

Hindustan unilever business analysis



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Hindustan Unilever is India's largest fast moving consumer goods company. The Anglo-Dutch company Unilever owns a 52% majority stake.

HUL was formed in 1993 as lever brothers India limited and came into being in 1956 as Hindustan lever limited through a merger of lever brothers, Hindustan vanaspati mfg. co. ltd and united traders ltd. It is headquartered in Mumbai, India. And has an employee strength of over 15000 employees and contributes to indirect employment of over 52000 people. The company was renamed in June 2007 as Hindustan unilever limited.

Hindustan unilever's distribution covers over 1 million retail outlets across India directly and its products are available in over 6.3 million outlets in the country, nearly 80% OF ALL RETAIL OUTLETS IN India. It estimates that two out three Indians use its many home and personal care products, food and beverages.

Its brands are Kwality Wall's ice cream, Knorr soups & meal makers, Lifebuoy, Lux, Pears, Breeze, Liril, Rexona, Hamam and Moti soaps, Pureit water purifier, Lipton tea, Brooke Bond (3 Roses, Taj Mahal, Taaza, Red Label) tea, Bru coffee, Pepsodent and Close Up toothpaste and brushes, and Surf, Rin and Wheel laundry detergents, Kissan squashes and jams, Annapurna salt and atta, Pond's talcs and creams, Vaseline lotions, Fair and Lovely creams, Lakme beauty products, Clear, Clinic Plus, Clinic All Clear, Sunsilk and Dove shampoos, Vim dishwash, Ala bleach, Domex disinfectant, Modern Bread, Axe deosprays and Comfort fabric softeners.

Various environments

There are various environments in a business which decide the working of the organization over the times. There are basically two type of environments in a business, EXTERNAL ENVIRONMENTS and INTERNAL ENVIRONMENT.

EXTERNAL ENVIRONMENT:- External environment of a business means that the environment which exist outside the organization. It means that the things which are outside their control. Opportunities and threat of SWOT are considered as external environment. It also includes PEST. PEST stands for political, economical, social and technological environment of a business.

INTERNAL ENVIRONMENT:- Internal environment means that the environment which exist inside of the organization i. e. the organization has a full control over the things. Strength and weaknesses of SWOT are generally considered as internal environment.

In this term paper I will relate how the change in these environments affected HUL over the years.

PEST

POLITICAL ENVIRONMENT:- Political environment played a vital role in the growth of HUL. Under the implementation by Indian national congress , the liberalisation of the Indian economy started in 1991, it clearly marked an inflexion in HUL's and the Group's growth curve. Removal of the regulatory framework allowed the company to explore every single product and opportunity segment, without any constraints on production capacity.

Simultaneously, deregulation permitted alliances, acquisitions and mergers, Tata Oil Mills Company (TOMCO) merged with HUL, effective from April 1, 1993. In 1995, HUL and yet another Tata company, Lakme Limited, formed a 50: 50 joint venture, Lakme Unilever Limited, to market Lakme's market-leading cosmetics and other appropriate products of both the companies. Subsequently in 1998, Lakme Limited sold its brands to HUL and divested its 50% stake in the joint venture to the company.

Likewise HUL emerged with many companies to widen its products. It emerged with Kimberly Clark Corporation in 1994, Kimberly Clark Lever Ltd, which markets Huggies diapers and Kotex Sanitary Pads. In 1993, it acquired the Kissan business from the UB Group and the Dollops Icecream business from Cadbury India. The internal restructuring culminated in the merger of Pond's (India) Limited (PIL) with HUL in 1998. So, this was only possible by the governments liberal policies towards the industry.

In January 2000, in a historic step, the government decided to award 74 per cent equity in Modern Foods to HUL, thereby beginning the divestment of government equity in public sector undertakings (PSU) to private sector partners. HUL's entry into Bread is a strategic extension of the company's wheat business. In 2002, HUL acquired the government's remaining stake in Modern Foods.

The first element of a PEST analysis is a study of political factors. Political factors influence organisations in many ways. Political factors can create advantages and opportunities for organisations. Conversely they can place

obligations and duties on organisations. Political factors include the following types of instrument:

- Legislation such as the minimum wage or anti discrimination laws.
- Voluntary codes and practices
- Market regulations
- Trade agreements, tariffs or restrictions
- Tax levies and tax breaks
- Type of government regime eg communist, democratic, dictatorship

Non conformance with legislative obligations can lead to sanctions such as fines, adverse publicity and imprisonment. Ineffective voluntary codes and practices will often lead to governments introducing legislation to regulate the activities covered by the codes and practices.

