

ESG case study: Marico - The importance of supplier relationships

The RBC Emerging Markets Equity team

Summary

Marico is a leading consumer company in India operating in the beauty and wellness space. It is also present in 24 other countries across emerging markets and has developed several brands in the following categories: hair care, skin care, edible oils, health foods and male grooming. Two of Marico's biggest and most famous brands are Saffola edible oil and health foods, and Parachute coconut hair oil.

The philosophy at Marico is to "be more, every day", a goal which was created with the intention of transforming, in a sustainable manner, the lives of all the stakeholders it touches be they suppliers, farmers, distributors or shareholders, by encouraging and empowering them to maximise their true potential.

In our view, one of the most unique aspects of Marico is the company's strong relationships with its suppliers and farmers. In this case study we are therefore looking specifically at the relationships Marico has with its farmers. Marico's 'Farmer First' policy is a key corporate social responsibility (CSR) initiative for the company. Agricultural produce forms the majority of Marico's raw materials. For this reason, being able to drive consistent initiatives to improve the well-being of farmers is a prime motivation behind Marico's sustainability efforts. Marico's engagement with agricultural producers has deepened over time, and the company has empowered farmers to strengthen their production systems, and multiply yields on a sustainable basis. These initiatives are primarily directed towards coconut and safflower growers in India.

Saffola and safflower farmers

Saffola, one of Marico's most well-known brands, has several products including edible oils, oats, rice and salt. Edible oil in particular is a key product as about 20% of Marico's total sales are attributable to Saffola Edible Oil. The brand has over 60% market

share in the premium refined edible oil market in India. A key ingredient for Saffola is safflower seeds. Marico is India's largest buyer of safflower seeds and has 32,000 farmers under contract.



Marico's company philosophy extends to its farmers and the relationship goes beyond merely fulfilling sourcing needs. Marico's representatives collaborate with farmers to improve crop cultivation and offer technical guidance throughout the crop cycle on how much to sow and what kind of fertiliser to use based on weather conditions, soil quality and other inputs. The company provides support to ensure that good quality sowing seed is available and spreads awareness on 'best practices' to be adopted during the crop cycle.

Regular seed-sowing classes are taught by selected influential and progressive farmers to spread the practices to other farms in the area. Marico's model contract also provides farmers with a guaranteed, predetermined 'fair price' for seeds. Farmers are offered market rates whenever prices rise, and a guaranteed price if they should fall. The company has been instrumental in the introduction of new technological solutions for safflower production and in addition has improved productivity in India.

As a result of these initiatives farmers have been able to improve significantly the seed replacement rate from 0.07% to 31%¹. The higher seed replacement has resulted in a 2% increase in oil content from 29.5% in 2011-12 to 30.15% in 2015-16². While this increase is incremental, oil remains the major input for which all oil seeds are grown, so any increase in the percentage of the oil leads to a major increase in income for the farmers.



Parachute and coconut farmers

Marico generates more than 30%³ of its revenue from its Parachute brand coconut oil products. The coconut oil that Marico produces and sells is edible but can also be used on hair and skin. As the top brand in its category, Parachute has more than 50%³ market share.

Marico has developed uniquely robust relationships with coconut farmers over time.

In order to make a difference to the lives of its farmers, Marico shows coconut growers how to increase productivity, thus creating long term crop sustainability and higher returns. Over the last ten years, Marico has set up collection centres within a 20km-30km radius of its production facilities so that small farmers can supply Marico directly. The centres not only reduce transportation times but also provide the farmers with a guaranteed buyer for their produce. Farmers are also given guidance about how to produce coconuts of the right quality in order to receive the maximum price for their products. Marico has helped farmers to automate the dangerous



and lengthy process of harvesting coconuts and drying and extracting the oil for Parachute. The farmers who adopted Marico's best practices early have seen an improvement in productivity of up to 20%⁴, and to date the programme has benefitted approximately 7,700 coconut farmers.

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Christoffer is a Portfolio Manager in the Emerging Markets Equity Team in London. Christoffer joined RBC Global Asset Management in 2013 and began his career in the investment industry in 2012. Prior to joining RBC Global Asset Management, Christoffer was a Research Associate at Nordea Investment Management in Copenhagen. He was responsible for the bottom-up fundamental analysis of companies in the Asia ex-Japan region, in particular within the consumer sector. In 2010, Christoffer obtained a BSc in Business Administration and Economics and in 2012 he obtained an MSc in Finance and Accounting from Copenhagen Business School. Christoffer is a CFA charterholder.



Sources: ¹Marico Annual Report 2015-2016; ²Marico Sustainability Report 2015-2016; ³Marico Annual Report 2016-2017; ⁴Marico.com as at November 2017.

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