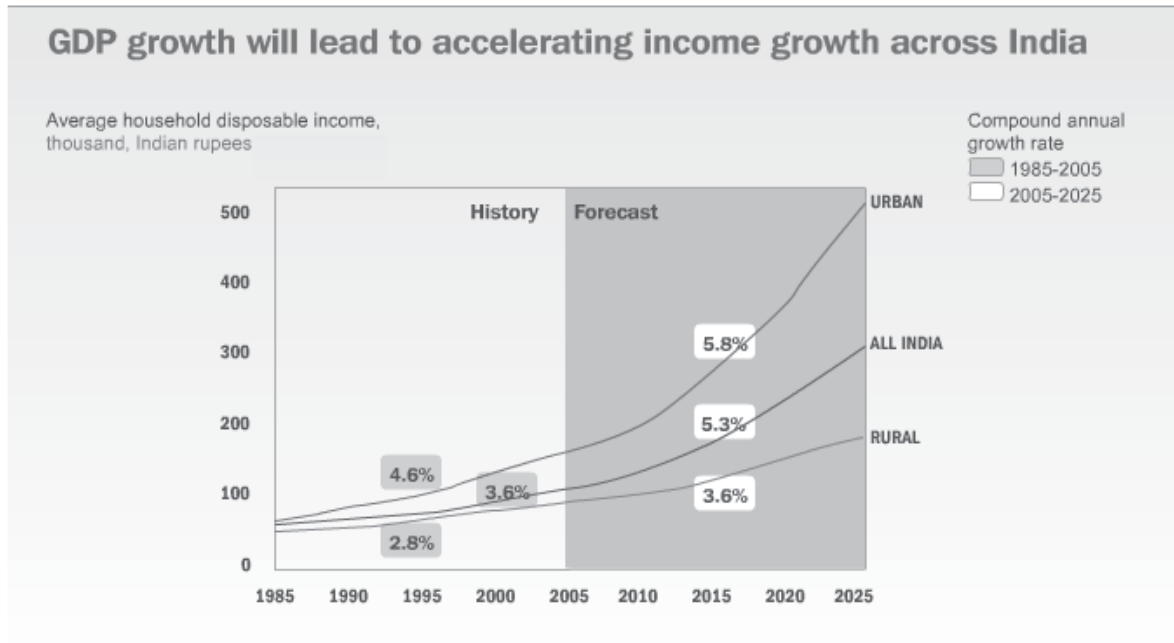
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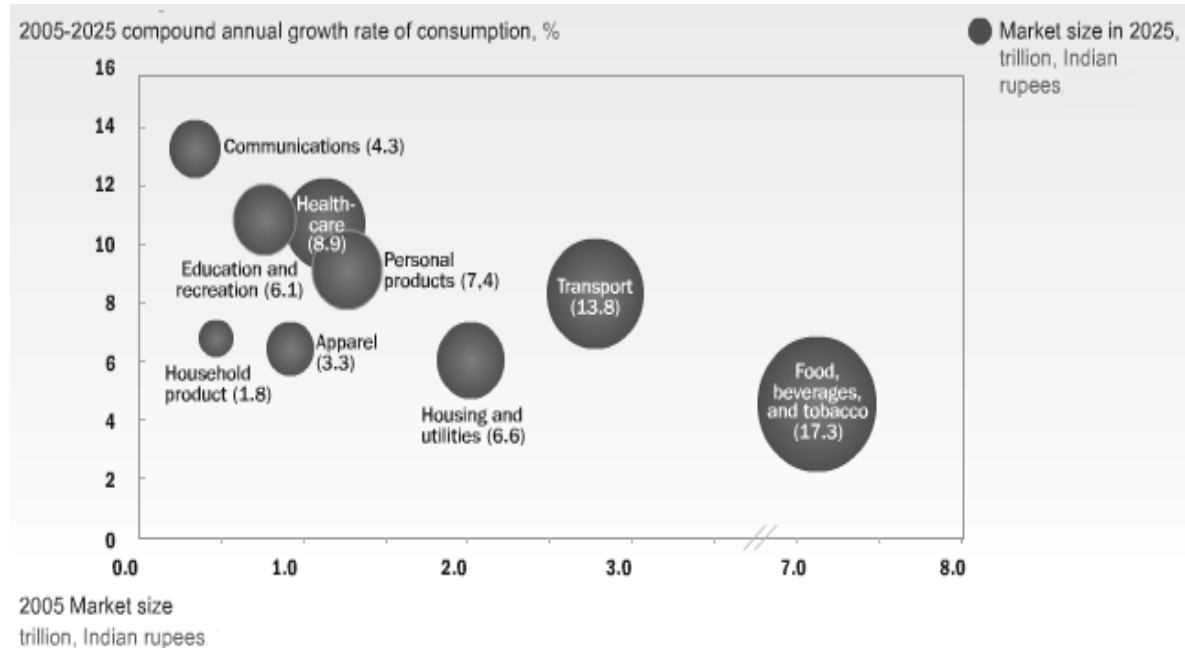
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Figure 1. Projections for Disposable Income Growth at Urban, Rural, and the All India



