ISSN NO. 2320-5407

Journal homepage: http://www.journalijar.com

INTERNATIONAL JOURNAL OF ADVANCED RESEARCH

Use of Material Management in FMCG Sector in India with Particular Reference to Hindustan Unilever Limited (HUL)

Submitted to Partial Fulfillment of the Requirement for award the degree of Masters of Business Administration

MBA (Project Managerment)

Sikkim Manipal University

BY

ALLAA M. AENAB

ROLL NO. 551134066

Study Center Code: 0964

Under The Guidance of

Ms. Sanchita Bhattacharjee

SIKKIM MANIPAL UNIVERSITY

DIRECTORATE DISTANCE EDUCATION

MANIPAL – 576104

Bonafide Certificate

SMU
Sikkim Manipal University
Directorate of Distance Education

BONAFIDE CERTIFICATE

Certified that this project report titled **"Use of Material Management in FMCG Sector in India with Particular Reference to Hindustan Unilever Limited (HUL)"** is the bonafide work of **Allaa M. Aenab"** who carried out the project work under my supervision.

Signature **Signature**

Head of the Department **Ms. Sanchita Bhattacharjee**

Faculty in Charge

Annexure- A

USE OF MATERIAL MANAGEMENT IN FMCG SECTOR IN INDIA WITH PARTICULAR REFERENCE TO HINDUSTAN UNILEVER LIMITED (HUL)

BY

ALLAA M. AENAB

A project report submitted in partial fulfillment of the requirement

For

Master of business administration of

Project Management

SIKKIM MANIPAL UNIVERSITY

DIRECTORATE DISTANCE EDUCATION

Annexure- B

STUDENT DECLARATION

I here by declare that the project report entitled **"Use of Material Management in FMCG Sector in India with Particular Reference to Hindustan Unilever Limited (HUL)"** Submitted in partial fulfillment of the requirement for the degree of Master of Business Administration to Sikkim Manipal University (Directorate Distance Education) is my original work and not Submitted for the award of any other degree, diploma, fellowship, or any other similar Title or prizes.

Place: New Delhi **Allaa M. Aenab**

Date: 04.01.2013 **Roll No. 551134066**

ANNEXURE- C

EXAMINER'S CERTIFICATION

The project report of "**Allaa M. Aenab"** project title **"Use of Material Management in FMCG Sector in India with Particular Reference to Hindustan Unilever Limited (HUL)"** is approved and is acceptable in quality and form

Internal Examiner External Examiner

(Name, Qualification and Designation) (Name, Qualification)

Annexure- D

UNIVERSITY STUDY CENTRE CERTIFICATE

This is to certify that the project report entitled **"Use of Material Management in FMCG Sector in India with Particular Reference to Hindustan Unilever Limited (HUL)"** Submitted in partial fulfillment of the requirement for the Degree of Master of Business Administration from Sikkim Manipal University (Directorate Distance Education) by **Allaa M. Aenab (Roll No- 551134066),** has worked under my supervision and guidance and that no part of this report has been submitted for the award of any other degree, Diploma, Fellowship or other similar titles or prizes and that the work has not been Published in any journal or Magazine.

Certified

Ms. Sanchita Bhattacharjee

Annexure- E

Acknowledgement

The present work is an effort to throw some light on **"Use of Material Management in FMCG Sector in India with Particular Reference to Hindustan Unilever Limited (HUL)"**. The work would not have been possible to come to the present shape without the able guidance, supervision and help to me by number of people.

With deep sense of gratitude I acknowledge the encouragement and guidance received by my organizational guide **Ms. Sanchita Bhattacharjee** and other staff members.

I convey my heartfelt affection to all those people who helped and supported me during the course, for completion of my Project Report.

Allaa M. Aenab

Roll No. 551134066

Study Center Code: 0964

EXECUTIVE SUMMARY

The purpose of writing and submitting this project is to fulfill the requirement of course of Master in Business Administration. Project occupies a significant place in the Degree Course where one comes in contact with the real world of business away from the classroom routine. Here every student gets his space and time to realize practical application and implication of the management.

I was given a project on "**USE OF MATERIAL MANAGEMENT IN FMCG SECTOR IN INDIA**" of Hindustan Uniliver Limited. A lot of in depth study about the company is being carried out to have a proper research methodology about the project vis- a- vis to have a conclusion.

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INTRODUCTION

STATEMENT ABOUT THE PROBLEM

This report will categorically study the role, importance and functions of material management in FMCG sector in India, particularly HUL. This study will explore why material management has become so important today in the field of FMCG sector.

Materials are the key resource in an industrial enterprise since no production can be possible without the use of materials. Hence, materials play a very important role in the functioning on any business enterprise , they also form a major constituent of the cost of the product and therefore proper control over their procurement ,storage, movement and consumption is necessary.

Materials Management as defined by Bethel is "controlling the kind , amount, location, movement and timing of the various commodities used in and produced by the industrial enterprise."

It thus , involves all activities concerning material right from the time the need for the material is established until they are issued to the production department of any industrial unit. Hence Materials management can also be defined as " The grouping of management functions supporting the complete cycle of material flow, from purchasing and transportation of materials to production planning to the warehousing, shipping, and distribution of the finished product ". We will study all these aspects with reference to the FMCG Sector taking the Hindustan Uniliver Limited as the example.

WHY IS THIS PARTICULAR TOPIC CHOSEN ?

The Sales and Production needs to be evenly balanced in order to ensure that whatever the industrial unit is producing is sold to the market as well , otherwise it could lead to a huge loss for the unit due to the surplus stock storage and damages caused by poor conditions of the warehouse.

Materials in Indian context constitute more than half of the cost of production in most industries and projects. In FMCG sector, 60-70% of the total production cost is due to materials. This makes the materials management the biggest single area having tremendous scope for cost reduction. A well co-ordinated materials management programme may lead to 15 to 20% of cost reduction. A rupee saving on material cost is almost equivalent to ten rupee of sale. Moreover, a sale is one time sale. Saving, on the other hand, is a recurring benefit. Effective materials management, therefore, has a tremendous effect on the profitability of the firms in FMCG sector. Materials department though is the biggest spending department and literally the "custodian" of the company's purse but considering its potential to save money, it can prove to be a profit centre.

FMCG SECTOR IN INDIA:

The Indian FMCG sector is the fourth largest in the economy with a total market size of over US$ 13.1 billion in 2006, which is expected to grow upto US$ 33.4 billion in 2015. It has a strong MNC presence and is characterised by an established distribution network, intense competition with the presence of unorganised sector players and low operational cost. Availability of key raw materials, cheaper labour costs and presence across the entire value chain give India a competitive advantage.

Consumers are towards branded products and hence, FMCG companies are increasingly focusing on key products and brands besides the cost efficiencies. A large part of the branded market however,

continues to be threatened by spurious goods and illegal foreign imports, which remain a challenge for large companies, particularly during times of cyclical downturns.

The key characteristics of FMCG products include the following:

- Used most frequently by consumers
- Used directly by the end consumer
- Non-durable in nature
- Sold mostly in packaged and branded form

The broader FMCG industry is divided into a host of sub-groups, among which the personal care segment is one of the largest. This segment encompasses a major part of the consumer's life. Hindustan Lever, Godrej Consumer Products, Colgate Palmolive, Marico, Dabur, Procter & Gamble are some of the most vibrant players in this group.

Sector characteristics

In any segment of the FMCG industry, more so in the personal care segment, it is the perception of the product by the end user (consumer) that determines the success of the companies. There is little to differentiate between one brand of soap and another at the same price points.

Branding: The bulk of the effort and money is devoted to branding, especially in the personal care segment. A strong brand is the most vital ingredient of success in this industry, followed by distribution. Given that the market is fiercely competitive, functional attributes alone are not sufficient to develop consumer loyalty and sales growth; these may be achieved only by a strong brand.

Distribution Network: In India, retailing is still at a nascent stage. Infrastructural difficulties coupled with the fragmented size of the market makes it necessary for companies to have a well-knit distribution network to achieve the highest degree of penetration both in the rural and urban areas.

Contract Manufacturing: With a higher degree of concentration on brand building and creation of distribution networks, large companies in the sector have started outsourcing their manufacturing requirements to the small scale sector which enjoys much better tax incentives.

Large Unorganised Sector: One of the biggest worrying factors for a company operating in this segment is that it has a huge unorganised market for its products. Smaller companies, which enjoy a much better locational advantage and regional presence, can reach out to the remotest of areas where larger companies find it difficult to maintain a consistent presence.

Current Industry scenario

With consumer preferences becoming more and more sophisticated, the personal care segment of the FMCG industry is undergoing a sea change. Moreover, with the emergence of a host of regional players seeking to rival the existing large multi-national companies, consumers today have a much wider choice. Selling personal care products to customers has, therefore, changed significantly. For instance, in the hair care segment products are now positioned not merely as styling agents but as those containing quality improvement characteristics. The same applies to soaps or the skin care category, which includes creams and toiletries. Till a decade ago, Hindustan Lever, Procter & Gamble, Colgate Palmolive, Marico and Dabur were the only names having a significant presence in this segment. Recently, however, we have seen the emergence of a host of new competitors (regional and multi national), which have chopped off the market share of these giants. In fact many of the local brands are more popular among consumers than the bigger brands.

Current Market Scenario

The FMCG sector is expected to witness a huge growth in the near future. According to estimates the sector has the potential of growing by more than 50% in rural and semi-urban India by 2010. As a whole, the sector is projected to grow at a compounded annual growth rate of 10% and increase its market size to Rs 1,00,000 crore from the present levels. Rural and semi-urban consumers are increasingly showing a preference for branded goods and that is likely to boost growth as manufacturers fight to deepen their concentration on higher sales volumes.

The current penetration level of the FMCG sector in the rural and semi-urban areas is less than 1% in general as against a total growth rate of around 6.2%. The rural Indian market with its vast size and demand base offers a huge opportunity for FMCG companies that they cannot afford to ignore. With around 128 million households, the rural population is nearly three times that of the urban market.

Challenges ahead

There is no doubt that the rural and semi-urban markets offer a huge potential for FMCG companies. But this is likely to put severe pressure on the margins of the manufacturers of FMCG products, mainly on account of cutthroat competition. Companies like Nirma, HLL, Dabur, ITC, Godrej, Britannia, Coca-Cola and Pepsi are the ones likely to reap the benefits of this booming market apart from the newer and smaller regional players.

No matter how alluring the rural market looks, it is definitely not without drawbacks posed by lower per capita disposable income and large number of daily wage earners. Some other problems associated with rural markets are an acute dependence on the vagaries of monsoon, seasonal consumption linked to harvests, festivals and special occasions, poor roads and power problems. Logistical problems are also likely to pose major challenges. India's 6,27,000 villages are spread over 3.2 million sq kms. Delivering products to the 750 million Indians living in the rural areas is thus a difficult task.

