Managing Costs Strategically At Dabur India Limited

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Introduction

Indian by birth Dabur India Ltd. (DIL) has its roots steeped in the rich heritage of its motherland. Long before it became fashionable to use herbal-based formulations, the company introduced in the market 'natural' products developed on traditional Ayurvedic wisdom backed by cutting-edge science. Making its beginnings in a small pharmacy in Kolkata way back in 1884, DIL has reached a commanding position in the Indian Fast Moving Consumer Goods (FMCG) space – not to speak of the world market. Dedication to nature and process hygiene have critically contributed to the pristine quality that Dabur represents – with consumers bestowing their implicit trust on its wide range of products which touch their everyday lives.

Therefore successfully brushing shoulders with the 'who's who' of the FMCG world has become the company's second nature and it is here that strategically managing its costs to sustain its competitiveness without compromising on its renowned quality assumes fundamental significance.

Objective

DIL operates multiple product lines spread across mainstream as well as indulgent categories of FMCG. The healing promise of Ayurvedic wellness based on scientific precision is the basic premise of each of its products. Hence their inputs and fabrication are inherently distinctive – yet DIL cannot risk its cost vis-à-vis pricing to spiral beyond the middle-class (the largest consumers of branded FMCG in the country) affordabilities, especially in the mainstream categories – and jeopardize its competitiveness, altogether.

In this article a humble attempt has been made to highlight the measures that DIL routinely partakes in, to contain its costs and thereby grow and sustain its competitiveness in the light of the very unique proposition that it brings to the market.

Strategically Managing Costs

Cost controlling measures at DIL generally span across strategic futuristic planning, use of calibrated hedging mechanisms and e-sourcing initiatives. The following efforts of the Company particularly stand out in this context:

Addressing Input-Price Inflation

Apart from the staple FMCG items like toothpaste and shampoos, DIL has a major interest in the Indian beverage market, where it operates its range of fruit and vegetable based beverages under the brand 'Real'. Here forward cover for major raw materials running upto three months has helped DIL combat food inflation and hold its prices steadily in comparison to its rivals.

Holding its price steady in a tumultuous market helped maintain the market-share for DIL's brands; complemented effectively with an integrated approach to raise sales volume. Rising input costs have been largely mitigated through such volume-driven growth. Here it may also be mentioned that DIL has reworked supplier networks, consolidated them and hedged risks through future trading.

Inside the Company, the short and medium-term planning programmes that ensure regular forecasts from its team of strategic planners within each division and department are especially helpful. 3-month forecasts on the industry scenario are provided by these planners to the brand teams for taking effective measures to combat inflation.

Moreover DIL instituted "The Dabur Inflation Basket" for its most relevant commodities, which again is linked to the Wholesale Price Index of the country and help the Company to arrive at actual inflation figures that help it to plan ahead in a more focused manner.

Another significant effort in this context has been consciously creating products where blends using Indian fruits and pulps produce the same quality of output that can be made using exotic foreign varieties. This apart from curtailing the reliance on imports helps to drastically slash down costs.

Cutting Flab

Based on deep consumer insights, DIL has identified products and packaging features that the consumer does not need and cuts them down. Similar observations have also been made in respect of the usage of energy and water as well as labour cost. This in turn has been effective in reducing the operational cost substantially. The company has sought to improve productivity at all its manufacturing locations by deploying various cost reduction and energy saving initiatives which has also resulted in a sharp drop in its manufacturing costs. In its manufacturing unit at Baddi, DIL initiated Total Productivity Management (TPM) principles through an external consultant, moving towards increased automation and multi-operator concept. (DIL Annual Report – 2008-2009)

A new manufacturing technology for extraction of medicinal actives from herbs was rolled out at various locations during 2008-09, generating efficiency in energy costs and providing cleaner and safer manufacturing procedure at the units.

Intrepid, Disruptive But Nevertheless Highly Effective Approaches

In the current times FMCG brands are observed to commonly engage in through-the-line promotional activities[#]. However, in 2010 DIL embarked on a first of its kind marketing initiative for its Chyawanprash in a bid to attract the right target group.

Through-the-line promotional activities involve a blend of above-the-line (e.g. television commercials etc) and below-the-line (e.g. direct interaction , 'free' offers etc) promotional activities.

