



EXPORT OPPORTUNITIES AND CHALLENGES OF FMCG SECTOR: A CASE STUDY OF HINDUSTAN UNILEVER LIMITED

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Abstract

Fast Moving Consumer Goods (FMCG) is the fourth largest sector in Indian economy with a market size of more than \$ 13.1 billion and expected to become \$ 33.4 billion in 2015. In the slowdown period FMCG industry recorded a growth of 14.50 per cent. Hindustan Unilever Limited (HUL) is India's largest Fast Moving Consumer Goods Company with a heritage of over 80 years in India and touches the lives of two out of three Indians. HUL works to create a better future every day and helps people feel good, look good and get more out of life with brands and services that are good for them and good for others. The Company has over 16,000 employees and has an annual turnover of 27408 crores in the year 2013-2014. HUL is a subsidiary of Unilever, one of the world's leading suppliers of fast moving consumer goods with strong local roots in more than 100 countries across the globe with annual sales of 49.8 billion in 2013. Unilever has 67.25 per cent shareholding in HUL. In this background, the presented study highlights the exporting opportunities and challenges of HUL in India.

Keywords: HUL, Economy, Fast Moving Consumer Goods, Market Size.

PROLOGUE

India is one of the world's fastest growing economies and with this growth enormous exporting opportunities have emerged over the past few years. India's export growth is the second fastest in the world after China's. Exports in India have a major share towards the country's Gross Domestic Product (GDP). India's total export in the year 2012-13 is ₹ 163431883.77 lakhs and in 2013-14 is ₹ 189973019.25 lakhs showing a percentage of growth rates of 16.24. According to IMF World Economic Outlook (2014) the global economic activity is 3.70 per cent in 2014 and is projected to 3.90 per cent in 2014-15. In this regard, India's main exports are engineering goods (19 percent of total exports), gems and jewelry (15 percent), chemicals (13 percent), agricultural products (9 percent) and textiles (9 percent). India is also one of Asia's largest refined product exporters with petroleum accounting for around 18 percent of total exports. India's main export partners are United Arab Emirates (12 percent of total exports) and United States (11 percent). Others include: China, Singapore, Hong Kong and Netherlands.

CONCEPTUAL FRAMEWORK

The fast moving consumer goods (FMCG) industry account for 2.2 per cent of India's GDP. Over the last few years the industry has witnessed a high rate of growth boosted by favorable macroeconomic conditions, increased rural incomes, a rising consumption culture in India and a proliferation of consumer awareness campaigns. A well established distribution network, lower per capita consumption, low penetration levels and low operating costs are the characteristics of this sector. The following are the main segments of the FMCG Sector:

1. **Personal Care:** Oral care, hair care, skin care, personal wash (soaps), cosmetics and toiletries, deodorants, perfumes, paper products, shoe care.
2. **Household Care:** Fabric washes laundry soaps and synthetic detergents, household cleaners, dish utensil cleaners, floor cleaners, toilet cleaners, air fresheners.
3. **Branded and packaged Food and Beverages:** health beverages, soft drinks, staples cereals, bakery products, snack food, chocolates, ice cream, vegetables and bottled water, branded floured rice; branded sugar, juices etc.
4. **Spirits and Tobacco:** wine, whisky, beer and other sorts of alcohol, tobacco products.



HINDUSTAN UNILEVER LIMITED: AN OVERVIEW

Hindustan Unilever Ltd is India's largest fast-moving consumer goods. The company operates in seven business segments. Soaps and detergents include soaps, detergent bars, detergent powders and scourers. Personal products include products in the categories of oral care, skin care (excluding soaps), hair care, talcum powder and color cosmetics. Beverages include tea and coffee. Foods include staples (atta, salt and bread) and culinary products (tomato-based products, fruit-based products and soups). Ice creams include ice creams and frozen desserts. Others include chemicals and water business. Hindustan Unilever Ltd was incorporated in the year 1933 as Lever Brothers India Ltd. In 1956, Hindustan Vanaspati Mfg. Co. Ltd. and United Traders Ltd merged with the company and the name was changed from Lever Brothers Ltd to Hindustan Lever Ltd. The company acquired Lipton in 1972, and in 1977 Lipton Tea (India) Ltd was incorporated. Brooke Bond joined the Unilever fold in 1984 through an international acquisition. Pond's (India) Ltd joined the Unilever fold through an international acquisition of Chesebrough Pond's USA in 1986.