MATERIAL MANAGEMENT

Material Management is concerned with control of materials in such a manner which ensures maximum return on working control material management is concerned with the location & purchase of needed their storage & movement. it also arranges to keep on account for them .it is also responsible for planning their movement through manufacturing processes, store rooms and distribution channels. Material Management is all about purchashing mix. It involves the the procurment of material of in store and the ability to know the total number of available goods that are to be issued out on request. All the functions are primarily carried out by the store manager whose mission is to ensure that goods are not below average as to satisfy the demands of customers. The primary and general importance of material management is to ensure that he/she streamlined the issues/demand/sales of the company as to enable him/her to be aware of when the management is short goods and will not go to the extemt of making use of their buffer stock.

A Materials Management structure traditionally separate materials functions to report to an executive responsible for coordinating the entire inbound materials process, and also requires joint relationships with suppliers across multiple tiers. The Materials management executive can design and manage a system that meets a firm's performance objectives at the lowest total cost.

The greatest organizational growth of the supply chain management concept occurred during the mid-1960s to late 1970s. However, that the materials concept began during the period and the origins of materials management date back to the 1800's During the 1970s, most firms experienced shortage of vital materials as well as rising materials price. Firms embraced the materials concept as a means to coordinate diverse material functions and to control material-related costs, quality, and supply. A concern to same purchasing professionals was that the creation of a material that purchasing naturally

assumes a lower position when management creates an executive materials position. Furthermore, if a non-purchasing professional heads the materials position, this reduces purchasing importance with in the organizational structure even further.

Regardless of the background of the materials manager, most firms today recognize the importance of Materials Management. Firms that develop a coordinated approach to materials management show a greater interest in the control of material costs. This can only increase the importance of purchasing with in the organizational hierarchy because of purchasing influence on cost and quality.

The Material's Manager must constantly balance tradeoffs between the functions making up the materials organization. What does managing tradeoffs mean? Consider, for example, material control (often part of purchasing) and inbound transportation. Materials control tries to maintain raw material and work-in-process inventory levels as low as possible while still meeting production schedules, which allows a firm to minimize high inventory carrying costs. It is not difficult to see why companies support the Materials Management concept. The materials management approach provides tangible benefits to an organization. These benefits include

- Providing greater direct control over material costs
- Developing Personal awareness of the total system approach instead of a narrow and restrictive functional approach.
- Opening channels of communication and stimulating the sharing of ideas among the various material functions.
- Supporting the career paths of talented personnel by providing then the means to develop well-rounded expertise. The material concept supports the movement of personnel across functional boundaries.

- Developing greater operating efficiencies as material functions work together to create material systems, coordinate procedures, and streamline the movement of material and data among themselves.
- Encouraging an overall synergistic effect as functions cooperate towards common goals.

The management of all inbound, production, and outbound activities is materials logistics management or total systems management. In this exhibit, a materials manager is responsible for all inbound and materials control functions to the point where work-in-process becomes finished-goods inventory. The physical distribution manager is responsible for moving, storing, controlling, and distributing finished goods to field warehouses and the final customer. The actual point separating materials management and physical distribution often becomes blurred. For example, a manager responsible for the storage and movement of work-in-process inventory is probably responsible for the initial movement and storage of finished goods, often the case when finished goods and in-process inventory exist in the same facility. Materials logistics management is the control of material throughout the entire pipeline. While conceptually appealing, few firms have an executive position specifically responsible for the entire material system for supplier to end customer.

Chapter-2

LITERATURE REVIEW

MATERIALS MANAGEMENT ACTIVITIES AND FUNCTIONS

One way to understand materials management within an organization is to list the basic activities of a materials executive, which have been enlisted as follows:

- Anticipate a firm's purchased materials requirements
- Source materials with the best qualified supplier
- Introduce new materials into the organization
- Monitor and control the status of materials as a current asset throughout the process of it's working in the organization.

By considering the board activities of the materials manager, it becomes easier to visualize the activities that occur naturally as part of materials management. These areas are next discussed, and are given as follows:

Functions of a Marketing Manager
• Purchasing • Inbound Transportation • Inbound quality control • Receiving and Storage • Materials Control • Production Planning and Scheduling

Purchasing

Most organizations include purchasing as a major function within the materials structure. The difference for purchasing in a materials structure involves the reporting hierarchy. Earlier research indicated that Purchasing Manager reported to the Materials Manager in almost 70% of the firms organized under the materials management concepts. In the remainder of the firms with Materials Managers, Purchasing Manager reported to another executive.

Inbound Transportation

Most of the larger firms have a specialized traffic and transportation function, because of transportation's importance along with the large volumes in money terms, required for the purchase of transportation services. For some firms, transportation is the single largest category of purchasing-related costs, especially for highly diversified firms. While a firm may have minimal common purchase requirements between its operating units, opportunities usually exist to coordinate the purchase of transportation service. Firms that organize under the materials management concept naturally place the transportation function under the materials umbrella. These firms recognize the need to control inbound materials shipments as tightly as they control outbound shipments to customers. Allowing a supplier to arrange for inbound transportation does not provide the cost control or coordination a purchaser requires to manage in its inbound materials pipeline.

Inbound Quality Control

Quality control has taken on increased importance during the last 15 years. Almost all firms recognize the importance of the supplier toward achieving quality goals and the need to emphasize prevention rather than detection of quality problems. As a result, the quality emphasis has shifted from detection

during receipt of production to early prevention, in the material sourcing process. This requires a strong awareness concerning a supplier's role in the quality process. Progressive firms work directly with suppliers to develop proper quality control procedures and processes.

Receiving and Storage

All inbound material must be physically received before production. In a non-just-in-time environment, material must also be stored or staged, awaiting final use. Receiving and storage is usually part of the materials management function because of the need to control the physical processing and handling of inventory. Receiving and storage includes a variety of task. For example, a firm must process incoming receipts usually through a computer terminal, which updates the in-transit file, purchasing files, the accounts payable system, as well as any other systems requiring receipt information. Other tasks include the possible inspection of the materials and its storage awaiting final production. Materials handling is also a critical part of the receiving and storage process, including movement with in a facility along with any movement between facilities during the production process. All materials movement requires tight control.

Materials Control

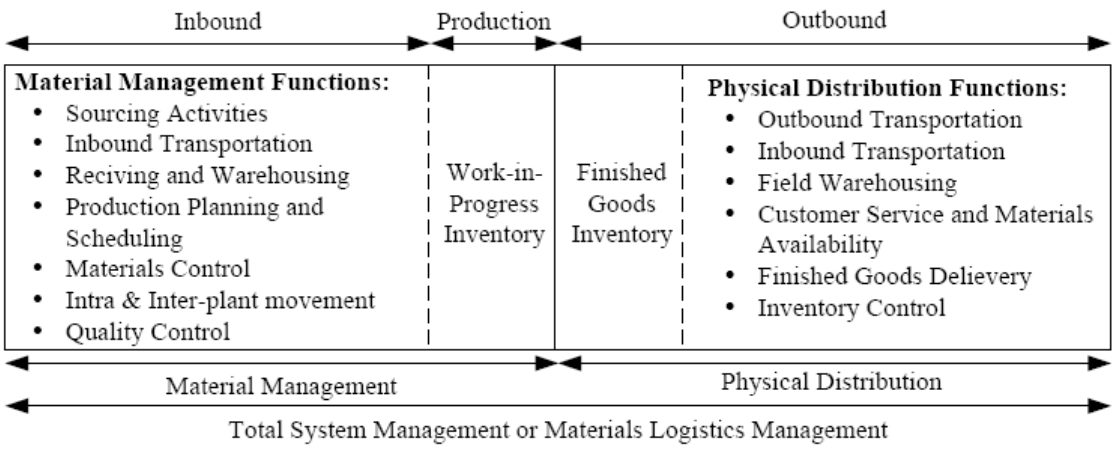
The terms materials control and inventory control are often interchangeable. Within some organization, however these terms have different meanings. The materials control group is responsible for controlling materials releases to suppliers for inbound shipments. This includes generating the materials release, contacting a supplier directly concerning changes, and monitoring the status of inbound shipments. Materials control activities are some times the responsibility of the purchasing department, particularly in smaller organization.

In large organizations however, purchasing and materials control are often separate. Purchasing evaluates and selects sources of supply will materials control determine the actual order release quantities and shipment schedules to supports production. In this case, tactical duties (Material control) strategic purchasing duties are separate. The inventory control group is responsible for determining the inventory level of finished goods needed to support customer requirements, emphasizing the outbound physical distribution side of the organization. Within the prospective, inventory control is part of the distribution process and is not technically part of materials management.

Production Planning and Scheduling

This activity involve determining the aggregate levels of production for a family of items along with a time-phase, detailed schedule of production. While the production plan is not a sales forecast it relies on forecasts for input. Because manufacturing is responsible for carrying out of the production plan, production planning and manufacturing stay in close contact with each other.

It is not unusual for the manufacturing executive to be responsible for production planning and scheduling, particularly if a firm does not employ the materials management concept. For firms with a materials manager position, however, 77% reported that production planning reported directly to the materials manager. This is a higher percentage than any other materials function, including purchasing. Production planning and scheduling is a highly sophisticated process. The detailed production planning process is not within the scope of a purchasing textbook. The following figure explains the Total Materials Management System.


Inbound
Production
Outbound
Material Management Functions:
Sourcing Activities
Inbound Transportation
Reciving and Warehousing
Production Planning and Scheduling
Materials Control
Intra & Inter-plant movement
Quality Control
Work-in-Progress Inventory
Finished Goods Inventory
Physical Distribution Functions:
Outbound Transportation
Inbound Transportation
Field Warehousing
Customer Service and Materials Availability
Finished Goods Delievery
Inventory Control
Material Management
Physical Distribution
Total System Management or Materials Logistics Management

MATERIAL MANAGEMENT IN FMCG SECTOR

Materials are the key resource in an industrial enterprise since no production can be possible without the use of materials. Hence, materials play a very important role in the functioning on any business e nterprise, they also form a major constituent of the cost of the product and therefore proper control over their procurement, storage, movement and consumption is necessary. It thus, involves all activities concerning material right from the time the need for the material is established until they are issued to the production department of any industrial unit. Hence Materials management can also be defined as "The grouping of management functions supporting the complete cycle of material flow, from purchasing and transportation of materials to production planning to the warehousing, shipping, and distribution of the finished product".

The Indian FMCG sector is the fourth largest sector in the economy with a total market size in excess of US$ 13.1 billion. It has a strong MNC presence and is characterised by a well established distribution network, intense competition between the organised and unorganised segments and low operational cost. Availability of key raw materials, cheaper labour costs and presence across the entire value chain gives India a competitive advantage.

