Case study of monopolistic competition in india

Hindustan Unilever Limited being the leading company in the FMCG sector is the prime focus of our study. It is the largest share holder of the FMCG sector in the Indian market. It was founded in November 1956 and its based in Mumbai, Maharashtra. The mission statement of HUL is, “ add vitality to life”.

In this report we have analyzed the life cycle of HUL, along with its strong presence in the market due to its highest shares in the FMCG market. Research in this report consist of analyzing the competitors with respect to HUL through reference book, internet research which gave a proper direction to our study.

Our major finding includes that HUL has a strong market base which is spread strategically in all the market segments under soaps and detergents due to so many brands by HUL. Also we see there are a lot of emerging competition to the HUL’s soaps and detergent market share and how it has and will continue to tackle these competitions. Additionally we see the HUL firm’s life cycle, along with an understanding of a monopolistic market. Furthermore we see into one of the competitor’s downfall in the soaps and detergent market.

In conclusion, this study shows HUL has a strong market share in the soaps and detergent sector. HUL in the light of all the competition, is constantly innovating new products so as to dominate the market. Unlike other companies, HUL has its base under all the segments, thus targeting a wide range of consumers.

Abstract

Hindustan Unilever Limited is the largest FMCG Company with market leadership in the Soaps & Detergents Industry. The report focuses on the evolution of HUL as the market leader in light of the Life Cycle of a Firm and analyses how it managed to sustain its position with emerging new entrants in a monopolistic competitive market.

Problem Statement

Among several leading national and global brands, HUL is the largest company in the FMCG Sector and it is the market leader with 46% share in the soaps and detergents industry. The underlying factor for its success is the strong customer base.

It :

Provides wide range of products

Continuously innovates to respond to the competitive pressures by providing value additions to its existing products

Has established its target audience to every segment: premium, mid-priced and popular

Introduction

Hindustan Unilever Limited (HUL) is India’s largest Fast Moving Consumer Goods (FMCG) Company based in Mumbai, Maharashtra. It is a subsidiary of Unilever, a British-Dutch company which controls 52% shareholdings in HUL. Unilever is world’s largest supplier of fast moving consumer goods across 100 countries in the world.

In Home & Personal Care Products and Foods & Beverages, HUL's 35 power brands are spread across 20 different consumer categories such as detergents, shampoos, soaps, skin care, toothpastes, coffee, tea, ice creams etc. The company aims to create a better future every day as it provides for nutrition, hygiene, and personal care that help people feel good and look good. HUL touches the lives of two out of three Indians.

These brands are manufactured over 40 factories and operations consist of 2000 suppliers and associates. It covers 6. 3 million retail outlets reaching the entire urban population and 250 million rural consumers.

HUL has over 16000 employees and an annual turnover of around Rs. 21736 crores(as per financial year 2011-2012).

Life Cycle of HUL

Life Cycle can best be explained as the course of events that bring a new firm into existence and follows its growth into maturity to capture the mass consumers. The most common steps in the life cycle of a firm include the following phases:

Introduction

Development

Maturity

Growth

Sales volume

1988 1930 1991 2000

Time

Development Phase

Firms in the development phase are likely to be characterized by small levels of sales and are more speculative in nature. The firms enter the market as they see a market opportunity. Unilever the parent company of HUL viewed the Indian market with tremendous potential. Thus, it launched " Sunlight Soap" in 1988. This gave rise to an era of marketing branded fast moving consumer goods (FMCG). It further introduced Lifebouy and other brands like Pears, Lux and Vim came into market in 1985. Vanaspati and Dalda were also launched in 1918 and 1937 respectively.

Introduction Phase

In 1930's the introduction of the firm as Hindustan Lever Limited came into existence with the merger of HindustanVanaspati Manufacturing Company, Lever Brothers India Limitedand United Traders Limited. It became the first foreign subsidiary company to do so. Today, the company has more than three lakh resident shareholder.

Growth Phase

In 1991, with the liberalization of the Indian economy, a drastic change in growth curve of HUL was witnessed as the company explored every single opportunity in the product segment, without any restriction in the production capacity. HUL and its largest competitor Tata Oil Mills Company (TOMOCO) merged together, and the acquisition took place in 1994. In 1996, a 50: 50 joint venture was formed, with Lakme Limited to market cosmetics andwith

US based company Kimberly-Clark Lever Ltd to marketHuggies Diapers and Kotex Sanitary Pads. HUL also set up a subsidiary as Unilever Nepal Limited (UNL). The UNL factory manufactured HUL's products like Soaps, Detergents and Personal Products both for the domestic market and exports to India.