SOCIAL ENVIRONMENT:- HUL has gained a large amount of consumers through its social programs. HUL believes that an organization's worth is also in the service it renders to the community. HUL focused on hygiene, nutrition, enhancement of livelihoods, reduction of greenhouse gases and water footprint. It is also involved in education and rehabilitation of special or underprivileged children, care for the destitute and HIV-positive, and rural development. HUL has also responded in case of national calamities / adversities and contributes through various welfare measures, most recent being the relief and rehabilitation of the people affected by the Tsunami disaster, in India.

HUL's Project Shakti is a rural initiative that targets small villages populated by less than 2000 individuals. Through Shakti, HUL is creating micro-enterprise opportunities for rural women, thereby improving their livelihood and the standard of living in rural communities. Shakti also provides health and hygiene education through the Shakti Vani programme. The program now covers 15 states in India and has over 45, 000 women entrepreneurs in its fold, reaching out to 100, 000 villages and directly reaching 150 million rural consumers.

HUL also runs a rural health programme, Lifebuoy Swasthya Chetana. The programme endeavours to induce adoption of hygienic practices among rural Indians and aims to bring down the incidence of diarrhoea. It has already touched 120 million people in approximately 50, 676 villages across India.

ECONOMIC ENVIRONMENT:- Economic environment has not always been favorable for the company's possession, sometimes it has been against it also.

In the beginning of the year 2009 Hindustan Unilever (HUL) has reported a 20% rise in profit after tax before exceptional items at Rs 457 crore in the January-March quarter of 2009, on a 6% growth in net sales which stood at Rs 3, 988 crore. It was at the time when there was economic crisis in the country.

But there was 2. 7% drop in net profit to Rs543. 19 crore for the June quarter, as the company spent more on advertising and promotions to spur sales during the economic downturn. Net sales grew by 7. 77% to Rs4, 475. 68 crore from the corresponding period of last year.

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HUL boost its sale after the 1991 liberalization towards the emergings and divestments. HUL innovated many products during this period. It has been described in political environment also.

TECHNOLOGICAL ENVIRONMENT:- HLL has been pepping up its rural distribution systems and has launched low unit price variants of its popular brands to drawin new usersin the rural area.

Technology infrastructure such as the internet and other information exchange systems including telephone

Technology systems incorporating a multitude of software which help them manage their business.

Technology hardware such as mobile phones, Blackberrys, laptops, desktops, Bluetooth devices, photocopiers and fax machines which transmit and record information.

Technology has created a society which expects instant results. This technological revolution has increased the rate at which information is exchanged between stakeholders. A faster exchange of information benefited businesses as they were able to react quickly to changes within their operating environment. However an ability to react quickly also creates extra pressure as businesses are expected to deliver on their promises within ever decreasing timescales. Consumers can now shop 24 hours a day from their homes, work, and Internet café's and via 3G phones and 3G cards. Some employees have instant access to e-mails through Blackberrys but this

can be a double edged sword, as studies have shown that this access can cause work to encroach on their personal time outside work.

SWOT ANALYSIS

STRENGTHS:-

HUL has various products which make its strength. Hindustan Unilever Limited (HUL) is India's largest Fast Moving Consumer Goods Company, touching the lives of two out of three Indians with over 20 distinct categories in Home & Personal Care Products and Foods & Beverages. Its various FMCG products are further classified according to the state or the customers, whether rural or urban. Variety in products is a great strength of HUL.

LUX, Since its launch in India in the year 1929, Lux has offered a range of soaps in different sensuous colours and world class fragrances.. BREEZE, comes in 4 exotic fragrances – Rose, Sandal, Lime and Rajnigandha. All this at a very affordable price for the masses. PONDS, VASELINE, SURF EXCEL, DOVE, SUNSILK, CLINIC and FAIR AND LOVELY, do have a similar story. They are varied according to the needs of the customers which enhances its growth and maintain it be a market leader in FMCG products.

HUL is one of India's Largest exporters of branded Fast Moving Consumer Goods. It has been recognized by the Government of India as a Golden Super Star Trading House. Hindustan Unilever's distribution covers over 1 million retail outlets across India directly and its products are available in over 6.3 million outlets in the country, nearly 80% of all retail outlets in India. HLL enjoys a formidable distribution network covering over 3400 distributors and

16 million outlets. This helps them maintain heavy volumes, and hence, fill the shelves of most outlets. The new sales organization named ' One HLL' brings " Household and Personal Care" and foods distribution networks together, thereby aligning all the units towards the common goal of achieving success. HLL has been continuously able to grow at a rate more than growth rate for FMCG Sector, thereby reaffirming its future stronghold in Indian market.