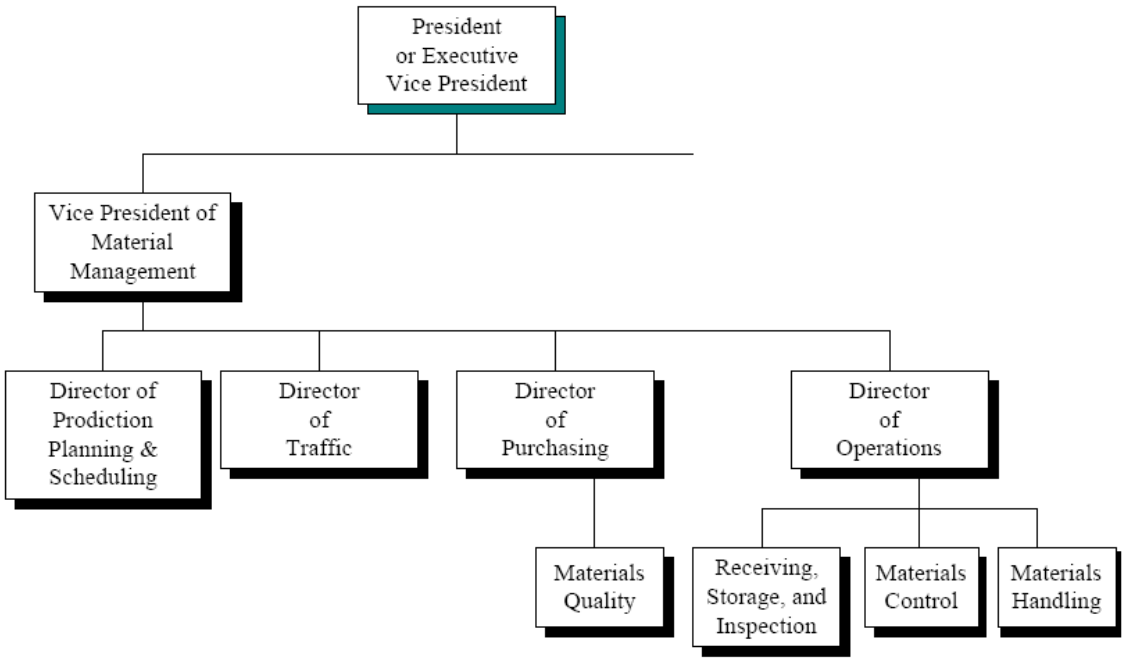
The FMCG market is set to treble from US$ 11.6 billion in 2003 to US$ 33.4 billion in 2015. Penetration level as well as per capita consumption in most product categories like jams, toothpaste, skin care, hair wash etc in India is low indicating the untapped market potential. Burgeoning Indian population, particularly the middle class and the rural segments, presents an opportunity to makers of branded products to convert consumers to branded products. Growth is also likely to come from consumer 'upgrading' in the matured product categories. With 200 million people expected to shift to processed and packaged food by 2010, India needs around US$ 28 billion of investment in the food-processing industry.

The Sales and Production needs to be evenly balanced in order to ensure that whatever the industrial unit is producing is sold to the market as well , otherwise it could lead to a huge loss for the unit due to the surplus stock storage and damages caused by poor conditions of the warehouse.

Materials in Indian context constitute more than half of the cost of production in most industries and projects. In FMCG sector, 60-70% of the total production cost is due to materials. This makes the materials management the biggest single area having tremendous scope for cost reduction. A well co-ordinated materials management programme may lead to 15 to 20% of cost reduction. A rupee saving on material cost is almost equivalent to ten rupee of sale. Moreover, a sale is one time sale. Saving, on the other hand, is a recurring benefit. Effective materials management, therefore, has a tremendous effect on the profitability of the firms in FMCG sector. Materials department though is the biggest spending department and literally the "custodian" of the company's purse but considering its potential to save money, it can prove to be a profit centre.

ORGANIZATIONAL STRUCTURE

The actual functions under the materials umbrella can vary widely between firms in the FMCG Sector. Also, the reporting level of the materials management executive can be higher or lower than shown here. Materials executives in the FMCG Sector are generally higher in the organizational hierarchy today than 15 years ago because of the increased importance of the materials function, especially for firms with large material budgets. The materials executive the FMCG Sector often reports directly to the executive vice president or president. In the following figure, the vice president of materials management is responsible for production planning and scheduling, traffic, purchasing and operations. In this example, materials quality reports directly to purchasing, which is common given the relationship between supply base management and materials quality. The director of operations is responsible for receiving and storage, materials controls, and materials handling. This illustration shows only one possible materials structure. Many organizations now have purchasing vice president, whose responsibilities extend beyond those of the Materials manager.



A Typical Materials Management Organisation Structure

The Materials function the FMCG Sector is now equal in importance to manufacturing and marketing in any organization. Historically, purchasing, usually reported to manufacturing, as it still does in some manufacturing firms today, particularly those without a Materials executive. However, most firms now recognize the need for an independent purchasing and materials function free of outside influence. While purchasing must support manufacturing, it should do so by placing personnel directly at manufacturing facilities. These personnel locally report directly to purchasing personnel with only a dotted-line reporting relationship to manufacturing management.

In recent years, FMCG organizations have evolved from the concept of Materials management, which refers to an integrated set of functions within an organization spanning inbound and outbound logistics, to the concept of supply chain management (SCM).

Lower inventories throughout the chain, shorter cycle times, improved planning, and lower costs. While Materials management is often discussed in theory, very few organizations are able to achieve this level of integration and success. One reason for this—the difficulty in developing the level of trust required to share information with so many parties—will remains a challenge for purchasing and logistics managers in the future.

Need for Organization Structure

Logistics the FMCG Sector is a virtual activity that must carried out by virtually every type of firm or institution. This means that some organizational arrangement, whether formal or informal, will have been made to handle product and service movement. What then is the need for any specific consideration of organization structure in the FMCG Sector?

Conflict resolution

A traditional form of organization that many have adopted is to group their activities around the three primary functions of finance, operations, and marketing. From a logistics point of view, this arrangement has resulted in a fragmentation of the logistics activities among these three functions whose primary purposes are somewhat different from those of logistics. That is, responsibility for transportation might be placed under operations, inventory divided among the three functions, and order processing placed under either marketing or finance. Yet marketing's primary responsibility may be to maximize revenue, operations responsibility may be to produce at the lowest per-unit cost, and finance's responsibility may be to minimize the capital costs so as to maximize return on investment for the firm. These motivational cross-purposes led one executive some years ago to wisely observe. If permitted to run free, a salesman and his manager would promise his customer impossible delivery service from a plant or distribution center. On the other hand, the production manager, if permitted, would request that all orders be

accumulated for long periods to reduce the cost of setups, and allow more time to plan economic materials procurement quantities.

Such conflict of purpose in the FMCG Sector can result in a logistics operating system that is sub optimal— so much so that the efficiency of the firm as a whole may suffer. For example, marketing may desire fast delivery to support sales, whereas manufacturing, if it has the responsibility for traffic, may desire the lowest cost routing. Unless steps are taken to achieve compromise across the functional lines, the most advantageous logistics cost service balance is not likely to be realized. Some organizational structure for the coordination of decision making of separate logistics activities is needed.

Management

Providing some organizational structure to logistics activities in the FMCG Sector also defines the necessary lines of authority and responsibility to ensure that goods are moved accordingly to plan and that preplanning is carried out when needed. If the balance between customer service and the costs to produce the service are critical to the operation of a particular firm, someone should be placed in charge of overseeing product movement. In effect, someone has to manage logistics. Whereas such areas as order processing, traffic, and warehousing may be individually supervised for good control, a manager is often required to coordinate their combined operations. Only a manager in the FMCG Sector has the scope to balance these operations to achieve the highest level of efficiency.

Importance of Organization to Logistics

The attention that can be given to logistics organization and to the organizational arrangement depends on the nature of logistics in the firm. Although every firm orinstitution conducts logistics operations to some degree, logistics matters are not equally important to all. A firm that spends a small fraction of its total operating costs on logistics and/or believes logistics customer service levels are not of great

importance to customers is not likely to give logistics any special organization attention. However, for many consumer-product firms, food firms, and chemical firms in which logistics costs may average 25 percent or more of the sales revenue, the opposite is true.

In addition, the need for a given type of organization depends on how logistics costs are incurred and where service needs are the greatest. The organizational form may

center around materials management, physical distribution, or both (logistics). Extractive industries are characterized by firms that produce basic raw materials, mainly for use by other industries, characterize extractive industries. Examples of such firms are those engaged in lumbering, mining, and agriculture. Logistics operations involve the securing of a wide variety of goods needed in the extractive operations. Capital equipment and supplies for operations are typical of such purchases. Purchasing and transportation are the primary supply-side logistical activities. Outbound products typically have a limited diversity, relatively low value, and are shipped in bulk. Controlling shipping in terms of mode selection, routing, and equipment utilization is a major concern. Therefore, the firms in these industries are likely to have very visible materials management departments.

Service industries mainly concern themselves with supply-side logistics activities. Firms in this industry convert tangible supplies into service offerings. Hospitals, insurance companies, and transportation companies are good examples of service firms. A variety of product items are purchased, many of which are critical, from suppliers that are geographically dispersed. These items are entirely consumed in producing the service. Purchasing and inventory management are primary logistics activities to be managed, with slightly less concern about transportation since many of the supplies are received under a delivery pricing arrangement. Logistics costs can be significant to such firms, but the associated activities take place on the supply side of the firm. Organization for logistics centers on materials management, with typically little recognition given to any physical distribution activities.

Firms that purchase goods mainly for resale characterize marketing industries. Typical members of this industry are distributors and retailers. Firms in this industry do little to change the form of the product. Major concerns are with selling and logistics activities. Typically such firms purchase many items from many suppliers that are geographically dispersed. These items are resold in diverse combinations and in small quantities, usually within a limited geographically area. Purchasing, inbound traffic, inventory control, warehousing, order picking, and shipping characterize operations. Organization for the management of logistics is significant and usually will involve both materials management and physical distribution activities; however, greater emphasis is likely to be given to a strong physical distribution organization since many of the inbound supplies are priced by suppliers on a delivered basis.

Manufacturing industries are characterized by the firm that purchased a wide variety of items from many suppliers for the purpose of transforming them into items of relatively high value. There is substantial logistics activity, both on the supply side and the distribution side of these firms. Organization design includes both materials management and physical distribution.

Organizational Choice

When the need for some form of organizational structure has been established, in the FMCG Sector there are basic choices from witch a firm may select. These can be categorized as:

1) Informal,
2) Semiformal
3) Formal

None these types dominates among firms, nor is one type more popular than another for firms of like characteristics. Organizational choice for any particular firm is frequently a result of evolutionary forces operating within the firm. That is, the logistics organizational firm is often sensitive to the particular

personalities within the firm, to the traditions regarding organization, and to the importance of logistics activities.