Source. Reproduced from J. Ablett et al. (2007). *The bird of gold – The rise of India's consumer market*. McKinsey Global Institute.

Figure 2. Projections for Consumption Growth in Various Sectors in India



Source. Reproduced from J. Ablett et al. (2007). *The bird of gold – The rise of India's consumer market*. McKinsey Global Institute.

Figure 3. The Co-Founders of Hector Beverages



Neeraj Biyani – COO

He is responsible for having created a number of food and beverage packaging concepts across the United States and Europe and heads the product development function. Earlier he has worked with **Union Carbide** and **Wipro** before joining **Coke** in 2005.



Neeraj Kakkar – CEO

Previous experience with **Hindustan Coca-Cola Beverages Pvt Ltd** for 8 years upto 2008. He is a graduate from **Wharton Business School** and was awarded the highest academic honor, the palmer scholar, in the University of Pennsylvania business program.



Suhas Misra – Director

He did his MBA from IIM Calcutta (Class of 2003) and joined **Coca Cola**. In 2005 he moved to **Nokia**, before, in 2006, starting Channel Play-India's first integrated Sales Process Outsourcing Company. Misra and Kakkar met in 2003 at Coke.



James Nuttall – CFO

He is an MBA graduate from University of Pennsylvania - **The Wharton School**. Earlier to Hector he worked with **Dow Chemical**. Nuttall and Kakkar met in 2008 at Wharton Business School.

Source: (i) *Economic Times*, October 5th, 2014

http://articles.economictimes.indiatimes.com/2014-10-05/news/54653088_1_tzinga-energy-drink-neeraj-kakkar

(ii) <https://www.linkedin.com>

(iii) www.zoominfo.com

\$230 million among the \$65 billion food processing industry. The major players in the Indian beverage industry, that is, Coca - Cola, Pepsi, and Nestle have been ruling this market for the past few decades. In 2012, Gurgaon based Hector Beverages launched the traditional Indian beverages under the brand Paper Boat, and this segment of non-carbonated drinks is growing very fast in India.

Hector Beverages : A Vision of Four Friends

In the beverage industry, offering customers something healthy, tasty, and convenient is the key to win them. With this idea, in 2009, four friends (Figure 3) in India - Neeraj Kakkar, Neeraj Biyani, Suhas Misra, and James Nuttall founded Hector Beverages (Singh, 2014).

