

Analyse the internal
resources of itc
marketing essay



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This project report aims to analyse the internal resources of ITC Limited, a leading Indian conglomerate. We have divided the report into three major components - Tangible and Intangible resources; Capabilities and Core Competencies; and the Value Chain.

The analysis is based on the structure suggested in the text book on Strategic Management by Hitt et. al. The methodology followed aims to portray an accurate picture of ITC and the myriad of resources at its disposal.

While the project does not have a conclusion or a strategy recommendation, it is clear that the recent diversification of the company is a direct reflection of the vast amount of resources at its disposal. This is perhaps unsurprising, given the company's heritage and its primary products - cigarettes. In a sense, ITC is following other major tobacco giants around the world, such as Philip Morris and R. J. Reynolds, in diversifying to mitigate the ever-present risk of anti-smoking litigation.

Tangible Resources

Financial resources

The firm's borrowing capacity

ITC has a market capitalization of over \$30 billion & turnover of \$6 billion. It had a profit before tax of 6015 crores and return on capital employed of 40%, among the highest in the country.

ITC Limited's debt equity ratio was 0.01857: 1 for the past seven years showing that for an investor, ITC is not a risky option as the company has not employed much debt financing.

ITC Ltd has maintained equity in the form of Retained Earnings. The total value of equity in 2009 was approximately Rs 377 crores[i] and the retained earnings were Rs 467.41 crores as of 2010[ii].

As ITC has very low leverage because of a low debt equity ratio, the cost of equity and overall Cost of capital are almost the same.

The cost of capital, however, tends to be on the lower side in the range of 13-14%[iii], which indicates that ITC Ltd has a very low cut-off point for any new or existing project. Low cost structure also adds value to the firm in the long run.

Figures in Rs. Crores

1995-96

2009-10

Gross Turnover

5115

26260

Market Capitalization

5571

100475

Profit After Tax

261

4061

EPS – Rs (Equalized for 95-96)

0. 71

10. 73

Net Worth

1121

14064

ROCE %

28. 4

40. 6

Figure : Key Financials for ITC

The firm's ability to generate internal funds

Between 1995 & 2010, a decade and a half later, due to the strategic decisions made over these years, the effective efforts of ITC's human capital,

the trust of its shareholders and the confidence shown by millions of consumers have transformed its financial numbers.[iv]

The net turnover of ITC grew by 10.3% due to a healthy 20% growth in the non-tobacco FMCG business. In FMCG (others) segment, revenues grew by 20% over the last year. ITC's stationery products business, with the brands of Classmate for students & Paperkraft for corporates posted a robust sales growth of 60% over the past year, strengthening ITC's position as the largest notebook marketer in India.[v]

2003

2004

2005

2006

2007

2008

2009

Equity

248

248

249

376

376

377

377

Net worth

5366

6410

7896

9061

10437

12058

13735

Debt Equity Ratio

0.02: 1

0.02: 1

0.03: 1

0.01: 1

0. 02: 1

0. 02: 1

0. 01: 1

Return on Equity (%)

28. 05

27. 05

25. 68

26. 90

27. 69

27. 74

25. 31

Price Earnings Ratio

11. 36

16. 19

18. 22

32. 06

20. 92

24. 89

21. 34

Earnings Per Share

3. 69

4. 29

4. 91

6. 08

7. 19

8. 29

8. 66

Cash Earnings Per Share

4. 14

5. 00

5. 83

6. 82

8. 54

9. 63

10. 96

Figure : Balance Sheet and Shares of ITC

The cash earnings per share have consistently been greater than the basic earnings per share for the past nine years. Hence we can conclude that the company has been able to generate cash profits.[vi]

This rise in EPS also indicates that the firm's share price and dividend payout to shareholders have been increasing for the past six years.[vii]

