The economic problems faced by hindustan unilever limited

The problems that Hindustan Unilever Limited currently facing is increasing input costs and operations costs due to rise in raw material costs, increasing imitative and spurious products, and stiff competition from other FMCG players.

There is slowdown in the global economy and the problem that started in the financial sector extended rapidly to other sectors affecting not only the US but the global economy. Most of India’s domestic sectors are also affected including country’s exports performance and FMCG sectors.

There is an unprecedented volatility in raw materials price contributed largely by increasing crude oil prices. Unprecedented volatility in raw materials price associated with uncertainties in the commodities movement needs a desperate careful management in the FMCG companies. Although some companies managed to do well categories like detergents met decreasing sales.

Hindustan Unilever Limited has a large brand portfolio consisting number of brands. It will be difficult to manage such extended brand portfolio by any company but it is the nature of FMCG industry and company. The current global scenario with swinging raw material prices and intense competition faced by the company needs a careful management.

Major issues or problems

The problem that the company is facing for long time is the increasing imitative products. The popularity of the HUL’s brand and the reach it possess drives the local manufactures to imitate the products leading some to produce even the fake products. The fake products are seen highly in rural markets. This greatly affects the brand equity of the HUL.

The company is facing increasing input costs due to increase in price of the raw materials. There is a potential impact on the company due to rising inflation, freight costs and raw materials.

Hindustan Unilever Limited is facing tough competition than years before from ITC, Procter & Gamble, Colgate-Palmolive, Nestle and Godrej. ITC is competing toughly with HUL through various brands that are market leaders. The competition is further intensified by several new entrants. This intensified competition already witnessed by HUL's losing market share in certain segments and also increase in operation costs.

STRATEGY FORMULATION:

Strategic alternatives:

The strategic alternatives for HUL to address the issues of increasing input costs and operations costs due to rise in raw material costs, increasing imitative and spurious products, and stiff competition from other FMCG players are,

Leverage and Proliferation of brand portfolio

Competitive pricing

Cost efficient initiatives

Leverage and proliferation of brand portfolio:

HUL has gained reputation of meeting customer needs through various products in different segments. HUL has strong supply chain and distribution network meeting customer needs. This gives competitive advantage for HUL over its competitors. The proliferation of brand portfolio will protect customers especially in rural markets from purchasing spurious products. HUL's product of different brand in same category will back the revenue generating brand from imitative products.

Competitive pricing:

Hindustan Unilever Limited facing stiff competition from organized as well as unorganized players in the industry. This is an industry where buyers have numerous choice of brand to shift one brand to another brand if not affordable. Rising inflation in the country makes the companies to increase the price of their product. Competitive pricing will get the local manufactures and organized players on their feet.

Cost efficient initiatives:

Increase in the raw material price and uncertainties in the commodity movement rises the operation costs of the company. The company is in desperate need to do some initiatives like cutting down the advertisement cost and also to cut down the cost in its operation rather than worrying about the increase in raw material price.

Alternative Evaluation:

Leverage and proliferation of brand portfolio:

Leveraging and proliferation of brand portfolio by introducing new brands will help the company to compete with the spurious products and competitors brands by providing the customers a variety of brand in the same category. This will prevent the customers from shifting to imitative products and competitor brands thereby retaining the customers. Hindustan Unilever Limited has a competitive advantage of robust supply chain and distribution network. This will help the new brand in reaching the customers effectively. The disadvantage is that the company will have various brands in the same category which may make difficult to manage them.

Competitive pricing:

This strategy of competitive or decreasing the price of company's product will not to efficient. The company is dealing with increase in input and operation costs. Reducing the price of the products will decrease the profit margin. Moreover it will start the price war in the industry which is not good for the company as well as to the industry. Most of the HUL's market leader brands are being closely chased by its competitors with only slight difference in the market share and lot of local products. Also, in many categories in oral, skin care segments the competitors are having market leader brands with strong foothold. Initiating the price war will have a drastic impact on all the segments also will not increase the profit margin.

Cost efficient initiatives:

The cost efficient initiative like reducing cost over advertisement and reducing the operation cost will help the company to gain competitive advantage in its operations. However FMCG industry requires consistent advertisements and promotional effects to stay in the minds of customers. Cutting down the expense on advertisement will let the competitor to gain advantage over HUL in reaching the customers mind. Also the organization cannot do much about the increasing raw material cost where they have a choice of only optimizing the procurement procedures.

Alternative choice:

Leverage and proliferation of brand portfolio is the optimal choice to address the problems that the company is facing. HUL has a competitive advantage of possessing many strong brands with robust supply chain and distribution network. They have a strong resource that they can allocate to proliferate the brand that can cover different market segments at different price points. This will prevent the price wars as it will give consumers a wide choice of brands that can cover different market segments at different price points and simultaneously retain the customers from shifting to competitor’s brands. This will give wide choice to customers and back the revenue generating brands from its competitors. This is an industry which is difficult to retain the customers. So it is risky to go head on head with the competitors with revenue generating brands. Proliferation of brand will increase the volume growth and profit margin.

STRATEGY IMPLEMENTATION:

HUL will not require any culture or structural changes in the organization to implement the strategy. The organization with its robust supply chain and distribution network will help the brand to reach the customers like other brands.

Immediate action plan:

The company has to first differentiate the strong performing and revenue generating brands from the non-performing brands. It is important to determine brand relevance and assessing the key competitors in the category.

Short term action plan:

The company has to decide the segments in which they have proliferate the brand portfolio. A research has to be conducted to analyze the performance of existing brand and that of the competitor’s brand.

Long term action plan:

After determining the category they need a well designed performing monitoring system to analyze the performance of brands before and after the introduction of new brand.