Their mission was to create affordable, healthy, and tasty beverages through indigenous innovative flavours. To strategize the right mix of price, taste, and packaging for the Indian market, the founders of Hector Beverages wanted to develop an energy drink which is full of taste. Eventually, Tzinga was formulated with the right mix of lemon, ginseng, and choice of fruit flavors. So, Hector Beverages launched Tzinga as its first offering as an energy drink. Tzinga combined the indigenous flavors of lemon, ginseng, and fruits. It was developed as a suitable

offering for the Indian market in terms of price, taste, and packaging. Hector Beverages rolled out Tzinga, which is almost one-fifth of the cost of the premium energy drink brand in the market, Red Bull. The CEO-Founder Neeraj Kakkar said, “energy drinks in India are projected as premium products and are consumed mostly by athletes, gym enthusiasts, and socialites - rarely by the average citizen. They are costly, primarily due to high import duties. Thus, Red Bull, which controls almost four-fifths of India's energy drink market, costs ₹ 95 for a 250 ml can. Tzinga, in comparison, produced locally, costs ₹ 25” (Pande, 2013).

Tzinga, having the potential for masses, immediately became popular in academic institutions in New Delhi, Mumbai, and Bangalore. IITs in Delhi and Mumbai, the National Law School, and IIM Bangalore are some examples of early adopters. However, the founders realized that a diverse portfolio was needed to sustain growth in the market. They needed an innovative product which would help them create a differentiated segment in the country.

Paper Boat : A Brand Sets Sail

After the success of Tzinga, the founders studied the global beverage industry and their offerings in order to understand the dynamics of international beverage makers. They brainstormed and discussed options like vitamin water and another energy drink for the Indian market, but none of them appeared exciting enough to be materialized. They wanted to develop something that was truly Indian in its appeal.

The search for the blue ocean through innovation eventually came to peace on one summer afternoon, when the four friends were having lunch together and were relishing home-made Indian drink, *Aam Panna*. Aam Panna is a traditional Indian drink renowned for its cooling properties and is made from green mangoes. Apart from being tasty, it also looks good due to its refreshing light green color. The drink converged the childhood memories of the four friends and fueled the plot for 'Paper Boat' beverages; a traditional drink which would connect with memories. And finally, the idea clicked –

The idea of marketing traditional drinks which would connect with the childhood memories of consumers!

They realized it was near impossible to find good and authentic Aam Panna in the market. This was a moment of realization: that in India, the traditional drinks market does not exist, and so came the inspiration to launch the brand – which in truth, was the launch of a new category of beverages. This is how Paper Boat got conceptualized. Launched in 2012 under Hector Beverages, Paper Boat has created a niche market for regional Indian beverages like *aam panna*, *rasam*, *kokam*, and so forth. The product gets its name from the *paper boat*, which is a memoir of childhood on a monsoon day, when it is common to find children playing with paper boats in small puddles/streams of water. Talking about the doypack design, Neeraj Kakkar said, “*We worship design, not just for the pack, but also as a tool for communication and recipe creation*”.

Their dream offering was initially launched in two variants: 'Aam panna' and 'Jaljeera,' which were followed by five more variants - 'Aamras,' 'kalakhatta,' 'kokum,' 'golgappe ka pani,' and 'imli'. Despite the tough competition, Paper Boat created a market of its own by leveraging the unique traditional taste of the constituent ingredients (see Table 1). With innovative packaging, the company made sure that each doypack carried a unique description of its connection with childhood memories.

The regionally diverse Indian palate presents huge opportunities that can be exploited by the company in this domain. The Table 2 presents the different brands in various product categories in India. The savoring mango drinks, relishing Jaljeera, and Kokum drinks are all cherished in the sultry summers in different parts of India. The product does not appear to be a direct contention to the Pepsi and Coke of the industry, but with an emotional connect as its unique selling proposition (USP), it has the potential to bear the palm in the longer run. Since its