Physical resources

Access to raw materials

ITC's network of 6, 500 e-Choupal centres spread across 40, 000 villages is a portal of commodities coming out of farms - wheat, rice, pulses, soya, maize, spices, coffee etc. ITC's e-Choupal enables the firm to shift closer to raw material suppliers & eliminating intermediaries. Because of e-Choupal, farmers are paid higher price for their crops as compared to the prevailing prices in mandi, and ITC saves transport costs and the charges paid as trader commission.[viii]

To procure the necessary raw material (tobacco leaf), a new firm - Indian Leaf Tobacco Development (ILTD) - was incorporated by ITC.[ix]

ITC's Paperboards & Specialty Papers Division launched the Wealth out of Waste (WOW) initiative. ITC provided all households in a specific locality with a bag to dispose of all the solid waste, including paper, metal and plastics. Once in a fortnight, WOW teams would visit the households and collect the

recyclable waste after paying Rs 4/kg of paper & Rs 2/kg for plastics and metals. This garbage was sent to the junkyard where it was separated and transferred for reuse. The paper waste is rescued and transferred to ITC's reprocessing plants. ITC is thus able to procure raw material locally which is Rs 1000 per ton cheaper.[x]

Sophistication & location of a firm's plant & equipment

ITC's Lifestyle Retailing Business Division, which owned the Wills Sport range of apparel, set up India's first design, production & technology center at an estimated 60 million rupees.

ITC has developed a state-of-the-art paper manufacturing plant in Bhadrachalam, Andhra Pradesh. This plant will use the good quality ECF (elemental chlorine free) paper in the notebooks it produces as an eco-friendly initiative.[xi]

ITC setup its most recent plant in Uttaranchal owing to tax incentives available in the state, it was able to avail of incentives like 100% central excise exemption for 10 years, 100% income tax exemption for 5 years etc. [xii]

At ITC's Munger plant, activities to conserve water include recycling of back wash water; reduction in domestic water consumption; an RO plant for treating effluent and an approach to zero waste water discharge by using treated water for purposes such as toilets & gardening.[xiii]

Technological resources

Trademarks[xiv]

ITC launched Aashirvaad Atta to enter the branded Atta market in 2002. The product has a market share of 56%. Bearing the same trade name Aashirvaad, products such as Ready Meals, Instant Mixes, Salt & spices were launched all over India.

ITC launched the Sunfeast range to enter the Biscuits market in 2003. Under the same trade name, Pasta & noodles were launched in early 2005.

ITC diversified into personal care products with the launch of Essenza Di Wills (prestige fine fragrances) in mid-2005, Fiama Di Wills (premium range of personal care products) in September 2007 and Vivel (soaps/shampoos) in mid-2008.

ITC launched its Classmate brand in 2003 with the notebooks category. Later on, Classmate launched new products such as pens, pencils, geometry boxes and mechanical pencils.

In October 1975, ITC launched a chain of luxury hotels - Welcomgroup. Since then the brand has grown to over 100 hotels in more than 80 destinations.

ITC launched John Players in 2002 to enter the youth fashion segment.

ITC started marketing Mangaldeep Agarbattis (Incense Sticks) sourced from small-scale units in 2003. This segment leveraged ITC's core strengths in marketing, supply chain management and innovative packaging solutions to offer good quality Agarbattis.

ITC's portfolio of Safety matches brands comprises i Kno, Mangaldeep, Aim, Aim Mega & Aim Metro. Aim is the largest Safety Matches brand in India.

ITC's Paperkraft range of products is aimed at the stationery & office consumable needs of office executives and working professionals. Currently, ITC's Paperkraft portfolio includes Premium Business Paper, Paper Stationery, Markers and Highlighters.

The Superia category of soaps & shampoos has been launched to cater to the personal care category.