The liberalization of the Indian economy, started in 1991, clearly marked an inflexion in the company's and the Group's growth curve. The 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. In January 2000, the government decided to award 74 per cent equity in Modern Foods to the company, thereby beginning the divestment of government equity in public sector undertakings (PSU) to private sector partners. The company's entry into bread is a strategic extension of the company's wheat business. Thus, Hindustan Field Services Pvt. Ltd. ceased to be a subsidiary company. Lakme Lever Pvt Ltd, a wholly owned subsidiary of HUL, expanded the network of Lakme Beauty Salons during the year with the opening of 11 company owned and managed salons, along with 18 franchisee salons. As of March 31, 2011, the company had over 35 brands spanning 20 distinct categories. Its portfolio includes household brands, such as Lux, Lifebuoy, Surf Excel, Rin, Wheel, Fair & Lovely, Pond's, Vaseline, Lakme, Dove, Clinic Plus, Sunsilk, Pepsodent, Closeup, Axe, Brooke Bond, Bru, Knorr, Kissan, Kwality Wall's and Pureit. In December 2011, the company demerged the FMCG exports business including specific exports related manufacturing units of the company into its wholly owned subsidiary Unilever India Exports Ltd (UIEL). The scheme became effective from January 1, 2012.

LITERATURE REVIEW

In view of FMCG sector occupying the pivotal role in the economic growth of country, the review of literature presented below covers consumer preferences towards FMCG products, opportunities, challenges and export strategies.

Gruen (2004) in his study examines the efforts of suppliers and retailers in the FMCG channels to adopt more efficient consumer base. He examined the relationship between the channels and the customers. People understand the local dialect and prefer to be informed in their local language and dialect. Therefore it can be useful for promotion of brands in rural markets by major players (Patel & Prasad, 2005).

Neupert (2006) examined the challenges faced by small and medium enterprises towards industrialization. They opined that SME exporters in the transitional economy encountered export problems related to quality of the product, acceptance and logistics management. They also highlighted that various challenges faced by small and medium enterprises are country differences, general business risk and logistics.

Kumar and Madhavi (2006) in their study evaluated the level of satisfaction and brand preference of FMCG consumers. Multistage random sampling technique was adopted. Ten villages were selected from Cuddalore district and a sampling of ten from each village was selected resulting in two hundred as sample size. He revealed that rural marketing is not fully encased by marketers. FMCG products could significantly increase their market share by extending attention to rural areas. More generic product with different advertisement camping surely attract non users. This untapped source could be easily reached by FMCG manufacturing. Most of the consumers



are influenced by quality of the product so the FMCG companies should strictly adhere to the quality standards.

Ananda, and Madha (2007), in their studies concluded that, India's markets have seen a lot of activity in the last few years. Export marketing has become the latest marketing mantra of most FMCG majors. To gain advantage of this, the Indian FMCG sector is busy putting in place a parallel export marketing strategy. FMCG majors are aggressively looking at exporting since it accounts for 70.00 per cent of the total Indian households. The annual consumption of detergents in India ranges to thousands of tonnes. Each brand claims to clean whiter, boasting of technologically dubious terms such as fighting granules, power pearls, etc. This study concludes with suggesting the strategic framework for marketers to win over the hearts of the many customers.

Rajshekar (2009), in his study had searched about the potential of Indian rural market about different toiletry products. Rural market in India accounts for more than 70 million consumers or 70.00 of Indian population and accounts for 50.00 per cent of FMCG market. The working rural population is approximately 400 million and average citizen in rural India has less than half of purchasing power as compared to urban counterpart. Still there is an untapped market and most of FMCG companies taking different steps to capture the different market share.

Memon (2011) in his study revealed that The Indian rural market is known to all the International FMCG Brands but sometimes rural consumers are very choosy in selecting the brands especially in the consumable sector.

Nagarajan, Sheriff (2013) highlighted the consumer mindset towards FMCG products. The study focuses on emerging challenges and prospects of marketing of FMCG products in India. They opined that the GDP of any country affects the growth of the industry. They also opined that there should be clear understanding about prevailing trends I changing consumer interest so that their needs are tapped. They concluded that the consumer mindset can be changed by making them to think modernly. They finally concluded that the FMCG international is shifting their focus from urban to rural to launch new market segment in India.

Dhanju, Usha and Sihag (2014) conducted a study with an objective of how far the measures taken by the authority enhances the exports. They opined that the exports are the basis for overall growth performance of any country. He opined that there should be favourable promotion measures to boost up the pace of its exports. He observed that in case of raw cotton, iron ore, plastic and transportation equipment export rate have been increased to maximum extent. Whereas exports of tea, iron and steel, mica and leather export activities is not satisfactory. He suggested that the government should take steps to give incentives to different sector for promoting export.