Table 1. Flavors of Paper Boat

S.No	Flavors	Description
1.	Aamras	Aamras is the pulp of the tropical fruit Mango eaten in India.
2.	Aam Panna	Aam panna is an Indian drink renowned for its heat resistant properties. It is made from green mangoes and it is used as a tasty and healthy beverage to fight against the intense Indian summer heat.
3.	Jaljeera	Jaljeera is essentially lemonade and jaljira (Cumin) powder, and is a popular summer drink in India. It is sometimes served as an appetizer, as it is intended to "startle" the taste buds.
4.	Golgappe ka paani	Spiced water containing a mixture of coriander, mint leaves, and green chillies along with green paste.
5.	Jamun Kala Khatta	Jamun Kala khatta is a popular street drink and tangy flavored juice made from jamun or blackberry fruit. It is available in drink, candy, and syrup form. It is a traditional drink which is available in summer from roadside vendors. This syrup is made with a combination of Jamun, black salt, lemon juice, and sugar.
6.	Imli ka amlana	Imli Ka Amlana is a tangy refreshing cool tamarind drink to beat the heat in the summer.
7.	Kokum	Garcinia indica, a plant in the mangosteen family (Clusiaceae), commonly known as kokum, is a fruit-bearing tree that has culinary, pharmaceutical, and industrial uses. Kokum squash or kokum concentrate is used in preparing a drink which is bright red in color. It improves digestion and cools the body during summers.
8.	Tulsi Tea	Tulsi Tea is a stimulating drink that helps you beat stress and fight free radicals.
9.	Ginger Lemon Tea	All these ingredients have their own natural medicinal qualities and when they are combined, they create a calming and relaxing tea.
10.	Sattu Drink	Sattu (roasted gram flour) is a healthy and refreshing drink. It is a traditional drink of Bihar and is used during the hot summer days.
11.	Chilled Rasam	It is traditionally prepared using tamarind juice as a base, with the addition of tomato, chili pepper, pepper, cumin, and other spices as seasonings.

Source: Compiled from www.paperboatdrinks.com

inception in 2010, the company has raised INR 250 crores from the equity players that include Sequoia Capital, Catamaran Ventures, Footprint Ventures, Sofina, and Hillhouse Capital (Advani & Gooptu, 2015).