Currently, ITC has two main brands in its confectionery portfolio – 'mint-o' & 'Candyman'. 'mint-o' was acquired by ITC from Candico in March 2002. ITC launched 'mint-o Fresh' in October 2004. mint-o Cool Blue was launched In 2007. ITC launched 'Candyman' in August 2002. 'Candyman' portfolio now includes 'Candyman Fruitee Fun' range of fruit flavours, 'Candyman Butterscotch Licks' and 'Candyman Éclairs'. ITC further launched 'Candyman Natkhat Mango' and 'Candyman Maha Mango' to strengthen the Candyman brand. Candyman Lacto Creme Center was launched in June 2008 & Candyman Toffichoo Strawberry was launched in early 2009.

'Kitchens of India' is a brand of ready-to-eat dishes. Each of these cuisines has been ITC Hotel's Master Chefs.

Organizational resources

Audit Committee

Compensation Committee

Nominations Committee

Investor Services Committee

Corporate Management Committee

Divisional/Strategic Business Unit (SBU) Management Committees, each headed by a Divisional/SBU Chief Executive

Corporate Functions, each of them led by a head of department

Businesses include:

FMCG, Hotels, Paperboards, Specialty Papers & Packaging and Agri-Business

Corporate Functions include:

Planning and Treasury, Accounting, Legal, Secretarial, EHS, Human Resources, Communications, Internal Audit & Information Technology

Figure : Formal Reporting Structure at ITC[xv]

The practice of Corporate Governance in ITC takes place at three interlinked levels:

Strategic supervision

Strategic management

Executive management

by the Board of Directors

by the Corporate Management Committee

by the Divisional/Strategic Business Unit (SBU) Chief Executives assisted by the respective Divisional/SBU Management Committees

Figure : Corporate Governance at ITC

The Corporate functions are responsible for providing both support & assistance to both the Corporate & Divisional Management Committees. This three-tier governance structure ensures that:

Strategic supervision (on behalf of the shareholders) is free from involvement in strategic management of the Company;

Strategic management of the Company is not cluttered by the everyday tasks of executive management and remains focused;

Executive management of a Division/Business has no relation or concern with ITC's overall strategic responsibility and instead focuses on improving the business's quality, efficiency & effectiveness.

Intangible resources

Human resources

Employees are given the freedom to set objectives, allot the required resources and perform. Execution and strategy formulation is left to the discretion of employees due to the result-orientation of the employees, which results in superlative performance. A large amount of emphasis is placed on the training of resources. ITC provides further impetus to the result-orientation of the employees by giving middle and senior-level

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managers ESOPs, which is performance-linked. Therefore, ITC provides a healthy workplace environment which fosters creativity and initiative with performance and accountability.

Knowledge

ITC has a pool of highly qualified HR managers, who are recruited from India's best business schools. These managers are well-versed in dealing with all employee-related grievances and contingencies and ensure a highly-motivated and dedicated workforce.

Trust

ITC maintains absolute neutrality in dealing with people's grievances. The cornerstone of its policy is ensuring natural justice in the firm's interaction with its people and confidential handling of employees' grievances. Frequent monitoring is undertaken by the Corporate Internal Audit function of the firm's compliance with statutes and corporate policies.

Managerial capabilities

Management programs are present in order to develop managerial talent in-house. Identified managers are trained in various aspects of business administration in conjunction with various business schools, ensuring the global orientation of the employees and managers, and relevance of their skill sets.

Organizational routines

The assessment procedures for different constituents of the Human Rights Policy are well-defined, hence there is clarity and trust regarding the

operations of the HR department. Employees trust in the assessment and judgement policy followed by ITC, as it conducts its disciplinary procedures in strict conformity with the principles of natural justice and in accordance with the Company's Standing Orders and Standing Instructions at each business location.[xvi]

Analysis

An excellent workplace environment has contributed to the stability and satisfaction that employees perceive while working at ITC

Recommendations and references serve as one of the key drivers behind the recruitment process, which is generally seen to be satisfactory.

Monetary remuneration is considered adequate.

Generally, ranking method is used in the organization for the performance appraisal system and with the promotion activities.