The Informal Organizational Form

The major objective for logistics organization is to achieve coordination among logistics activities for their planning and control. Given a supporting climate within a firm, this coordination may be achieved in a number of informal ways. These typically do not require any change in the exiting organizational structure but rely on coercion or persuasion to accomplish coordination among activities and cooperation among activities and cooperation among those who are responsible for them. For firms that have designated separate areas of responsibility for such key activities as transportation, inventory control, and order processing, an incentive system can sometimes be created to coordinate them. Whereas the budget, witch is a major control device for many firms, is often a disincentive to coordination, it can sometime be turned into a mechanism for effective coordination. The budget may be a disincentive because a manager of transportation, for example, would find it unreasonable to incur higher-than-necessary transportation costs in order to achieve lower inventory costs. Inventory costs do not fall within the transportation managers budget responsibility. The transportation manager's performance is measured by how transportation costs compare with the budget.

One possible incentive system to encourage cross-activity cooperation is to establish a number of cross charges or transfer costs among the various logistics. Consider how a transportation selection decision might be made when it indirectly affects inventory levels, but the transportation decision maker has no motivation other than to seek the lowest possible transportation costs.

Another incentive is to establish some form of cost-savings sharing arrangement. All managers of the separate logistics activities that show conflicting cost patterns could poll their cost savings. A predetermined schedule could be established to divide the savings for redistribution to salaries. There is

incentive for cooperation because the greatest potential savings comes about when cooperation leads to a balancing of activities having conflicting cost patterns. There so-called profit-sharing plans have had limited success among firms, but a new firms have used them effectively.

The use for coordinating committees is another informal approach to logistics organization. These committees are made up of members form each of the important logistics areas. By providing a means through which communication can take place, then coordination may result. For companies in which there is a history of coordinating committees, the committees' form can be quit satisfactory. Dupont is one example of a company famous for its effective management by committee. Although committees seem to be a simple, straightforward solution to the coordination problem that do have a shortcoming in that they generally have little power to implement there recommendations.

Chief executive review of logistics decisions and operations in the FMCG Sector is a particularly effective way of encouraging coordination. Top management has the necessary position in the organizational structure to easily observe sub optimal decision making with in the organization. Because subordinate managers in the logistics activity areas are responsible to top management, top management's encouragement and support of coordination and cooperation among these interventional activities goes a long way toward achieving the organizational calls with out a formal organizational structure.

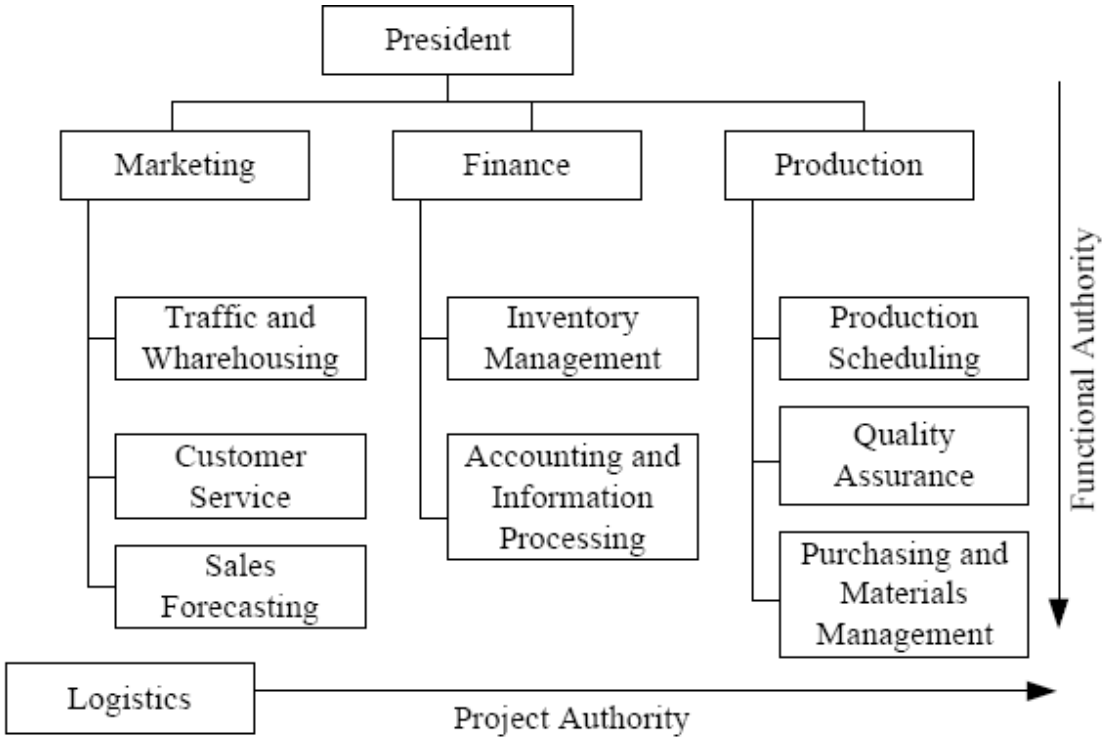
The Semiformal Organizational Form

The semiformal organization form recognizes that logistics planning and operation usually cut across the various functions with in a firms organizational structure. The logistician is then assigned to coordinate projects that involve logistics and that cover

several functional areas. This type of structure often called a matrix organization, and it has been especially popular in the aerospace industry. The concept has been adapted to logistics system management.

In a matrix organization, the logistics manager has responsibility for the entire logistics systems but does not have direct authority over the component activities. The firms traditional organizational structure remains intact, yet the logistics managers shares the decision authority and accountability with the activity area manager. Expenses for the

activities must be justified by each functional department as well as by the logistic program, which is the basic form of cooperation and coordination.



Although the matrix organization can be a useful organizational form, we should recognize that the lines of authority and responsibility became blurred. Conflicts may arise that cannot be easily resolved. However, for some firms this choice is a good compromise between a completely informal form and a highly structured one.

The Formal Organizational Form

The formal organization is one that establishes clear lines of authority and responsibility for logistics. This typical involves (1) placing a manager in a superior position relative to logistical activities, and (2) placing the managers authority on a level in the organizations structure that allow effective compromise with the other major functional area of the firm (finance, operations, and marketing). This elevates and structures logistics personal in a form that promotes activity coordination. Firms seek the formal organizational arrangements prove ineffective or when greater attention is to be given to logistics

activities. Practitioners frequently remind us that there is no such thing as a typical organization for logistics. Organizational structure is customized to individual circumstances within a firm. However, we can develop a generalized formal organization that may good sense in terms of the principals of logistics management and also appears, in at least partial form, in enough firms to use it as a model.

This formal design accomplishes several important ends. First, logistics is elevated to a position in the organization where it is managed with the same authority as the other many functions. This helps to assure that logistic activities receive the same attention as marketing, operations, and finance. It also sets the stage for the logistic manager to have an equal voice in resolving economic conflicts. Having logistics on a par with the other functional areas creates a balance of power that can be for the economic good of the firm as a whole.

Second, a limited number of sub-areas are created under the chief logistics officer. The categories are established with a separate manager for each and are managed as a distinctive entity. Collectively, they represent the major activities for which managers are typically responsible. Why exactly five areas? Only as many areas are created as technical competencies require. It might seem desirable to combine, say, transportation and inventory activities into a single area because their costs are naturally in conflict and better coordination could be achieved. However, the technical skills required in each area are substantially different, so finding management for the combined areas having both type of skills are difficult . It is often more workable to keep such activities under a separate manager and rely on the logistics manager to establish coordination through the informal or semiformal organizational types previously discussed. Similar arguments can be offered for the other activity areas. Therefore, the formal organization structure is a balance between minimizing the number of activity groups to encourage coordination while separating them to gain effectiveness in the management of their technical aspects.

Organizational Positioning

Organizational choice and orientation are the first considerations in organizational structure in the FMCG Sector. Next comes the positioning of logistics activities for their most effective management. Positioning basically concerns where to place these activities in the organizational structure. This is determined by such issues as: (1) decentralization versus centralization, (2) staff versus line, and (3) large company size versus small.

Decentralization Vs. Centralization

One of the continuing controversies in organization is whether activities should be grouped close to top management or dispersed throughout the divisions of the larger firms. For example, a major electric company had a number of products divisions, such as industrial electrical equipment, nuclear power, small appliances, major appliances, and lamps. A centralized organization groups logistics activities at the corporate level for the purpose of serving all product groups. On the other hand, the decentralized logistics organization puts the responsibility for logistics at the product group or division level. A separate decentralized logistics organization is established to serve each division.

There are some obvious advantages to each type, and a number of firms create organizational forms that blend both types to seek their combined advantages. The principal reason for the centralized form is to maintain close control over logistics activities and to benefit from the efficiencies associated with the scale of activities that can occur by concentrating all logistics activities for the entire corporation under a single director. Consider the traffic activity as an example. Many firms own private truck fleets. Utilization of the equipment is the key to efficiency. By having centralized control of all traffic activities, a firm might that the forward haul of one division's products might be the back haul for another. These movements can then be balanced, whereas under a decentralized organization they might be

overlooked. Similar efficiencies can be gained through shared warehousing, shared purchasing, and shared data processing.

Decentralization of organization often allows quicker and more customized logistics response to customer needs than the more removed, centralized organization. Decentralization makes a great deal of sense when product lines are distinctly different in their marketing, logistics, and manufacturing characteristics, and when few economies of scale can be found.

Rarely can we expect to find either a purely centralized or purely decentralized design. For example, although there is managerial interest in divisional and even regional autonomy among the operating units of the firms, technical advances such as computerized data processing have made it more efficient to have centralized order processing and inventory control. Such conflicting trends help to explain the diversity of organizational forms in practice.

Alliances

It is quite natural for a firm that is heavily invested in transportation equipment, warehouse, inventories, order-processing systems, logistics technology, and administrative personnel to question whether this investment might be shared with other firms to reduce its own costs. Conversely, being conscious of the high costs of logistics, a firm may seek to partner with another firm that has excess logistics capacity, strategic facility locations to markets, desirable technology, and outstanding administrative capabilities that the firm seeks to shave. Of course the firm may have certain skills and capabilities that are desirable to other firms. Forming a logistics alliance, or partnership, may benefit both parties. The firm that does not desire to build a high degree of management competency in logistics may also seek an alliance with a stronger logistics partner to strengthen its own competitive position.

A logistics alliance is built on trust a sharing of information that aids logistics performance, and specific goals to achieve a higher level of logistics performance than can be achieved alone, operating ground rules for each partner, and exit provisions for alliance termination. The benefits to be derived from a logistics alliance have already been noted. If these benefits are so obvious why is it that there are so few alliances that there are so few alliances that actually have been created? The answer may lie in the concerns that a potential partner has about the alliance when supply channels are to be merged. Chief among these concerns may be the following.