Project Shakti – Rural India is spread across 627, 000 villages and possesses a serious distribution challenge for FMCG Cos. HLL has come up with a unique and successful initiative wherein the women from the rural sector market HLL products, and hence, are able to reach the same wavelength as of the common man in village. Apart from product reach, the initiative also creates brand awareness amongst the lower strata of society. This has brought about phenomenal results. It means that they have strong R&D.

Access to Unilever global technology capability and sharing of best practices from other Unilever companies.

Strong and well differentiated brands with leading share positions

Consumer understanding and systems for building consumer insight

WEAKNESSES:-

HLL's market dominance, originating from its extensive reach and strong brand presence, allowed it to raise the prices even as raw materials were getting cheaper. Hence, though the volumes decreased, the margins grew, and company was able to earn more profits. But higher margins attracted

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competition in areas of operations. HLL's strategy remained focused on creating power brands and earning higher margins. It was not left with any other option but to try cutting down the costs in order to protect volumes, if not increase it. HLL's weakness was its inability to transform its strategies at the right time. They continued with the same old strategy which helped them gain profits but was not genuine in this changed environment. HLL's risk aversion and market myopia led to stagnation of business, and ferocity of competition forced it into a defensive mode. Lack of pricing power in core business and absence of growth drivers have put HLL on a deflationary mode.

Changing consumption pattern was also the weakness of HUL. The products it manufactured were of old style and the consumption pattern was changing. Eg. The eating habits of consumers had changed.

High advertising costs became the major weakness for the huge losses incurred by HUL in 2009 during the economic crisis.

Increased consumer spends on education, consumer durable, entertainment, travel etc. resulting in lower share of wallet for FMCG.

Price positioning in some categories allows for low price competition.

OPPURTUNITIES:-

India is one of the world's largest producer of FMCG goods but its exports are miniscule as compared to production. Though Indian Cos. have been going global, their focus is more towards Asian countries because of the similar preferences. HLL is one of the top companies exporting FMCG goods from

India. An expansion of horizons towards more and more countries would help HLL grow its consumer base and henceforth the revenues.

Opportunity in Food Sector - The advent of modern trade has opened up greater opportunities for HLL to diversify its brand and strength its food division. It could look at introducing products from its parents stable like margarines and could also look at expanding its Knorr range of products.

Well-placed to take advantage of future FMCG Growth - HLL reach out 80% of 207 million households in the country through various brands. It has a very well-defined product portfolio spread across many product categories. Penetration levels for some major categories like skin-cream (22%), shampoo (38%), toothpaste (48%) and processed foods, continue to remain low offerings but great growth opportunities products.

Growing consumption in Out of Home categories

Leveraging the latest IT technology

THREATS:-

ITC has reduced its dependence on the cigarettes business - Contribution of the core business in revenues has come down from 87% in FY99 to 70% in FY05. Over a period of five years, ITC has extended its presence into areas like foods, retailing, hotels, greetings, agri, paper, etc. These are businesses that can give it growth impetus in the long run. With ITC gaining momentum in each of these businesses, it is turning into a consumer monolith, and hence, the greatest threat to HLL's Business.

It has more than 8 all in competitors in India. This can low the sales of HUL products or they can have a race for the better products.

Grey imports

Changes in fiscal benefits

Unfavorable raw material prices in oils, tea commodity etc

Reduction in real income of consumers due to high inflation

MICHAEL PORTER'S FIVE FORCES ANALYSIS

Threat of new entrants

- Bargaining power of customers – powerful customers usually bargain for better services which involve cost and investment
- Bargaining power of suppliers – may determine the cost of raw materials and other inputs effecting profitability
- Rivalry among competitors – competition influences the pricing and other costs like advertising etc.
- Threats from substitutes – where-ever substantial investments in R&D is taking place, the threat of substitutes is large. It also affects profitability

CONCLUSION

HLL enjoys a formidable distribution network covering over 3400 distributors and 16 million outlets. This helps them maintain heavy volumes, and hence, fill the shelves of most outlets. The new sales organization named ' One HLL'

brings “ Household and Personal Care” and foods distribution networks together, thereby aligning all the units towards the common goal of achieving success. HLL has been continuously able to grow at a rate more than growth rate for FMCG Sector, thereby reaffirming its future stronghold in Indian market.

Though various environments have affected HUL over the years, it passed through the economic crisis and got the opportunities in 1991 with the help of government’s rules and policies and fought with many competitors it is now marching forward towards its goals by adopting various technologies.