Case Study: Marketing

The year 2003 for Hindustan Lever was one in which it successfully achieved its three objectives outline in 2001. these were focusing on power brands, achieving profitability in the food business and selling non-core businesses. That done, going forward the company will focus on 'growth, growth and growth', said HLL chairman, M S Banga at an anlyst meet today. That will be what the stock market will be looking for in 2004, as domestic FMCG sales grew just 3.6% in 2003, a disappointment that is reflected in its share price.

While HLL is seeing growth in several pockets of its business, there are other parts that are not doing as well, affecting overall growth. A look at the December quarter's results shows that overall sales growth (of continuing businesses) grew by just 2% while FMCG businesses grew 4%. On the profitability front, during 2003, its operating profit margin for 2003 was stagnant, at 19.5% compared to 19.65% during the previous year.

Competitive pressures in the fabric wash market, which led to price reductions, have had an impact on margins, according to the company. This also has to be viewed in the backdrop of rising chemical prices. The company has compensated for this partly by cutting down on advertising spends and using price as a promotional strategy. However, in 2004 there is expected to be an increase in advertising expenditure, which will be balanced by a cut in promotions. In 2003 HLL's advertising and promotional expenditure, as a percentage of domestic FMCG sales, fell to 9% from 10.4% in the previous year.

The segmental profit (profit before interest and tax) reflects the situation. In soaps and detergents, the profit margin declined to 24.85% from 25.87%, which is significant considering we are talking about a business worth Rs. 4,400 crore in sales. In personal products, HLL has increased margins that went up to 36.7% from 36.3%. Note that personal products as a category is gradually rising in importance, from 20% of sales in 2002 to 23.4% of sales in 2003. Processed foods have seen an improvement though margins are still low while beverages are still seeing a decline in margins, partly due to higher ad-spend on Brooke Bond.

On the fabric wash business, the company said their strategy that included re-launches, low price packs and price adjustments to start showing results in 2004. Rural markets are showing no ‘palpable’ change in demand but the company expects this to be buoyant in 2004. The company will also closely watch raw material cost, especially oils and fats, and sustained increases here could be a cause of concern.

(a). What are the major objectives, which Hindustan Lever has achieved in the year

2003?

(b). Outline the causes and low profitability of the company in the last quarter.

(C). Summarize the strategies the company proposes to adopt in order to achieve growth

and profitability in future.