- Loss of control over the logistics channel.
- Fear of being "written out of the logistics picture."
- Increased concern about logistics failures and no direct way to handle them for their customers.
- Adequate checks and balances may not be able to be identified to the satisfaction of the partner.
- Difficulty of identifying the economies to be achieved as compared with the partner's current logistics.
- A reporting system that does not match that of the partner, or one that is inadequate to reduce uncertainty.
- Difficulty of identifying the benefits to be shared, especially when the partner has some ownership in the logistics system.
- There may simply not be enough trust to try such an arrangement.
- Partners may not be viewed as equals where one partner's requirements may take precedence over another's.
- Difficulty in seeing how trusts good faith, and cooperation can be achieved in such an arrangement.
- Too few examples to show how such alliances work well in other companies. Logistics alliances are fragile. They can be difficult to form and they may dissolve easily. However, the potential benefit of them encourages management to continue to explore ways of making them work.

Contract Logistics

For years, FMCG companies have been using the services of other companies to support their worn logistics activities. Common carriers provide trucking and rail services, public warehouses provide storage services, and specialty firms provide freight bill auditing and accounting services. In recent years, mainly since the deregulation of transportation, logistics companies have emerged that provide a full-service logistics capability. That is, they can handle the entire logistics operation for a client company for a contract price. They have variously been referred to as third party providers, integrated logistics companies, and contract logistics specialists. Although there has been significant growth for these logistics service providers, the companies using them do so sparingly. Eighty five percent of the companies using outside services spend less than 20 percent of their logistics budgets on them.

Compared with alliances, contract logistics companies sell services rather than form partnerships that benefit from the synergism between the members of the alliance. They hold themselves out to provide high level solutions to logistics problems. A primary motivation for a company to outsource some or all of its logistics activities is that third provider is more efficient because logistics is its primary business and logistics is not the core competency of the buying firm.

The centralized structure allows the domestic buyer and Commodity manager to concentrate on the activities they perform best. Commodity managers develop corporate contracts for commonly used company wide items. These contracts strive for superior performance in quality, delivery and access to supplier technology through out the organization. The division or plant purchasing managers concentrate on identify capable domestic supplier for the items for which they are responsible. The international purchasing offices search their region of the world to identify potential foreign sources.

A number of other factors influence how a firm structures its global sourcing efforts. If global sourcing requires large amount of time and resources, then this encourages a firm to establish a certainly coordinated approach. Further more, global sourcing requires specialized capabilities on the part of a buyer. To overcome these potential constraints, a firm might create a centralized international sourcing office, to provide international expertise at one location and contribute to cost efficient sourcing throughout the organization. As just discussed, a firm might even establish centrally managed foreign buying offices throughout the world.

Successful use of corporate international buying offices requires responsiveness to the purchase needs of buyers at all levels of the organization. Buyers will avoid using the international purchasing office if they perceive it is unresponsive to their needs. Also, purchasing personnel at the business unit or plant level may not gain international experience with a centralized international buying structure, and may never develop a worldwide purchasing perspective. Despite the potential disadvantage, the volume of international purchasing along with the capabilities required for foreign buying influence how a firm organizes for international purchases.

BENEFITS

The materials Information management has certain advantages as stated below:

Reduces time and costs by

- Establishing direct link between the data capture system and the suppliers ordering system which reduces supply chain time and costs and reduces the ordering errors
- Simplifying ordering – the data is inputted direct to the supplier via a hand held barcode reader

The information retrieval through proper information system provides

- The data that can be used to forecast required stock

- Statistical analysis of historical data and generate reports to review product use and to identify better efficiencies

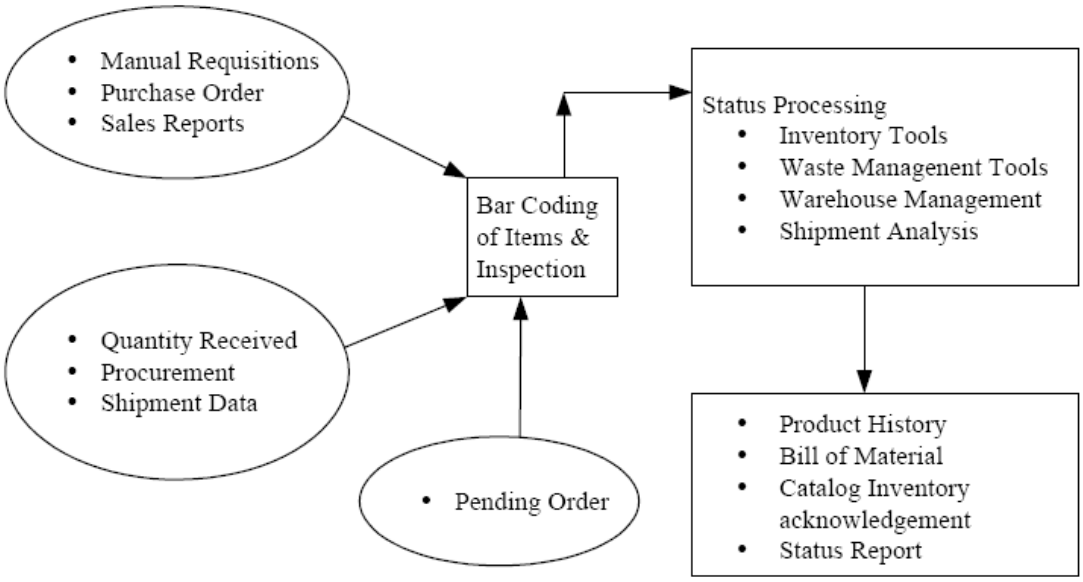
It gives flexibility to manage products by

- Helping with product standardization programmes and effective stock control, leading to more efficient use of limited storage and effective stock control
- Providing a modular storage system
- Streamlining receipting procedures, leading to improved payment systems.

- **It saves money**

- By saving on requisition costs, reducing obsolescence and waste and simplifying stock valuation for the company
- By helping to give a clear understanding of a company's spend and operating costs
- By providing realistic stock levels linked to actual usage- matching service delivery with company actual service need

Processing of a customer needs from its identification through conversion of raw materials into finished goods and the distribution of these goods is carried out by a sequence of fairly distinct activities. These activities are called the technical development of the system. Out of all other system in functional management, the sub-system used for materials manufacturing is considered to be significant in operations management. They are inventory control system, demand management system, remote electronic requisition system, warehouse management system, waste management system etc. These sub-systems operate based on the product specification, schedule, demand, availability of raw materials and assemblers. A system to control movement and storage of materials within a warehouse is called Warehouse Management System. The role of Warehouse Management System is expanding to including light manufacturing, transportation management, order management, and complete accounting systems. The general function of materials information system integrates the various other subsystems as shown below:



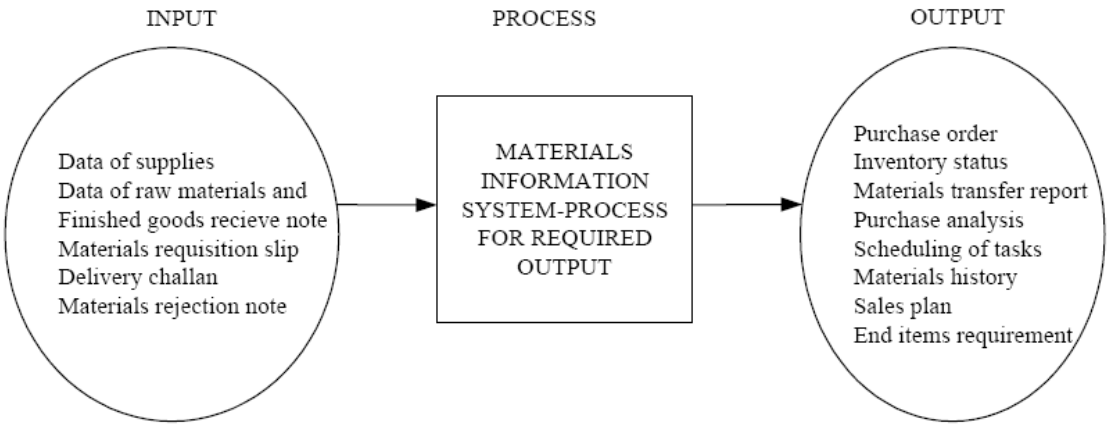
Materials Processing System

The design and the development of the materials information system in the FMCG Sector require considerable research efforts. The major study topics include:

1) Identify and synthesize the operational logic and business rules in the materials testing processes to search for the best ways to organize and unify the forms, reports, approvals and all relevant documents. Use of bar code technology for locating the status of the products.
2) Identify and normalize the relational database to secure data integrity and manage data flows within existing networks using bar codes assigned to the product
3) To convert and integrate the existing electronic data for concrete decisions through proper statistical analysis
4) To protect and archive the data and outputs
5) To improve the system flexibility such that new materials and new information can be inserted
6) To minimize the data entry errors through cross checking

7) To minimize the routine workload and improve the efficiency of the data processing with customized client application programs and

8) To automate the filing processes and speed-up the closeout procedures by scheduled replication tasks and alert message service of the database. In other words, the entire closeout procedure will be monitored by the system and the responsible person will be notified of the current project status.