The company roped in Bhojpuri film actor Ravi Kishan to endorse its Chyawanprash brand in Bihar and Uttar Pradesh where the actor is extremely popular. Ravi Kishan engaged in exclusively localized below-the-line activities through direct interaction with consumers, dealers and stockists and participated in local events in schools and elsewhere. At the same time national celebrities like Bollywood superstar Amitabh Bachchan and Indian cricket captain MS Dhoni featured in TVCs and other all-India campaigns (comprising both above-the-line and below-the-line activities) for Dabur Chyawanprash.

Roping in local celebrities to connect with local consumers, dealers to intensively promote a brand helps to slash down promotional costs apart from being highly effective to pump up volumes. Such phenomenon is akin to where marketers shun following set patterns to take intrepid, disruptive approaches that has been described as 'breakthrough innovation' by Harvard Professor Clayton Christensen.

Leveraging I-T In Procurement Process

In December 2002, Dabur signed up with FreeMarkets, a global firm which provides Information Technology (IT) enabled solutions that help companies streamline their procurement process. The basic working of IT-enabled sourcing solutions commonly called "e-sourcing" is that they seek to line up all the suppliers of a company online – ranking them on the basis of costs and performance and then procure materials from them through bidding "events" conducted over the Net. For DIL, the technology from FreeMarkets significantly cut procurement costs, reduced the cycle time for purchases and shortened the negotiation process for buying materials. The Company procured Rs.210 crore worth of raw materials even way back in 2003, through e-sourcing, which accounted for almost 50 per cent of its total raw material spends. (DIL Annual Report – 2003-2004) The e-sourcing initiative for DIL is not restricted to non-critical inputs alone. In fact, it procures online a range of herbal raw materials including saffron, spices and essential oils through the same process.

Moreover it has also e-sourced some part of its services and logistics needs, apart from requirements for hardware and packing materials. Such initiatives has also introduced greater transparency into the sourcing process and resulted in significant cost savings. It may be mentioned here that such impressive performance of DIL in sourcing was also recognised by Indian Institute of Materials Management, which awarded the 'Chief Procurement Officer Award for 2003' to the Company's Vice President–Supply Management in the year 2003. Encouraged by the success of its sourcing initiative, DIL implemented the 'Spend Visibility' solution in collaboration with 'Ariba' (earlier FreeMarkets) to further strengthen its procurement efficiencies since 2004-05. This considerably improved the quality of information available at an item-wise level, allowed better visibility of sourcing priorities, and resulted in the formulation of a more efficient and cost-effective sourcing strategy.

DIL also implemented specialized software (Sourcing PRO) with Ariba that enhanced its ability to manage different cost categories — with the system disseminating better processed information for improved decision making.

Locational Advantages Of Manufacturing Facilities

To tone down the cost push effects, DIL has developed an optimal mix of manufacturing facilities at different locations to reap maximum benefits from fiscal concessions and economies of scale. For example, the multi-fruit processing facility at Siliguri, West Bengal, produces pulp and concentrates which has contributed to achieving full backward integration for DIL helping to realise the resultant cost efficiencies. The location of this plant is also a major source of its competitive strength. It is located at the heart of a major fruit-producing and trading area, thus, giving it access to a variety of fruits including litchi, guava, mango and tomato at competitive prices. Moreover, it is in close proximity to the company's juice plant located in Nepal, thereby reducing time and cost of transportation

Efficiencies in the supply chain right from procurement to production help to cap input costs and it is pertinent to mention here that DIL has 12 production facilities in India, out of which two main units are at Baddi (Himachal Pradesh) and Pantnagar (Uttaranchal) and eight factories which are located at Sahibabad (Uttar Pradesh), Jammu, Silvassa, Alwar, Katni, Narendrapur, Pithampur and Nashik. The Foods business is serviced by manufacturing facilities at Newai (Rajasthan) and Siliguri (West Bengal).

In 1999, DIL installed an enterprise resource planning (ERP) system, enabling it to integrate internal functions such as supply chain, purchase, stores and manufacturing. It also networked its manufacturing facilities, offices and key distribution constituents. This endeavour found fulfillment in the succeeding decades when the processing time was reduced substantially. More importantly, DIL's working capital requirement also dropped in the process, leading to major savings in interest cost outgo. Incidentally, the working capital cycle was reduced from 82 days to 66 days, during 2000 – where reduction in inventories and increase in credit days played major roles.