Carving a Niche in the Beverage Industry of India

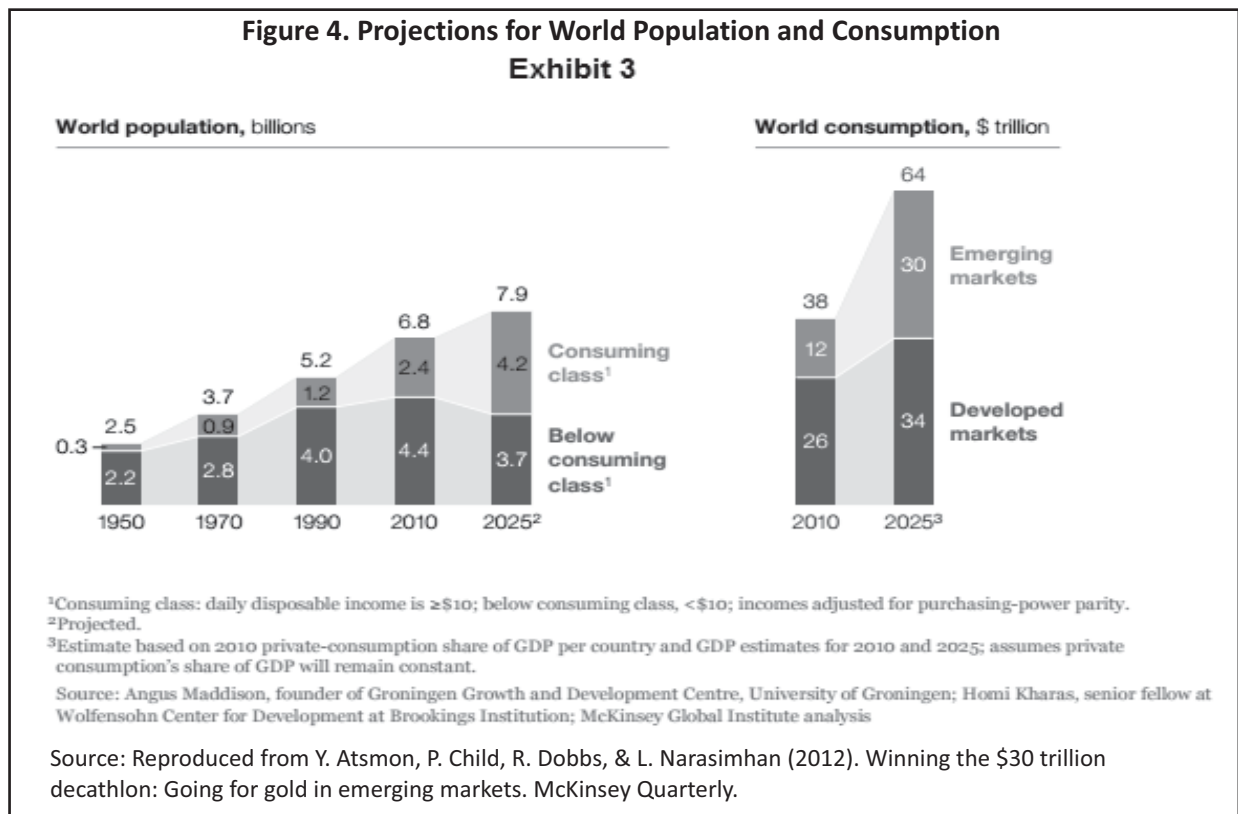
The Indian food processing and beverage industry is seen as a sunrise sector, gaining prominence in recent years. The contribution of the food processing and beverage sector to the GDP has been growing faster than that of the agricultural sector. As per The Boston Consulting Group (2011) report on *India Food Processing: Mission 2020*, Indians spent around 35% of their total spending on food, and the report estimated that this \$300 billion market will grow to about \$900 billion by 2020 (The BCG Consulting Group, 2011). India is one of the largest producers and consumers of food in the world and accounts for 16% of the world population and 12% of the world food production. It is expected that by 2025, the consuming class in the emerging markets will reach 4.2 billion, which will make it a \$30 trillion market (Atsmon, Child, Dobbs, & Narasimhan, 2012).

As we can infer from the Figure 4, the share of the developed markets in world consumption is going to increase from \$26 trillion in 2010 to \$34 trillion in 2025, showing a growth of 30.76 %. On the other hand, the share of the emerging markets in the world consumption was expected to increase by 150%, from \$12 trillion in 2010 to \$30 trillion in 2015. According to McKinsey Global Institute, if India continues on its current high-growth path, over the next two decades, the Indian market will undergo a major transformation. Income levels will almost triple, and India will climb from its position as the 12th largest consumer market today to become the world's fifth-largest consumer market by 2025 (Ablett et al., 2007). The shift in consumption pattern towards healthy options and the surging demand for non-carbonated drinks has helped Paper Boat to carve out a distinct market share for itself in the non carbonated beverages segment (see Figure 5). The product does not appear to be

Table 2. The Beverage Market in India

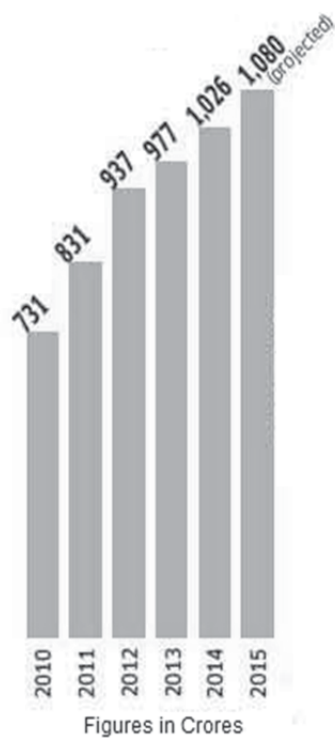
Product Categories			
Carbonated Drinks	Fruit Drinks	Functional Drinks	Regional/Traditional Fruit Drinks
Pepsi	Maaza	Red Bull	Paper Boat
Coke	Real	Gatorade	Large and Unstructured Market
Thums Up	Tropicana	Lucozade	
Mirinda	Safal	Tzinga	
Sprite	Del Monte	Cloud 9	
7Up	Frooti	XXX	
Fanta	Fresca	28 BLACK	
Limca	Slice		
Mountain Dew			
Appy Fizz			