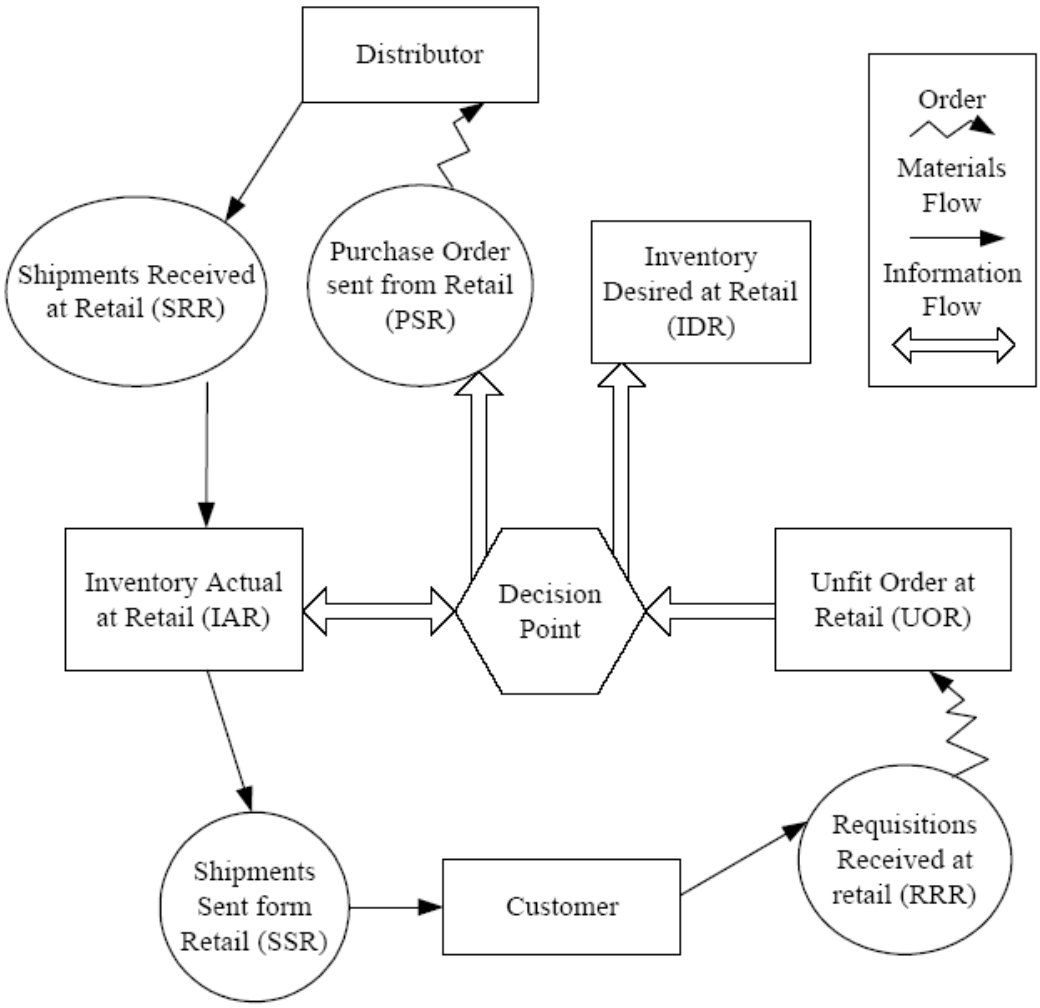


Input, Process and Output of Materials Information System – A View

SYSTEM APPROACH TO MATERIALS MANAGEMENT

Decision point is continuously yielding to the pressures of environment. It is taking advantage of new developments as they occur. It is always adjusting to the state of affairs. It is treading a narrow path between too much action and too little. It is always attempting to adjust towards the desired goals. The amount of action is some function of the discrepancy between goals and observed system status. Let us take an example of very frequently used illustration in materials production pertaining to inventory models. The status of inventory is linked with the production, distributors and retailers. A demand function has been specified in order to generate the orders from the ultimate customers. At each level of factory, distributor and retailer, an inventory of stock item is held and periodically replenished. Delays in processing orders are assumed, as well as the delays in transmission of orders between levels. Materials flow is delayed between the levels to represent time required for shipment. Hence the database once created can be used as centralized pool of information and can be retrieved in whatever the format required. Consider another example of retailer's distribution system as discussed by McMillon and Gonzalez. Requisitions arrive from customers and go into an unfilled order file. Shipments from the distributor arrive and enter inventory. From this inventory deliveries are made to fill customer's requisitions. Decisions concerning shipments to customers and quantities to order to replenish the inventory are made at a decision centre on the basis of knowledge of (or information form) unfilled orders, actual inventory, and desired inventory.

Three kinds of flow can be traced in the system: materials flow, information flow, and order flow.



It is clear from the above illustration that most of the parameters in materials movements are inter-related and recursive in nature. Analytical decisions through systematic calculation enable the decision maker to know or predict the required decision points. Sometimes even the graphical analysis using the existing functional equations help the analyst to present proper results through graphs. The information system designed in this situation will be able to help for drawing proper interpretation.

CONTROL OF MATERIAL MANAGEMENT AND PERFORMANCE APPRAISAL

Materials are one of the major inputs to the production process. It is necessary to properly manage the material for efficiency of the system and controlling the costs. Organizations have to procure it in advance and hold it for some time. For example, a super market stocks thousands of items in the shelf and wait for customers, similarly in auto manufacturing company, thousands of parts are stored as inventory. Materials management is the planning and control of the activities related to the material flow from the suppliers up to the end of the conversion/production process. Ultimately, the customers consume the finished items. In simple terms, materials management is the management of materials, right from the time when a demand originates or is expected to originate leading to a need for production, all through the various stages of the processing and manufacturing etc, until it becomes a finished product and has been dispatched to a satisfied customer. It includes the planning, organization and control of all aspects of inventory management, procurement, warehousing, work-in progress, shipping, and distribution of finished goods.

Thus, activities in materials management in the FMCG Sector include anticipating materials requirements, sourcing and obtaining materials, introducing materials into the organization and monitoring the status of materials as a current asset. This also involves management of a huge amount of important information – for example, engineering, supplier, project management, cost, and delivery are part of materials management.

Performance appraisal is periodically (usually annually) done in the FMCG Sector, in which the work performance of the system is examined and discussed, with a view to identifying weaknesses and strengths as well as opportunities for improvement and system up gradation. In other words, it is the

process of assessing, summarizing and developing the system's performance. Performance appraisal of material management system is necessary to ensure that there is an optimum use of materials and prompt identification of unwanted materials. System's inefficiencies like late delivery, poor customer service, etc, can be identified through performance appraisal system in material management.

Effective management of materials is crucial to the performance of an organization in the FMCG Sector as:

a) Materials costs are usually a firm's largest expenditure.

b) Management of inventory in line with the demand and strategy to reduce it are necessary to cost efficiency.

c) Operating with fewer inventories offers a firm a competitive advantage.

d) Timely execution, implementation and administration of contracts are important business needs.

e) Supervising and/or monitoring the flow and storage of materials are important.

f) Development of proper relationships with suppliers and with other departments within the organization is needed for long-term survival.

g) Increase productivity is a continuous affair.

h) Ensuring customer satisfaction i.e. *timely supply* along with *quality supply* is important.

(i) Reduction of wastage and obsolescence to a minimum is needed for cost cutting. To achieve the objectives of material management, different controls are needed, depending upon the individual functions. These may broadly be categorized into following aspects:

(ii) Forecasting,

(iii) Purchasing and procurement,

(iv) Stores and stock control,

(v) Inventory planning and control,

(vi) Production planning control.

Forecasting:

Forecasting forms the basis for planning by establishing assessment assumptions about the future needs. Good forecasting practice and timely availability of information are crucial for good organization. Forecasting identifies the future needs in terms of demand of product and services. Based on the forecasting of what changes can be reasonably expected to occur in the business, materials managers can determine what opportunities the organization is in a position to take advantage of.

Purchasing and procurement:

This is one of the key controls needed in materials management. The functions of a purchasing manager include:

(i) Reviewing procurement requests,

(ii) Soliciting and evaluating requests,

(iii) Analyzing current and potential suppliers,

(iv) Conducting negotiations with the suppliers,

(v) Executing, implementing, and administering contracts,

(vi) Developing forecasts and procurement strategies,

(vii) Supervising and/or monitoring the flow and storage of materials, and

(viii) Developing working relationships with suppliers and with other departments within the organization.

All these functions require control at different levels of materials management.

Stores and stock control:

The store has to take care of controlling and managing the flow of materials. The important functions that need to be performed in this can be categorized into the followings:

- Deciding on binning, raking, shelving using pallets, block staking or floor storage etc, depending upon the type of material,
- Inspection for incoming as well as outgoing materials,
- Stock taking and deciding appropriate policies,
- Managing all warehouse functions.

Inventory planning and Control:

Inventory management is the most crucial issue in material management because of the apparent heavy capital directly involved with it. Efficient materials management must ensure a high service level with an inventory level at optimal cost. Planning and control are the key aspects in this.

Production planning and control:

MRP (Material Requirement Planning) is commonly used in industries. It consists of tracing and priority control, expediting and de-expediting, all the works of purchasing section and in addition making an estimate of lead times, standard units, discounts, substitutes, vendors' problems and price hikes. Using product design information (like bill of material), inventory status, and master production schedule (MPS), MRP generates purchase orders on a regular basis. DRP (Distribution Requirement Planning), like MRP starts with demand for a product as captured from the customer, it then works backwards using goods on hand, planned receipts and planned order dates to establish a schedule for efficiently ensuring the supply.

A STUDY OF THE HINDUSTAN UNILEVER

COMPANY PROFILE:

Hindustan Unilever Limited (abbreviated to HUL), formerly Hindustan Lever Limited, is India's largest consumer products company and was formed in 1933 as Lever Brothers India Limited. It is currently headquartered in Mumbai, India and its 41,000 employees are headed by Harish Manwani, the non-executive chairman of the board. HUL is the market leader in Indian products such as tea, soaps, detergents, as its products have become daily household name in India. The Anglo-Dutch company Unilever owns a majority stake in Hindustan Unilever Limited. The company was renamed in late June 2007 to "Hindustan Unilever Limited" to provide the optimum balance between maintaining the heritage of the Company and the future benefits and synergies of global alignment with the corporate name of "Unilever".

Nitin Chairman of Hindustan Lever, Ltd (HLL) the Indian subsidiary of Unilever PLC, reread the cover story of the March 18, 2002 issue of Business India, one of India's most widely-read business news publications. He was pleased with the positive coverage that both he and his company had received. HLL continued to be one of the most respected multinationals operating in India. However, the article also highlighted the company's most daunting challenge. Many of the company's core brands were maturing. While top-line growth had been sustained comfortably in the double digit range through the early and mid 1990s, it had declined to 7%, 5%, and 4% in 1999, 2000, and 2001. As a result, managerial staff at all levels had been encouraged to submit proposals for initiatives that would reinvigorate growth.

Historically, the company's growth strategy had been guided by two primary considerations. First, HUL prioritized opportunities which built upon existing assets and capabilities. For example, after building a supply chain for manufacturing and selling wheat flower, HUL had expanded into value-added wheat

flour based products such as bread. Second, they avoided spreading their management talent too thinly. Some of its brands include Kwality Wall's ice cream, Lifebuoy, Lux, Breeze, Liril, Rexona, Hamam, Moti soaps, Pureit Water Purifier, Lipton tea, Brooke Bond 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 & Lovely creams, Lakmé beauty products, Clinic Plus, Clinic All Clear, Sunsilk and Dove shampoos, Vim dishwash, Ala bleach and Domex disinfectant. Rexona, Modern Bread and Axe deo-sprays

FINANCIAL SCENARIO:

Top line growth momentum continues, up 21%: For 2QCY2008, Hindustan Unilever (HUL) continued its renewed growth momentum posting a solid Top line growth of 21.1% yoy (highest quarterly growth since 2002) to Rs 4,216 cr (Rs 3,481 cr), beating our expectation of 17.1% growth to Rs 4,078 cr. Top line growth was largely led by a strong 18.8% growth (volume growth of 8.3%) in the company's core FMCG business backed by 20.7% growth in the Soaps/Detergents segment (aided by price hikes and market share gains in the Laundry segment) and 18.6% growth in Personal Products segment (aided by low base and re-launch of several brands). The Foods segment recorded a sluggish 12.1% yoy growth due to decline in sales of Salt and Atta brands.

Robust Bottom-line growth, up 20%: HUL's Bottom-line for the quarter (before exceptional items) registered a robust 19.6% yoy growth to Rs 540 cr (Rs 452 cr), in line with our expectations. The strong Bottom-line growth was aided by a solid Top line, flat Depreciation and Interest charges and higher Other Operational Income (up 211% yoy on account of higher service income and forex gains). On a post-exceptional basis, Bottom-line registered a growth of 13.2% to Rs558cr (Rs493cr) owing to higher exceptional income during 2QCY2007.