The company witnessed crucial mergers, acquisitions and alliances after 1990's , on the Foods and Beverages front.

Maturity Phase

HUL entered the maturity stage in early 2000's. Since it reached upper bounds of its demands, it undertook various projects and initiatives to maintain its brand image. The increasing demand is not entirely affected by the advertising. For instance, HUL undertook Project Shakti in 2001, a rural initiative which targeted small villages. Presently, 45, 000 Shakti entrepreneurs are working, which covers over 100, 000 villages across 15 states and reaching to over 3 million homes.

In 2002, HUL made its entry into Ayurvedic Health & Beauty Centre category with the Ayush range and Ayush Therapy Centers.

In 2003, it launched Hindustan Unilever Network, Direct to home business , launching ' Pureit' water purifier in 2004.

In 2007, the Company name was formally changed to Hindustan Unilever Limited.

Brooke Bond and Surf Excel showed Rs. 1000 crore as a sales mark followed by Wheel which crossed the Rs. 2000 crore sales milestone in 2008.

HUL has completedmore than 75 years of corporate existence in India.

HUL-Monopolistic Competition

Monopolistic competition is a market situationin which there are a large number of sellers and a large number of buyers for the products and services. The firms in a monopolistic competitive market are generally small in size. All firms provide similar products i. e. the products are close substitutes of each other. However they can be differentiated on the basis of color, packaging, features, and brand price and so on.

The Indian FMCG Market is a perfect example of monopolistic competition. It is a highly crowded market with a large number of national and global players competing on margins. The stock turnover is high as FMCG products are frequently consumed and have a short shelf life. The main features of FMCG in light of monopolistic competition can be viewed as follows:

Large Number of Sellers

In a monopolistic competitive market, there is abundance of sellers producing differentiated products. The presence of large number of sellers is highlighted by the fact that the Indian Soap and Detergent market has 700 companies competing to sell their products. The major players across the globe are: ITC Limited, Procter & Gamble and Hindustan Unilever Limited.

Freedom of Entry and Exit

There are low barriers to entry and exit of firms in monopolistic competition. If the profits are attractive, the firms can enter the industry. Increase in disposable income in hands of both rural and urban consumers, gave an opportunity to the rural consumers to shift from unbranded unorganized products to branded FMCG products. The increasing demands, leads new firms to enter the market. When the competition increases the existing firms are forced to reduce their price in order to meet the competition. Thus free entry and exit maintains normal profits in the market in the longer span of time. For instance, Nirma was launched in the detergent industry at a low price targeted to cater to the needs of middle-priced and popular segment. The success of Nirma forced HUL to launch an even lower priced product. Thus, Wheel and Rinwere introduced by HUL to maintain its market share.

Selling Costs

Due to product differentiation in monopolistic competition, firms are required to incur some additional costs such as advertising, sale promotions, salaries of marketing staff etc. to promote the product. The main aim is to inform, persuade and remind the buyers of the availability of the product. The strategy of aggressive advertising is adopted. HUL and Procter & Gamble are two renowned companies for portrayal of advertisement war. Aggressive television commercials were shown targeting each other's brand. Even in print the prices of detergents such as Tide and Rin were compared to influence the customers buying habits. It is highly believed that advertisements are factual and help buyers make an informed choice.

Product Differentiation

It is regarded as the most important feature of monopolistic competition. The products in monopoly are homogenous in nature whereas in monopolistic market it is heterogeneous in nature. The products are close substitutes;

however every seller tries to differentiate his product from the competitor's product. They maybe different in terms of colour, packaging, features, pricing, size and shape. For instance, Ariel, the detergent laundry line for P&G, is available in a variety of forms. Ariel Colour is a detergent used mainly to protect colour of clothes, Ariel Stain remover is a stain pre-treatment product, ArielQuickwash is used to wash clothes in the quick wash cycle and so on. Therefore, Ariel has been able to expand its laundry line depending on the use of the detergent. By adding various features to the existing product, Ariel has been able to distinguish itself from the competitor.

Absence of Interdependence

The firms operate on the basis of their own marketing policies and production. No firm is influenced by the other firm. Since a large number of firms enter the market, the size of each firm varies. Thus, no firm is dependent on the other.