Source: Statistica.com (n.d.). Beverage categories in Indian market. Retrieved from www.statistica.com/markets/



in direct contention to the popular cola drinks of the industry, but with an emotional connect as its USP, it certainly has the potential to eat into the market share of the giants in the beverage industry. Priced at ₹ 30 for 250 ml and ₹ 120 for one litre pack, Paper Boat's aamras is pitched against Coke's Maaza, Pepsi's Slice, and Parle Agro's Frooti.

Figure 5. Surging Demand for Non-Carbonated Drinks



Source: Reproduced from Singh (2014).

Harmonizing Demand and Supply

Despite its initial takeoff, Paper Boat has had to overcome several challenges. The most critical one is matching the health standards in the industry along with getting the right flavors. Paper Boat has followed a 'no preservative and artificial flavor' policy and sources fresh produce for its processes, but the procurement of adequate and fresh ingredients within the stipulated time continues to be a daunting task for the management. Kakkar realized this quite early in his venture. He said, "The biggest challenge is sourcing traditional ingredients."

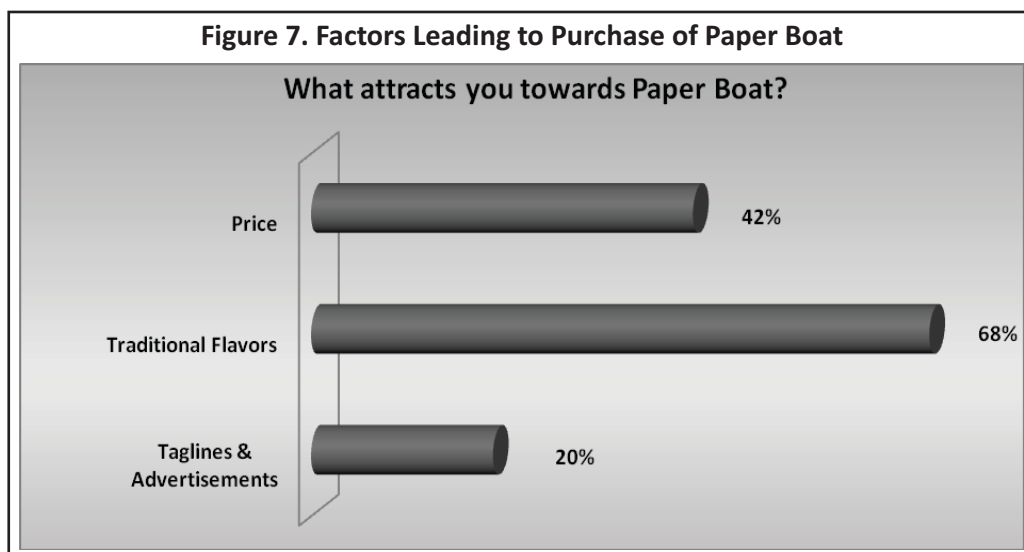
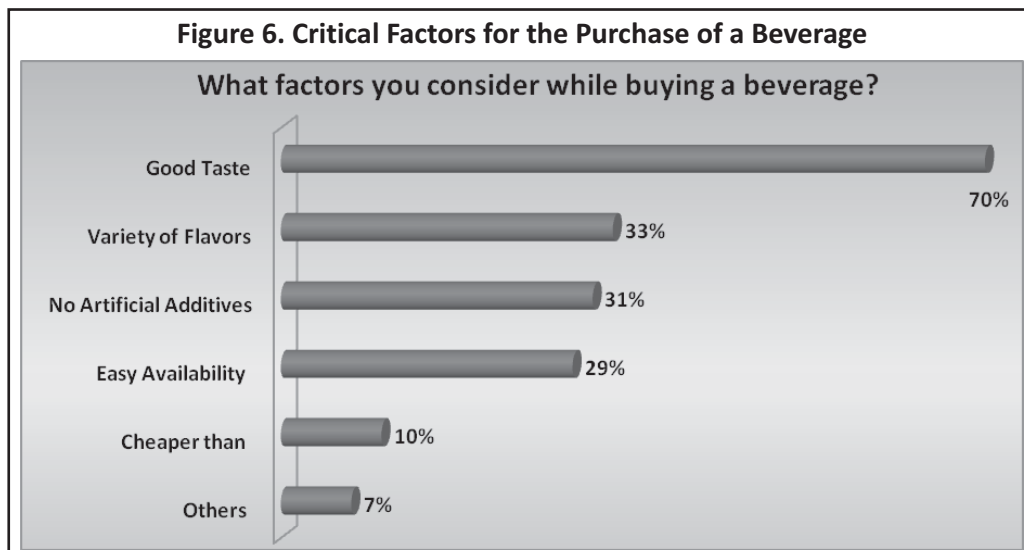
While most suppliers were not ready to assure a steady stream of ingredients, the ones that they got hold of didn't promise quality. Take, for instance, jamun kalakhatta. Kakkar and his team had to struggle for 8 months to get hold of high-quality jamuns from the tribal belt near Ootacamund in Tamil Nadu.