Margins under pressure, contract 130bp: For the quarter, HUL's Operating Margins declined by 130bp to 13.1% resulting in muted EBITDA growth of 10% yoy to Rs551cr (Rs501cr). OPMs fell largely due to a 43bp rise in raw material costs and 75bp jump in advertising expenses. However, judicious price hikes coupled with buying efficiencies helped arrest further Margin decline. During the quarter, HUL registered a sharp rise in Other Operational Income by 211% to Rs84cr (Rs27cr) including which the Margin decline was merely 10bp. While categories like Soaps & Detergents, Personal Products and Beverages witnessed Margin contraction, others like Processed Foods, Ice Creams, Exports and Others (includes Chemicals, Water business) witnessed Margin expansion.

Key Financials

Y/E Dec (Rs cr)	CY2006	CY2007	CY2008E	CY2009E
Net Sales	**12,103**	**13,718**	**15,950**	**18,039**
% chg	*9.4*	*13.3*	*16.3*	*13.1*
Adj. Net Profit	**1,540**	**1,769**	**2,018**	**2,347**
% chg	*13.7*	*14.9*	*14.1*	*16.3*
OPM (%)	13.6	13.7	13.5	13.9
EPS (Rs)	**8.4**	**8.8**	**9.4**	**10.8**
P/E (x)	28.3	26.9	25.4	22.1
P/BV (x)	19.3	36.0	31.3	27.3
RoE (%)	56.5	122.9	121.8	123.4
RoCE (%)	59.0	132.8	132.3	134.6
EV/Sales (x)	4.1	3.7	3.1	2.7
EV/EBITDA (x)	29.8	26.7	23.2	19.8

Source: Company, Angel Research, Note: HUL has changed its accounting year to March Ending – We will be re-casting our numbers accordingly at a later date.

Overall, HUL's Domestic FMCG business registered an 18.8% yoy growth for the quarter, supported by a steady growth in the Soaps & Detergents segment and strong performance by the Personal Products

segment for the third successive quarter. The Home & Personal Care (HPC) business registered an impressive 19.8% yoy growth while the Foods business registered a modest 14.1% yoy growth.

During CY2007-09, we expect HUL to report a CAGR growth of 14.7% in Topline and 15.2% in Bottomline (adjusted for exceptional items) backed by steady growth in its core brands, better pricing power and renewed aggression in terms of product launches (supported by Management rejig). We were positively surprised by the steady growth of Soap/Detergents and strong performance of Personal Products this quarter and remain bullish on HUL's brand portfolio in segments like Skincare and Haircare. HUL has identified the Foods segment as a key focus area for CY2008 and we expect new product launches coupled with higher promotions to boost the category growth. At the Operating front, we expect a CAGR growth of 15.3% in EBITDA supported by better product mix, improved productivity, judicious price hikes and scale-up in HUL's Water business. However, input cost inflation and rising ad-spends (expected to sustain due to product launches and higher competition) are expected to keep Margins under pressure.

We believe HUL's accelerated sales growth momentum, revival in its Personal Products portfolio (likely to be tested post 3QCY2008 as low base effect tapers off) and scale up of new businesses would help it sustain premium valuations. While inflationary pressures remain a key cause of concern, we believe HUL is well placed to combat such pressures owing to its cost saving initiatives, wide product portfolio mix and ability to undertake price hikes owing to strong brands. At the CMP of Rs238, the stock is trading at 22.1x CY2009E EPS of Rs10.8. We maintain Accumulate rating on the stock, with a revised Target Price of Rs258 (Rs247).

Expanding the Product Portfolio

HUL's pioneering efforts to develop techniques to bring branded products to India's rural poor gradually had an impact on their entire portfolio of brands. Still, HUL also looked to exploit other growth opportunities. In the early stage, their foods category was a minor portion of their overall product portfolio, consisting of only cooking fats and oils. Based on the advice of Unilever, which had experience in a variety of global foods markets, HUL believed they could expand their presence in foods dramatically. The logic was threefold:

- The market was tremendous—food accounts for 50% of all economic consumption in India.
- HUL's existing system for selling and distributing throughout rural India could be used to improve the economics for most food products.
- HUL had proven it possible to create nationwide, mass-market brands despite India's overwhelming ethnic and cultural diversity.

In the later stage, through an acquisition, they expanded into processed fruit and vegetable products, such as ketchups, jams, and cold beverages. In addition, a research team of four was assigned to investigate a wide variety of additional growth options in the foods category. The team learned that 80% of the food purchased off the shelf in India is raw and unprocessed—basic food grains and other staples were the largest food category, and most of it was produced and sold locally. Because this was such a large market, the team investigated markets for several staple foods, including wheat, rice, beans, salt, spices, and others. Each had a different set of supply chain, production, and consumer decision-making process issues associated with it. Because salt was a raw material input for many of HUL's other products, there was a great deal of in-house knowledge about the salt market. As a result, research was quick, and salt was chosen almost immediately as one area for expansion. After about one year's additional effort, the team also identified wheat flour as a second attractive market.

Of many criteria, one of the most important was the extent to which consumers would value a brand promise of quality and consistency. Rice was eliminated as an option, for example, because consumers felt confident that they could judge the quality of rice based simply on a physical and visual inspection. By contrast, a brand promise was viewed as critical for wheat, because consumers would spend a great deal of labor preparing bread, knowing that they would not be able to judge the quality of wheat until the cooking was complete. Branding was also viewed as valuable for salt, since consumers could not add iodine, an important health additive, on their own.

Production and Distribution Strategy

Production capacity for salt was well above demand in India. To avoid adding further capacity, and also because HUL felt its strongest competencies were in R&D and marketing, HUL immediately sought manufacturing partners. The primary screening criteria were the quality of the manufacturing processes and the integrity of the business managers. Once partnerships were in place, HUL took a very active role in managing production, transferring their technology, and upgrading quality and cleanliness standards at each plant. Over time, they were able to improve utilization rates for their manufacturers, and that reduced costs.

HUL also wanted to minimize financial risk. By partnering for manufacturing capacity and sharing distribution assets with other HUL products, the investment in fixed assets for the new product was near zero.

Despite the approach to production and distribution, cost competitiveness remained an issue for HUL because the competition in each market was local. HUL faced high transportation costs, especially in the northern and eastern regions of the country, which were furthest from the most cost efficient locations for salt production. Local, unbranded producers faced much lower transportation costs, and no refining

or packaging costs. Because of this, Kissan Annapurna salts were priced at 6 Rupees (about US$ 0.03) per kilo, twice the cost of a typical unbranded salt.

While initial response in urban markets showed that it was possible to upgrade consumers to branded salts, cost reduction remained a priority. HUL found ways to reduce costs by taking a different approach to distribution management than was practiced for other HUL products. Because shelf life, price to weight ratio, and tax status were all different for salt than for other HUL products, it made less sense than was expected to simply “ride” the distribution system for other HUL products. Ultimately, salt distribution relied more heavily on rail transport than other HUL products, had fewer middlemen involved, and sometimes ended with wholesalers rather than retailers.

Marketing Strategy

Fragmentation in Indian media offered HUL the opportunity to test the product incrementally. In the first few cities in which they launched the product, HUL was gratified to discover that they were successfully upgrading consumers from unbranded to branded salts.

However, as the rollout continued, they became concerned that they really hadn’t sufficiently differentiated themselves from other branded salts with the purity positioning, and therefore were worried that they wouldn’t necessarily retain the new customers they were acquiring. As a result, HUL began exploring ways to position their product more strongly. They shifted their emphasis from purity, a product attribute, to health, a consumer benefit. Essentially, they positioned their product as healthy because there was nothing bad (no impurities) in it. Later, HUL investigated the possibility of including messages about iodine in their communications. Although all branded salts were iodized, nobody in India had really tried to take advantage of iodization from a marketing perspective. Iodine is a critical chemical element for regulating bodily functions, particularly in the thyroid. Deficiencies in iodine result

in goiter, an unsightly growth on the neck. More significantly, iodine deficiencies can result in abnormal mental development and inadequate physical growth in children.

Governments had taken different approaches to this public health issue. In some countries, most all salt was iodized. In others that were less susceptible to iodine deficiency and more averse to chemical food additives, it was not. Iodine deficiency disorders had been prevalent in several developing countries, including India, and a few non-profit, non-governmental organizations had become involved in persuading governments to take a more active role in ensuring the population received sufficient iodine.

Salt was viewed as an ideal delivery mechanism for iodine because everyone used it. Water was less ideal because it came from too many isolated sources. After researching the health issues associated with iodine, HUL began a campaign to educate the public on the importance of consuming sufficient iodine. Because HUL concluded that marketing messages that related to goiter, particularly visual messages, would be unattractive, they decided to focus on mental development.

To make their case, HUL sought endorsements from trusted government agencies. Ultimately they had to pay the government for an endorsement. The government, in turn, used the funds to support research programs. As a direct result of the endorsement, focus group responses to HUL's messages dramatically improved. HUL then aggressively implemented their communications plan, heavily emphasizing the health-related aspects of iodine.

Following the techniques that HUL had pioneered with soaps and detergents, "demonstration vans" traveled through rural India putting on shows. For many rural residents, these shows might include a first opportunity in a lifetime to view a moving picture, so excitement in a town would build prior to arrival. School assemblies were addressed, and salt samples and coupons were left with students. Health charts were posted on school walls. This was expensive but generated tremendous word-of-mouth. In search of a new source of competitive advantage, HUL researchers discovered a problem. Indians

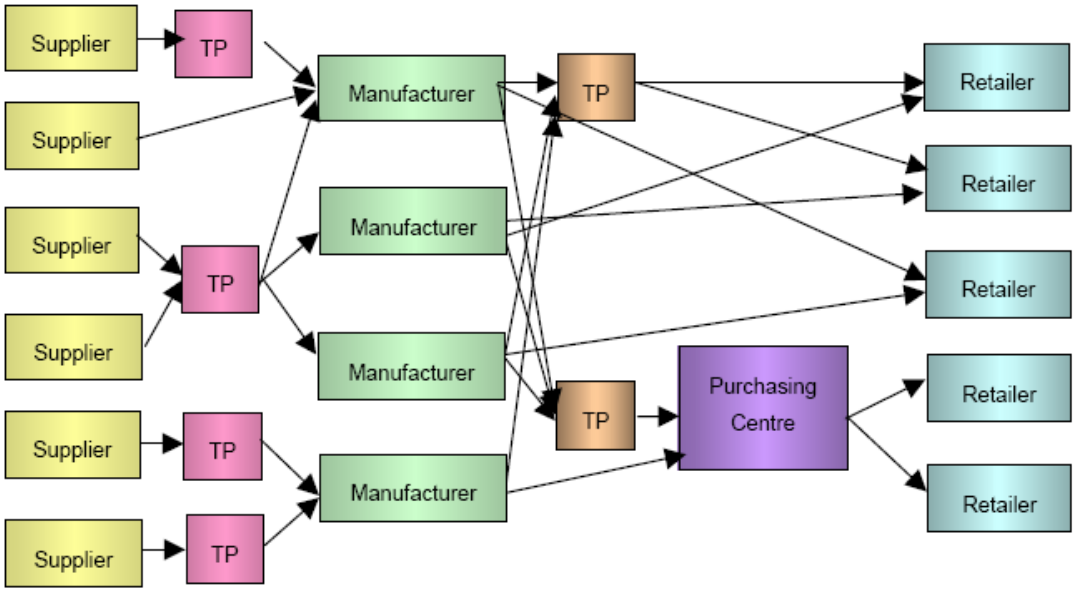
tended to add most salt to their food before it was cooked, as opposed to sprinkling it on top of food. And, Indian spices and cooking techniques created conditions that broke down salt and released iodine as a gas. Much of the iodine within salt was simply boiling away.