The high levels of freedom with innovation and execution afforded to employees has led to the continued high performance of ITC. (Singh, 2009)

Innovation resources

ITC's commitment to innovation and subsequent development of resources can be summarized by the words of Yogi Deveshwar, ITC Chairman:

“ I have always believed that innovation is the elixir of growth in a competitive global business environment; more so in an emerging economy like India, as new opportunities emerge from a host of growth drivers. ITC has pursued a 360-degree approach to encourage and enable innovation in

the company. We recognize that cutting-edge R&D can foster breakthrough innovation and create powerful sources of sustainable competitive advantage. This vision has led to the establishment of a state-of-the-art R&D center at Bangalore. The unique construct of ITC in terms of its strong presence in agriculture, food and personal care businesses is enabling a convergence of R&D capabilities that is being leveraged to deliver future products aimed at nutrition, health and well-being” (India Knowledge @ Wharton Business School, 2011)

Ideas

ITC is committed to delivering world-class products and services. Towards this end, ITC encourages a culture of continuous improvement in quality and is totally committed to the establishment of systems and processes to promote organizational creativity and innovation.[xvii]

Scientific capabilities

The Company’s R&D team collaborates with centres of excellence like University of Agricultural Science, Bengaluru; Indian Institute of Science, Bengaluru; CSIOR, Australia and CSIR, South Africa. ITC’s Research & Development Centres at Bengaluru, Rajahmundry and Bhadrachalam, the Company has access to a wide pool of world-class scientists working on providing R&D support to its businesses. This enables the company to conform to the strictest international quality norms and consistently offer product innovations.

Capacity to innovate

The spirit of innovation runs true through the entire organization.

Competitions are floated internally to encourage creativity in diverse fields of the company's operations. E. g: ' Think Next'. Such initiatives enable to company to differentiate itself from its competitors.

Reputational resources

Reputation with customers

ITC has built a formidable loyalty base among its customers due to its quality consciousness and its drive to provide value-added services. Due to a prolonged association with the vision of providing quality products built to perform according to the needs of domestic and international customers, along with a fast and effective response system to increase customer intimacy.

Brand name

ITC enjoys a dominant position in several market segments spread across several products. As one of India's oldest brands, and one of the most respected, it has consistently put the nation ahead of narrow economic gains. Therefore, it has managed to achieve a synergy with the market which is indubitably one of the strongest in India.

Perceptions of product quality, durability and reliability

ITC's products are seen to be of the highest quality. This has been fostered by several years of strict compliance to standards and effective customer service. The quality standards of ITC's products are very high due to the following factors:

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High level automation for defect-free products

Competent and trained manpower resources with global exposure

High degree of sensitivity to customer requirements and customer satisfaction

Capabilities

ITC has effectively used the resources at its disposal to create a veritable treasure trove of capabilities, which it has used to develop core competencies in various fields. Apart from existing capabilities, it has invested regularly in developing new capabilities that would help it to withstand competitive pressure, develop sustainable competitive advantages and increase growth and profitability.

Functional Areas

Capabilities

Distribution

Extensive FMCG distribution network

Fast and effective sales ordering processes

Human Resources

Fostering innovation and result-orientation

Building in-house managerial talent

Ensuring employee satisfaction

Encouraging performance and accountability

Marketing

Brand-building capability

Leveraging strong brand image to effectively promote products

Successfully manage high customer-service expectations

Management

Excellence in corporate governance

Effective organizational structure

Ability to envision long-term plans

Capacity to aggressively pursue diversification strategies

Drive to pursue world-class competitiveness in all businesses

Ability to sustain multiple drivers of growth

Competent and trained workforce with global exposure

Manufacturing

Strict compliance standards

High level of automation to reduce defects

Research & Development

World-class state-of-the-art technology

Constant innovation-focus

Figure : Capability Mapping at ITC

Core Competencies at ITC

ITC was once only a cigarette manufacturer. And now ITC is a cigarette manufacturer and it sells biscuits, soaps, spices, stationery and agarbattis (incense sticks). It provides a fine example of how a company can leverage its core competencies to be successful across very different sectors. In order to do this, ITC has relied on these following competencies:

Distribution Network

The sales generated by the cigarette division consistently over so many years stands testament to the strength of ITC's distribution network.