It was a similar case with mangoes. "Producers were more than eager to supply us artificially-ripened mangoes," he says. But that was not acceptable. Kakkar had to wait for more than 2 years to get a regular supply of mango pulp. All this shows that the company is committed to package an authentic taste for these drinks and has left no stone unturned despite several challenges (Ambwani, 2014; Singh, 2014).

The company will have to significantly improve its supply chain and points of sales to increase product accessibility. The aim is to stock their shelf with up to 25 ethnic and traditional flavors from North's Sattu to South's Coconut water (Singh, 2014). The company earlier operated from their single plant at Manesar, Haryana and manufactured over 2.5 million pieces a month. Buoyed by the success of its traditional Indian drinks brand, Hector Beverages is on an expansion spree. To meet the rising demand in the South-Western region, the company opened up a new plant in Mysore in March 2015, with four times the capacity (Tandon, 2015). From the small grocery stores, to coffee chains like Barista Lavazza, to hotels such as Westin & Trident, as well airlines such as Indigo & Jet Airways, the brand is available in over 20,000 outlets (Verma, 2014). In the highly fragmented

Indian retail market, the company aimed to increase the number of outlets to over 50,000 by the end of the year 2015.

In order to examine the sustainability and future growth of Paper Boat, an online survey was conducted to study the perceptions of Paper Boat consumers in the market. The respondents comprised largely of students and service sector employees, a fact which embosses the major customer base for the product ; 70% of the 220 respondents said that they would like to give preference to taste while consuming a beverage (Figure 6). The findings of our analysis based on these responses reveal that the 68% of the respondents were attracted to Paper Boat due to traditional flavors (Figure 7). Furthermore, data with respect to age group shows that Paper Boat is most popular among the age group of 25 to 40 years. The analysis of the qualitative responses suggests that sales peaked during the evenings, with a majority of consumers belonging to the middle age group. This affirms that the company has correctly identified a profitable niche and has been able to deliver as promised. However, our analysis also highlights that consumers in this segment are highly price sensitive. The survey results also revealed that majority of people were not aware of the eco-friendly doypacks which are used in the packaging of the product.