STATEMENT OF THE PROBLEM

India's export has a great potential which has not been cultivated for global performance due to many reasons, trade related transaction cost is one of the major determinants of export competitiveness of our economy. Among several leading national and global brands, HUL is the best company in the FMCG Sector in India. HUL have to diversify the products and find new arenas of trade by meeting international standards. The present study concerns itself with the conceptual and export analysis of FMCG sector and provides opportunities and challenges of FMCG industry in the globe in general and India in particular. The main purpose of the study is to provide an analysis of exporting strategies adopted by HUL in India. The major producer of FMCG sector in India is Hindustan Unilever Limited. Hence, for evaluating the exporting strategies adopted by HUL, we have chosen HUL for case study. A microscopic study will be conducted on HUL for the assessment of export opportunities and challenges of FMCG sector. Therefore, the research problem has been stated as **“Export Opportunities and Challenges of FMCG Sector: A Case Study of Hindustan Unilever Limited”**.

OBJECTIVES OF THE STUDY

The following are the major objectives of the study

1. To analyze the growth and development of FMCG sector in the globe in general and India in particular;
2. To highlight the profile of HUL;
3. To analyze the export opportunities and challenges faced by HUL in promotion of sales and services;



4.To offer conclusion in the light of the study.

RESEARCH METHODOLOGY

The study is based on secondary data. Secondary data is collected from the different unpublished sources like internal company records, and External published sources like Newspapers, Magazines, Websites, Centre for Monitoring Indian Economy (CMIE) reports, Directorate, General of Commercial Intelligence and Statistics (Ministry of Commerce and Industry), Directorate General of Foreign Trade (GOI), Ministry of Commerce and Industry, Annual Reports of DGFT, Guide to Foreign Trade Statistics and relevant website is extensively used for gathering secondary sources of information and by reviewing prior research studies in journals and research articles.

OPPORTUNITIES AND CHALLENGES:

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

HUL is one of the top companies exporting FMCG goods from India. An expansion of horizons towards more and more countries would help HUL grow its consumer base and henceforth the revenues. 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. Tapping rural markets and increase penetration in urban areas, mergers and acquisitions and diversification of the products. Below are the various opportunities and challenges faced by Hindustan Unilever Limited:

EXPORT OPPORTUNITIES IN HINDHUSTHAN UNILEVER LIMITED

1. HUL with fast-evolving lifestyles and the increasing disposable income of urban consumers, there exists a definite opportunity for lifestyle and high-end products.
2. HUL with more than 53 per cent of the Indian consumer base present in rural areas, the rural market will be a key growth driver for FMCG majors planning to expand their domestic business in 2014-15 .
3. HUL consumers are highly adaptable to new and innovative products. For instance, the- market acceptance of men's fairness creams clearly demonstrates an opportunity for companies to offer new products targeting specific customer segments in international level.
4. The rate of GST on services is likely to be 16% and on goods is proposed to be 20% in 2014-15. It is an best opportunity for HUL to move the proposed GST may reduce prices, bolstering and increasing consumption power among FMCG products consumers..
5. HUL and multinational FMCG players can leverage India as a strategic sourcing hub for cost-competitive product development and manufacturing for their international markets.
6. Reduction in export tax and tariff incentives: Over the years, the Govt. of India has reduced export incentives such as reduction in tax rates, withdrawal of income tax benefits for majority of exporters, etc. The reduction in export incentives de-motivates exporters to export in the overseas markets.
7. Relaxation of export license rules: Industrial licenses are not required for almost all food and agro-processing industries, barring certain items such as beer, potable alcohol and wines, cane sugar, and hydrogenated animal fats and oils as well as items reserved for exclusive manufacturing in the small-scale sector.
8. The decision to allow 51% FDI in multi brand retail and 100% FDI in single brand retail augers well for the outlook for the FMCG sector. The move is expected to bolster employment.

CHALLENGES FACED BY HINDHUSTHAN UNILEVER LIMITED

1. Investment Costs

Entering an overseas market may require both financial investment and manpower investment. Timescales is one of the serious issues and also short-term 'pay back' not necessarily guaranteed.



Customers and partners in high-growth markets, for example, tend to put an essential value on relationships and it is unusual for a return on investment to emerge within the first year.

2. **Legal, regulatory and intellectual property issues**

Legal and regulatory issues are one of the important barriers while exporting of product. Apart from this Intellectual Property protection is one of the barriers. Adopting the right mindset is vital to overcoming such hurdles. Every country has its own trading, taxation and IP systems and the exporting company should get to grips with those systems and adapt to them.