As an example of ITC's emphasis on trade promotion in trying to gain or hold shelf space we can speak of a recent push by the company. ITC, in its attempt to strengthen its distribution network even further had implemented a different sort of promotional strategy, in its tobacco business. This concept was referred to as 'the mystery shopper'. As a part of this initiative ITC put up its posters in kirana stores across the country. ITC personnel were sent to these retail outlets across the country to inform them of the mystery shopper idea. They were informed that this mystery shopper might visit their store at any point of time and that when he does, no matter what brand of cigarette

he asks for, the shopkeeper must offer him an ITC cigarette. Only if he insists on another brand should the shopkeeper give him a cigarette of whatever brand he asks for. If the mystery shopper is satisfied the shopkeeper would be rewarded with gifts such as lighters, etc. and would qualify for a lucky draw that would allow him to win prizes ranging from a TV set to a trip to Mumbai or even Singapore. ITC effectively used this strategy to increase its sales and awareness and gain favouritism from the kirana store owners. The shopkeepers offered ITC make cigarettes to their customers in anticipation of the mystery shopper. This obviously increased ITC's distribution reach by a large margin, and it also won them new customers.

This is just an example of how ITC has, over the years built up its vast distribution network. It is the strength of this distribution network that has allowed ITC to foray into selling agarbattis as well as pasta, glucose biscuits as well as the Dark Fantasy cream ones.

While the reach that ITC's distribution setup possesses has been used to great effect by its Sunfeast and Vivel brands, what is also important is the use of the supply chain expertise that it has gained from working with these brands has been used very effectively in its lifestyle retail business with the Wills Lifestyle and John Players stores even though the models for distribution followed in that case could be rather different.

Brand Building

If you ask consumers in Delhi what they associate with ITC, they would immediately refer to the ITC Hotel Maurya. A consumer in Hyderabad will associate it with agri-business or the paper industry. A consumer in Chennai

would recall its packaging business.[xviii]And still, each one would know about ITC's cigarettes and their biscuits and Bingo chips. This speaks volumes about how ITC has managed to build a public face for each one of its brands, no matter how diverse these might be. In order to understand its brand building ability, we can take a look at how ITC has in a short time built up the Sunfeast brand on a national level and made it big enough to compete with the likes of Parle and Britannia. The biscuits market has always been one of thin margins and tight competition. To establish a brand in this segment and gain a 10% market share was never going to be easy and needed a patient and careful brand building exercise, especially for a cigarette manufacturer. From the very beginning Sunfeast was positioned as a brand that was exciting and dynamic and young. The 'smiley sun' used as a logo for the brand, the very name and the nature of the advertisements were very much in line with this image. What Sunfeast did was to not jump into the market with all of its offerings at one time but it launched its different products in a phased manner, allowing each one its fair share of attention and the chance to be a part of the consumer's consideration set. Sunfeast first launched milk cream biscuits, and then came strawberry, coconut, pineapple flavoured cream biscuits. And then came the premium version of its cream biscuits with 'Dark Fantasy' chocolate biscuits with a series of advertisements that beautifully combined sophistication with sheer indulgence. Aside from the product launches, the manner in which the advertisement campaigns were designed also points to ITC's ability to build a brand from scratch.