Falling Demand Curve

A firm in monopolistic competition, has a downward sloping demand curve. This is mainly because the sellers are the price makers i. e. they are influential enough to affect the price of the product. The demand curve is highly elastic as substitutes are available. This means one can sell more at low prices and vice-versa.

Competitor's analysis

HUL has a large share of market in soaps and detergent segment, but it still faces a growing number of competitions from various Competitors in the market. In the detergent sector it faces competition from Procter and Gamble (P&G), Henkel, RohitSurfactancts Pvt. Ltd. (RSPL) and Nirma (now out of the market). In the soap sector it faces competition from Godrej, P&G, Wipro, ITC and Nirma (now out of the market). HUL faces just one competition in the health care sector of the soap industry and that is from Reckitt.

Detergents Market

Past

HUL captured the Indian detergent market in the year 1957 and maintained its monopoly in terms of quality till 1980s with its product ' SURF'. However by 1980s a company named Nirma Chemicals brought out a detergent ' Nirma' which was priced much lower than HUL's ' Surf' with a very catchy advertisement on TV, claiming great quality at affordable rates. It soon became a very popular jingle, catching the imagination of the masses. By 1985 Nirma had replaced Surf from the number one position in the detergent market.

HUL then changed their strategy and introduced cheaper detergents named Wheel and Rin, and managed to regain some of the lost ground in the detergent market. This shift ultimately resulted in HUL's Wheel replacing Nirma from the top position of the detergent market in early 2000.

But soon there emerged a threat from a product named Ghari which was launched by RSPL in 1987.

Present

In the current market scenario, Ghari holds the number one position at 17. 3%, followed closely by Wheel which holds 16. 9% of the market share. Nirma on the other hand had witnessed a huge downfall and it now just commands a market share of less than 6%. Tide launched by P&G is now at the third position in the market after Ghari and Wheel, with a share of 13. 5%.

The Indian detergent market is broadly classified into four different segments namely:-

Premium, examples- Ariel and Surf

Mid-price, examples- Henko, Rin and Tide

Popular, examples-Wheel, Ghari, Nirma and Mr. White

Regional and small unorganized players

Premium, Mid-price and Popular account for a market share of 15%, 40% and 45% respectively against each other.

All the above three segments combined form 60% of the market share, while the rest 40% share is held by the regional and small unorganized players in the market.

HUL is still a major player in the market with its Wheel, Rin and Surf in all three main segments, but RSPL is now the overall leader due to Ghari.

Soaps Market

The soap market in India is divided into various categories that is men's soaps, ladies soap and common soap. There is also a small share in the soap market which is held by specialty soaps like baby soaps, sandal soaps, glycerin soap etc. The market growth of the soap sector is estimated to be 7% p. a. and it is observed that rural market constitutes 60% of the soap sales.

There are about 700 soap manufacturing companies in India. The Indian soap market's value is estimated to be around 60000 crores. In this huge market there are just a handful of key players who control the major chunk of the market share. These are HUL, Godrej, Wipro, P&G, Nirma and ITC.

HUL enjoys over 54. 3% of the market share with its brands such as Lux, Lifebuoy, Rexona, Breeze, Pears, Haman and Dove.

Godrej Consumer Product Ltd.(GCPL) comes in second position with 11% of the market share with its brands such as Cinthol, Fairglow, Nikhar and Allcare. GCPL is among the biggest manufacturer of toilet soaps and it launched Fairglow, which was the first fairness soap in India.

Wipro with its brands such as Santoor and Chandrika has a strong base in the soap market sector.

Procter & Gamble (P&G) and Nirma are the other competitios with a strong presence in the market share.

ITC is a fairly new entry into the soap market with the launch of its brand named Vivel. According to AC Nielson a global marketing research firm, Vivel soaps have witnessed a growth rate of 70-80% within a short period of time. ITC is now the fastest growing company in soap the soap market.

Case Study: Downfall of Nirma Detergent Powder

The purpose of this case study is to highlight the factors that led to downfall of NirmaDetergent Powder. How ignorance of factors like consumer behavior, innovation, product differentiation immensely affect the existence of any firm in the cut-throat competitive market.