3. **Risk Management**

Political and economic developments, cyber risks, bribery and corruption - these are some of the issues your business could face when you begin to trade overseas or expand into fresh markets. UK Trade & Investment and the Foreign & Commonwealth Office bring together authoritative, accessible and topical information online on countries and the key issues related to their political, economic and business security environments. This can help you identify and understand possible risks – and guard effectively against them.

4. **Recession in world market**

Due to recession, the demand for several Indian items such as Gems and Jewellery, Textiles and Clothing and other items were badly hit. During recession, exporters get low orders from overseas markets, and they have to quote lower prices. Therefore, exporter gets low profits or suffers from losses.

5. **Technological differences**

The developed countries are equipped with sophisticated technologies capable of transforming raw materials into finished goods on a large scale. Less developed countries, on the other hand, lack technical knowledge and latest equipments. And therefore they have to use their old and outdated technologies. It leads to the lopsided development in the international market.

6. **Global competition**

Export marketing is highly competitive. This competition relates to price, quality, production cost and sales promotion techniques used. Indian exporters face three-faced competition while exporting. This includes competition from domestic exporters, local producers where the goods are being exported and finally from producers of competing countries at global level. Such competition is one special problem to the exporters.

7. **Problem of product standards**

Developed countries insist on high product standards from developing countries like India. The products from developing countries like India are subject to product tests in the importing countries. At times, the importing countries do not allow imports of certain items like fruits, textiles and other items on the grounds of excessive toxic content. Therefore Indian exporters lose markets especially in developed countries.

8. **Fluctuations in Exchange Rate**

Every country has its own currency which is different from international currencies. The dominant international currencies are US dollar or Sterling Pound. From the point of view of Indian exporters we are interested to realize the payment in international currency. Foreign exchange earned by the operators is converted into Indian rupees and paid to the exporters in Indian currency; this exposes the exporters to the dangers of fluctuation in foreign exchange rates.

9. **Problems of Sea Pirates Attacks**

A major risk faced by international trade is attack by pirates in the Gulf of Aden. More than half of India's merchandise trade passes through the piracy infested Gulf of Aden. New exporters and importers are facing problem, because of increased pirate attacks as they find it difficult to get insurance cover.

10. **Problem of subsidies by Developed countries**

The developed countries like USA provide huge subsidies to their exporters. For example, in case of agriculture exporters, USA, UK and other provide huge subsidies to their exporters. Therefore, the exporters of developing countries like India find it difficult to face competition in the world markets.



11. Problem in preparing Documents

Export involves a large number of documents. The exporter will have to arrange export documents required in his country and also all the documents as mentioned in the documentary letter of credit. In India, there are as many as 25 documents (16 commercial and a regulatory documents) to be filled in.

12. Government restrictions and foreign exchange regulations

The Government restrictions compel the exporters to follow certain rules and regulations in the form of licenses, quotas, and customs formalities. Due to such restrictions, new problems develop before the exporters. Even trade restrictions in foreign countries create problems before exporters. Indian exporters face this difficulty of government restrictions and foreign exchange regulations even when trade policy is now made substantially liberal.

13. High risk and Uncertainties

Export marketing is subject to high risks and uncertainties. The risks may be both political and commercial. Political risks involve government instability, war, civil disturbances, etc. The commercial risks involve insolvency of the buyer, protracted default on the part of the buyer dispute on quality and so on.

14. Competition from China

India is facing stiff competition from China in the world markets, especially in the OECD markets. As a result, India's share of export of OECD markets has declined from 53.00 per cent of total exports in 2000-01 to about 38.00 in 2007-08. Some of the Indian exporters have lost their overseas contracts due to cheap Chinese goods and supplies. This is the major problem of exporters.

SCOPE FOR FURTHER RESEARCH

In the background of the relevance of exporting opportunities and challenges, the following areas have been identified for further research:

- (i) The scope of further research study may consider export opportunities of all the sectors of HUL;
- (ii) A comparative study of export opportunities and challenges provided by HUL focusing on rural and urban areas may be taken up;
- (iii) A comparative study of HUL FMCG sector with other companies FMCG sector focusing on export opportunities; and
- (iv) An in-depth analysis of export opportunities and challenges with a focus on other sectors.

CONCLUSION

The export opportunities and challenges in FMCG products, has seen a wide range of innovations in India, even though we have drawbacks. This article highlights the different of problems faced, growth trends in sales exports and imports of HUL industry. A clear understanding of the various processes involved, will enable the industry to cash-in on the prevailing trends in changing consumer interests. It is worthwhile to note that it is possible for FMCG Industries to bring about changes in their strategies in creating consumer preferences. It is highly appreciable to note that the recent trend in FMCG industries and shifting their focus from urban to rural settings make new strategies, promotional polices and new pedagogy capturing this new launcher market segment of HUL in India.

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