Efficiencies In Supply Chain Management

With over 600 SKUs to market, it is no wonder that the Company continuously strives to drive efficiency in its supply chain management. The supply chain integrates a wide range of functions encompassing production scheduling to materials planning and procurement to primary distribution. Here as already mentioned IT has played a major role in strengthening the supply chain management by improving operational efficiencies in procurement, production and delivery systems. The implementation of two ERP systems – 'Baan' and 'Mfg Pro' — in production and distribution respectively, has contributed wholesomely to the supply chain management through secure and proficient production planning on the basis of accurate secondary sales and stock data. This again has augured for greater flexibility of operations; lower operation cycles and finished goods inventories; reduced delivery costs, while simultaneously improving customer-servicing levels in addition to responding to tight budgetary controls.

Use of Mfg Pro provides 'real-time information' about the inventory and sales situation at the distributors, categorically improving the accuracy of demand forecasts. These demand forecasts are then fed into the back-end system (Baan) for materials planning and production scheduling. The Secondary Sales System which is also operational provides countrywide information on secondary pipelines and sales by brands, and has helped reduce pipeline inventories. The improvement in area-wise and brand-wise inventory management seeks to scale up the entire supply chain management through better sales forecasts, production scheduling, materials planning, vendor management and raw material sourcing. Focused improvements in supply chain management resulted in the company working with negative working capital as on 31 March 2004—the cash cycle remarkably reduced from 39 days in 2002-03 to minus 5 days in 2003-04 (DIL Annual Report – 2003-04) and came down further to negative 20 days of sales during 2004-05. (DIL Annual Report – 2004-2005) The net operating working capital of the company has continued at negative level ever since and has been additionally helped by efficient management of receivables and creditors. There was a remarkable reduction in Receivable outstandings from 23 days of sales to 13 days of sales. In addition, better inventory management led to a reduction in inventory from 48 days of sales to 46 days of sales. (DIL Annual Report – 2009-2010)

Again from 2003-04, as a part of its sourcing strategy, DIL has consolidated its sourcing base for all group companies, including its foreign operations, so as to benefit from economies of scale.

Reduction Of Interest Outgo

Over the years, DIL has been acutely conscious of its interest-payment liabilities and has been earnest in stemming the interest outgo. These include securing low cost debt by capitalising on its strong debt rating, as well as retiring high cost debt apart from obviously generating strong cash-flows. In the process, total debt of the Company reduced to Rs.39.8 crore on 31 March 2004 compared with Rs.81.7 crore for the FMCG business as on 31 March 2003. This has significantly reduced interest payments from Rs.11.9 crore in 2002-03 to Rs.6.9 crores in 2003-04 for the FMCG business—a reduction of more than 42 per cent. (DIL Annual Report – 2003-04)

Other Measures

Kaizen, implementation of stringent wastage control norms and energy audits at various plant locations constitute some of the other initiatives at cost-control. It may be mentioned here that even in 2003-04, product failures at the unit level had almost been nil, and the rejection rate at the consumer level had been as low as 0.3 parts per billion. (DIL Annual Report – 2003-04)

Human Resource recruitment costs have been brought down through the introduction of a structured employee referral programme and creation of centralised employment database with access control capabilities.

The energy conservation and green initiative, was introduced in the 2008-09 financial year and focused on the implementation of alternative fuel technologies for steam generation at several of its units, both in India and in overseas locations.

In March 2008, DIL forayed into its retail business – 'new *U*' , dealing in the beauty, health and wellness space. Within the first year 'new *U*' opened nine stores in the Delhi-NCR region as well as southern part of India. However due to high rental costs and less than expected response, DIL shelved further expansion of this project till a more opportune time.

Conclusion

The FMCG market in India, like in many other parts of the world, is extremely competitive. It is a steep challenge therefore to maintain here, one's price competitiveness without compromising on quality. This becomes an even more daunting prospect when the basic proposition of one's product and processing is thoroughly distinctive. Upholding of such intrinsic individuality is default with delivery of greater 'value' to customers. However the test is to subscribe to the competitive price structure in the category and the spiraling inflation in the inputs market does not make the job any easier. Yet this has been life all through for DIL and the Company has not baulked under such tremendous pressure; rather it has gone from strength to strength from its modest beginnings and today DIL proudly lays claim to industry-best volume-led growth. It goes without saying that such stupendous performance is the synergistic culmination of all efficiencies within the company of which controlling, containing and strategically managing cost forms a very significant part. This latter competence has enabled DIL to transfer rising cost to its customers, as little as possible – again an incredible feat especially when price-rises in the recent years even by behemoths in the FMCG sector have been thoroughly counter-productive.

SPECIFIC REFERENCES

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5. www.dabur.com