Paper Boat is present mainly in outlets in corporate offices, colleges, or as a part of the flight meals. Paper Boat beverages have been leapfrogging in steps with its variants now available on Amazon.com.

However, to overcome the challenges related to marketing, the brand partnered with Karishma Lintas, a part of Lintas India Group that is well-known for its marketing genius. They have taken up the responsibility for positioning and marketing of the brand and also appreciate Paper Boat's vision of reducing cynicism in society and reaffirming faith in life. They would provide creative insights and solutions to Paper Boat and will also chart out strategic recommendations of brand Paper Boat across various media. Design thinking is at the crux of Paper Boat, and they believe that the same applies for Karishma Lintas. Karishma Lintas understands brand sensibilities, and their work has been inspiring. Backed by a strong team and innovative ideas, they are very confident about the choice and the quality of deliveries. The new range of commercials is now visible on television as well as multiplex theaters with a tagline "drinks and memories" (Indiantelevision.com, 2014). Making it more visible and promoting it with different forms such as TV, social media will increase awareness about the product and relate it to the brand before purchase. The target group of Paper Boat is the younger generation who are spending most of their time online. With the aim of providing them an added avenue for ordering their beverages, Paper Boat has tied up with Amazon and hence will also be available in 10 countries, including the UK, United States, UAE, Canada, Australia, and Malaysia.

The Way Forward

Paper Boat beverages currently operate with 11 flavours in the market. The brand has been growing by leaps and bounds due to innovative, yet traditional flavours. Paper Boat has also tied up with the American online giant Amazon.com and entered into e-retailing. It has taken steps to become a global brand and is exporting its products to countries including U.S., UK, France, Canada, Australia, Netherlands, UAE, and Malaysia ("Paper boat to expand to 50 cities by the end of this year," 2015). Currently, it is available in only six cities, but plans to expand up-to 50 cities. It has inked a strategic tie-up with Japanese food giant, Indo Nissin Foods, aimed at strengthening distribution and brand presence in tier II cities and rural markets ("Paper Boat, Indo Nissin ink distribution tie-up," 2015). The company has aggressive growth plans and aims to build its brand through new product launches, exploring newer geographies, improving distribution, and also by identifying new-age channels to make these products available anywhere.

Taking on colas looks highly unlikely at the moment, says Bornstein of Footprint Ventures. Paper Boat has barely scratched the surface and has to do a lot in terms of product distribution and innovations, he adds. "But I would never say that it will never take on colas." One thing is for sure: colas will certainly feel the chill (Singh, 2014).

Managerial Implications

Looking at the customer affinity of Paper boat, it is recommended that it should concentrate, for the time being, on their existing successful flavours and should put in more efforts for developing a wider and efficient network for the product distribution. As the beverage industry in India is crowded by the presence of many small and big players, it is crucial for Paper Boat to focus on effective communication strategies to add to its customer base in India. Above the line marketing techniques such as advertising through theatres, multiplexes, and online media can be a highly rewarding strategy. By portraying Paper Boat as a natural, traditional, and healthy organic drink will attract more and more customers in an emerging economy where people are day by day becoming more health conscious. So far, as the international market is concerned, they are already exporting to countries such as U.S., the UK, Canada, and the UAE, targeting the Indian diaspora. Nevertheless, with more innovations, the success story in India can be replicated in the international market of non-Indians as well. Therefore, the future of

the brand in the domestic market depends upon better distribution and marketing strategies, and the journey from being a national brand to international brand will depend upon its efforts and capability to innovate flavours for the global market.

Questions for Classroom Discussion

- (1) Looking at the long run, analyze the threats and opportunities for Paper Boat beverages in the Indian market.
- (2) Given the state of the beverage market nationally and globally. What strategies would you recommend for the expansion of Paper Boat?
- (3) What are the key core competencies of Paper Boat beverages which provide it a competitive edge? Will these competencies be sufficient for a global expansion?

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