The Sunfeast brand had Shahrukh Khan as its brand ambassador, which was an apt choice given the energy filled image of the brand. Perhaps keeping the Target Group in mind, each ad was filled with colour and an obvious happy feeling. Then there was the ' Cream Dream' campaign wherein they had engaged Sachin Tendulkar for their advertisements and gave each consumer a chance to meet Sachin in person. ITC promoted the brand at yet another level, on the ground, when it started sponsoring the Sunfeast Open, associating the brand with a sport other than cricket which was much more commonplace. So successful has the Sunfeast brand been that ITC has launched its own ready-to-eat Pasta brand. And this brand has also gained a foothold in the ready-to-eat category. All in all, the frequent product launches and the intelligent promotional campaigns have surely built a strong presence for Sunfeast in the consumer's mindspace. What must be noted about the brand building ability of ITC is how it has very intelligently managed to dissociate its image as cigarette manufacturer from its image as Sunfeast, the biscuit brand or any other of its businesses for that matter.

So we see that ITC has very efficiently built a brand from nothing. Another strong example of the company using its core competency is Bingo chips wherein the brand came into a very tight segment, but has found a niche for itself with its wacky and unconventional advertising.

Also, ITC's brand image has greatly been enhanced by its CSR activities. For instance, ITC's Classmate brand of notebooks comes with a write-up of how one rupee from the price of every notebook goes into educating the underprivileged. This is indeed a noble cause, and adds value to ITC's brand image.

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How much of a competitive advantage are these?

Now if we attempt to evaluate these core competencies on the basic criteria of valuable, rare, costly to imitate and non-substitutable, we can summarize the results in the following table:

Valuable?

Rare?

Costly to Imitate?

Non substitutable

Competitive Consequences

Performance Implications

Distribution Network

Yes

Yes

Yes

Yes

Sustainable Competitive Advantage

Above Average Returns

Brand Building Capability

Yes

Yes

Yes

Yes

Sustainable Competitive Advantage

Above Average Returns

Figure : Competitive Advantages of ITC

Distribution Network: ITC has built up its distribution network over the course of several years. And this network has its origins in the cigarette business. It was this sector that allowed ITC to establish the kind of reach that its distribution network has. It has proven to be extremely valuable to ITC in its many ventures and would be extremely difficult to imitate. Thus it serves as a clear source of competitive advantage, and can be sustained for a long time to come.

Brand Building Capability: ITC's brand building ability can be seen from how the Aashirvaad brand of flour has captured nearly 50% of the packaged flour market in the country[xix]. The branding process has been led by innovation in order to differentiate the product from the competition, a prime example being Bingo chips, and by generous spending made possible by ITC's conglomerate status. So it should serve as a source of sustainable competitive advantage for some time to come.

Value Chain of ITC

ITC as company has grown by leaps and bounds – this fact is captured in the history of the firm, and the amount of diversification it has seen in recent times[xx]. Correspondingly, the value chain of ITC has adapted to suit itself to the organisation's growing needs. As of today, the value chain of ITC can be broken up into a few key portions (Hitt, 2010):

Logistics

Logistics at ITC is one of the most important components of the entire value chain. Given the sheer diversity of the products and services the organization provides, along with the widespread nature of its activities, an efficient supply chain is vital to ITC's functioning. ITC has also effectively used Information Technology to streamline its entire supply operations, a fact reflected in it receiving the NASSCOM – CNBC IT User Award 2008, for Retail & Logistics[xxi].

In order to highlight the criticality of ITC's supply chain, here is a brief set of statistics on the FMCG part of the company's business: 1000+ SKUs, 3. 5mn SFT of warehousing at 55+ locations and over 650 dedicated trucks in motion daily.

The core business of ITC – tobacco, is also dependent of ITC's logistics network. In fact, the competency developed over the years in selling cigarettes has immensely helped ITC during its diversification into the FMCG sector. This can be attributed to the fact that there is a large degree of commonality between the distribution network of cigarettes and FMCG products.

ITC is also trying to vertically integrate its supply chain - an example of this would be the integration of the potato value chain, with the acquisition of Technico Pty. Ltd., an ag