Nirma detergent powder was launched in 1969 by Nirma Chemicals at a price far lower than the market leader-Surf. The aim of Nirma was to create a brand at affordable price. The strong popularity of Nirma among the cost conscious Indian consumer, gave rise to competition. No company is interested in losing its market share. Thus, recognizing the threat, HUL, the undisputed leader in FMCG, launched Wheel detergent to try and establish itself in the low end of the market. Nevertheless, it forced Nirma to exit the market. The main reason for this are highlighted as under:

Lack of Innovation: With the increase in disposal income in the hands of the consumers, a shift was seen in the demand of products. The consumer desired aspirational products focused on viability and divisibility instead of economy brand products focused on affordability. Nirma suffered from the inability to innovate products to meet the new demands of the consumer. It failed to think beyond pricing. On the other hand, HUL was able to establish products in all segments; Popular: Wheel , Mid-Priced: Rin and Premium: Surf.

Lack of Advertising: Nirma did not have a strong brand promotional strategy. It failed to capitalize on the trademark jingle i. e. failed to convert its recognition earned into sales. With the increase in competition, Nirma did not introduce new and improved advertisements. Even the visibility on TV channels reduced.

Lack of Product Differentiation: On the one hand where the sales of HUL increased, there was evident decline in those of Nirma. Hul along the way changed its technology and added features to its existing products. Surf went from Surf to Super Surf to Surf Excel. Even though Nirma advanced to Nirma Blue, the differentiation was not visible.

Lack of Price Increase: Nirma locked itself to the conventional low price plank. Overtime with the increase in prices of LAB (linear alkyl benzene) and Palm Oil, both ingredients used for the making of detergents, Nirma did not increase the price of the detergent. Naturally the company faced complications in terms of revenue generation as the costs were higher than the profit derived from it.

What Nirma could have done?

Compete on Quality: A company like Nirma can easily increase sales by highlighting improved quality in its product. It could emphasize on the performance risks in the low priced segment and mention the cost advantages.

Strategic Positioning: A company must position its product well. The target audience for Nirma was the low income group. It should aim at increasing sales in the rural markets by increasing availability in villages. Moreover it should tap the untouched cheaper and unorganized markets.

Attractive Advertising: Advertising plays an important role in creating consumer awareness. The way HUL changed the packaging of Lifebouy from a masculine product to a family product (as shown below), Nirma should change the conventional image of a Nirma dancing girl to something more appealing.

C: UsersDIVNEETDesktopold_lifebuoy_ad_mazhar khan. JPGC: UsersDIVNEETDesktopLifebuoy_soap. jpg

Co-opt Contributors: A company can easily form strategic partnerships with dealers, suppliers and resellers by offering exclusive deals and offers.

Grammage in Packaging: Many a times, companies reduce the quantity of the product and sell it at the same price. Reduction in quantity is generally unnoticed by the consumer. For example: Selling Half Kg detergent for Rs. 7 instead of One Kg.

SWOT analysis of HUL Soaps and Detergent Market

Strengths

Established target audience in various market segments

Largest company in FMCG sector

Top position in soap and detergent market share

Wide range of products

Continuously innovates

Global presence

Popular among the masses

Weakness

Few popular products appealing to the mass has been kept in premium pricing range, due to which people prefer cheaper products offered by the rival companies

Opportunities

As the masses are becoming more hygiene conscious, the sales expected to rise

Rising demand of premium and mid-priced products in the rural areas

Downfall of Nirma will help them to regain lost market shares

Soap sector’s growth is expected at 7% p. a

Threats

Rising competition from other emerging companies

Losing top position in the market share of detergents to Rohit Surfactants Pvt. Ltd.(RSPL)

ITC’s sudden growth in the soap market

Conclusion

In this report, it can be easily observed that HULis a market leader in the FMCG industry in soaps & detergents. Its evolution can be seen through various phases and currently operating in its Maturity phase. However, its evolution began in 1988 with launch of sunlight soap by Lever brothers and today we see a wide range of products starting with soaps and detergents, home & personal care and food & beverages. We see how continuous innovation and close study of consumer behavior has helped HUL exist in this competitive market as a leader in its field. Grabbing right opportunities at the right time and optimal utilization of available resources is the also one of the key critical success factors for any firm to be successful.

HUL was able to capitalize on its products because of their approach towards target segmentation. HUL targeted the mass audience with products available in all income groups-low level, middle level & high level. HUL have managed to balance margin pressures in the detergents segment, through product mix changes by good quality of a huge product and brand portfolio.

Recommendation