MATERIAL MANAGEMENT IN HUL

This analysis of the company data suggests that this is a company with different levels of SCM implementation. There are some companies that are still not internally integrated; others that are only internally integrated and, some that being internally integrated have extended this integration to other supply chain members.

Among manufacturers, one (out of nine manufacturers interviewed) was neither internally or externally integrated, another one was internally integrated, six were showing signs of internal and external integration, and one (manufacturer G), although not being internally integrated, had some signs of external integration (it was participating in an ECR initiative with one retailer). Regarding retailers, three (out of six retailers interviewed) were not integrated while the rest were internally and externally integrated.

A performance measurement system using Balanced Scorecard in HUL allows the firm to align its strategic activities to the strategic plan. Under the balanced scorecard system, financial measures are the outcome, but do not give a good indication of what is or will be going on in the organization. Measures of customer satisfaction, growth and retention are the current indicator of company performance, and internal operations (efficiency, speed, reducing non-value added work, minimizing quality problems) and human resource systems and development are leading indicators of the company performance



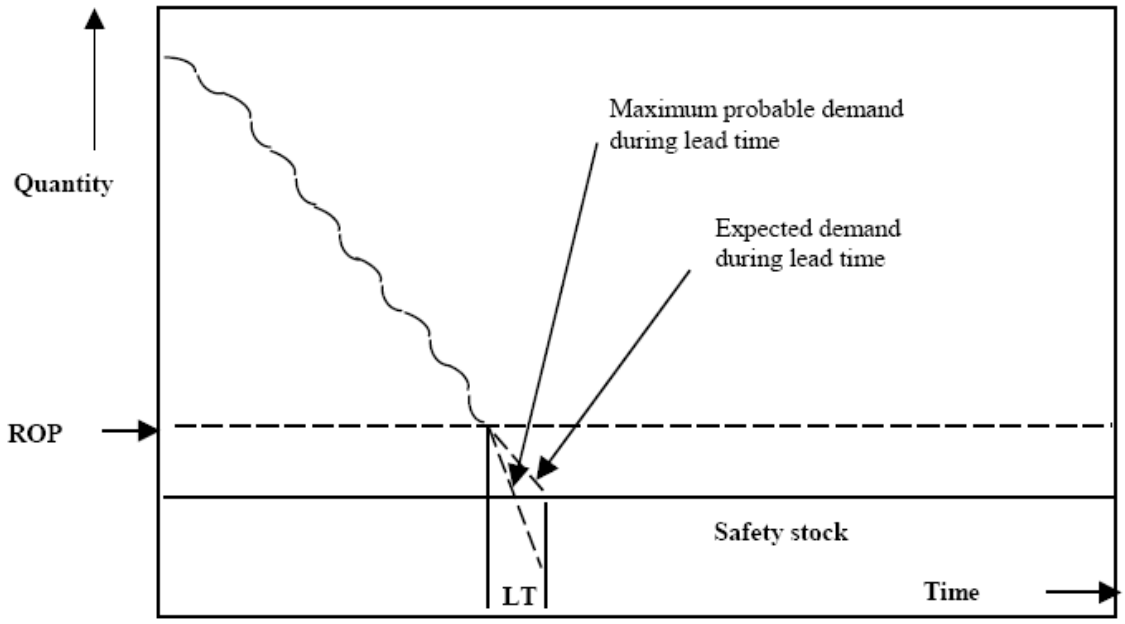
Inventory Turnover Ratio

The inventory turnover ratio in HUL indicates how many times the inventory is 'turned over' in one year. In other words, it shows how quickly inventory can be sold. Inventory turn over ratio shows how many times in a year the inventory is sold. This shows the company with high turnover ratio is able to sell inventory more frequently. With this ratio we can easily compare the companies on inventory utilization. Major disadvantage of this ratio is that we cannot compare two firms from different industries. There is huge variation in the inventory holdings of different industries and organizations. For example in one industry inventory is held for longer time for operation while in other it is requiring only short duration.

Safety Stock

Stock that is held in excess of expected demand in HUL is due to variable demand rate and/or lead time is known as safety stock. Safety stock reduces risk of stockout during the lead time. As shown in the

figure given below, the order is placed when stock depletes to reorder point (ROP). During the lead-time (LT) if there are demand fluctuations, these are covered by safety stock.



Appraisals of materials management activities in HUL should concentrate on the effectiveness of programs and procedures for managing materials. Specific activities should include, but not be limited to, the following evaluations:

i) Material quantities with respect to minimum inventory levels required to meet program objectives.

   a) Programs, procedures, and practices for managing materials.

   b) Forecasts related such as accuracy, thoroughness, completeness, usefulness, and compatibility with program plans and budgets.

   c) Use of materials in the quantities and for the system.

   d) Procedures for identifying, reporting, and managing inactive materials and scrap.

   e) Adequacy of information provided by contractors responsible for developing materials management plans.

f) Adequacy of materials management procedures in contracts and subcontracts issued by the contractor.

Manufacturers, in general, seem to have a higher level of SCM development than retailers. But care has to be taken about generalisation. A survey should be conducted to confirm this statement. The differences between the numbers of manufacturers and retailers that have adopted SCM may be due to the fact that retailers are the dominant party in the relationship. And, consequently, only few have seen the importance of having a more partnership style approach to relationships with their suppliers (i.e. the manufacturers). Manufacturers, on the other hand, as the dominated party, may have been more open to establish a more partnership style of approach to relationships with their customers (i.e. the retailers). The differences found may be also due to the fact that all manufacturers in the sample were leaders in their respective product categories, while retailers were all from the same sector. In this sense, if we had interviewed manufacturers from the same product category, we would probably have found more differences (in terms of SCM development) among them.

Another interesting finding is that the biggest retailers are internally and externally integrated, while the smallest ones are not integrated. This could suggest that there is a relationship between the stage of integration and company size. If we look at the manufacturers' results, we can appreciate that most of them are internally and externally integrated. If we had interviewed manufacturers from the same product category we would probably have found that the smallest ones have a lower level of integration. This size-integration relationship should be analysed through a survey.

Regarding the benefits to HUL that SCM can bring to a firm, the general objectives of cost and stock reductions and service improvements were stated by most of the companies. But there were some minor discrepancies between retailers' and manufacturers' responses: First, with respect to the reductions in stock levels, most of the manufacturers believe that higher supply chain collaboration will

lead to a reduction in inventory. However, in practice, this result has not been achieved by most of the manufacturers that have implemented ECR. This is due to a lack of critical mass. In order to benefit from stock reductions, manufacturers need to have at least 30% of their sales under a collaboration program. On the other hand, retailers do not need any critical mass to benefit from stock reductions: All retailers that have implemented an ECR initiative have benefited from stock reductions.

Retailers that have implemented an ECR practice have benefited from reductions in the order process costs, while manufactures have benefited from reductions in the transport costs. Third, most of the retailers working under an ECR program stated that another benefit they obtained was “simplification of operations and higher productivity at the stores (such as no need to have a warehouse at each store). And, fourth, some manufacturers added as benefits related to SCM the following improvements: better lead times and better production planning. However, with respect to this latter aspect (better production planning), it has to be pointed out that manufacturers stated that they had not achieved this expected result because of a lack of critical mass: in order to achieve a better production planning they need to work on ECR with more customers.

There were generally benefits for both parties (manufacturers and retailers) but a common pack of savings that was then divided between both parties did not exist. In the case studies, there is not enough information to determine the reasons for this lack of a real “sharing of benefits”.

With respect to the external barriers (barriers related to a supply chain relationship), it has to be pointed out that only one retailer mentioned lack of trust of the other party as a main barrier, while three manufacturers pointed out this obstacle. Other external barriers, mentioned only by manufacturers, are: “retailers have a lack of culture of sharing information”; “we are afraid of the benefits going only to the retailer”; and “retailers have established some conditions, such as delivery of small batches, which difficult the implementation of SCM”.

Chapter-3

OBJECTIVES AND SCOPE OF THE STUDY

- To study the role, importance and functions of material management in FMCG sector in India, particularly HUL
- To know why material management has become so important today in the field of FMCG sector taking the case study of HUL

Scope of the Study

The scope of my study is limited to all the relevant aspects of material management in respect of Hindustan Unilever Limited. This study has specifically targeted Hindustan Unilever Limited and focused on the utility and importance of material management in this company of FMCG sector.

Chapter-4

RESEARCH METHODOLOGY

A Research Methodology defines the purpose of the research, how it proceeds, how to measure progress and what constitute success with respect to the objectives determined for carrying out the research study.

The appropriate research design formulated is detailed below.

Exploratory research: this kind of research has the primary objective of development of insights into the problem. It studies the main area where the problem lies and also tries to evaluate some appropriate courses of action. The research methodology for the present study has been adopted to reflect these realties and help reach the logical conclusion in an objective and scientific manner. The present study contemplated an exploratory research.

DATA COLLECTION

Sources of data:

1)Primary Data which has been included as the input have been received from directly the officials and employees through questionnaire and interview

Sample size: 50

Sample area: New Delhi

Sample unit: Officials of HUL, particularly those in the inventory department have been targeted

2) Secondary data from the Books, Journals and Internet etc.

Method of collecting data: Questionnaire schedule) & Interview method

STATISTICAL TOOL USED

The data have been shown with the help of matrix table and bar diagrams.

Chapter-5

FINDINGS

1. **Are you aware about the Material Management System?**

(i). Yes

(ii). No

(iii). Do not know/ Can not say

Yes	75 %
No	17 %
Do not know/ Can not say	08 %

2. **Do you know that your company has a material management system?**

(i) Yes

(ii) No

(iii) Do not know/ Can not say

Yes	72 %
No	20 %
Do not know/ Can not say	08 %

3. **For what reasons do you feel that there should be a material management system?**

(i) To smoothen operational requirement

(ii) To save time

(iii) To maintain accountability and transparency

(iv) Other reasons

(v) Do not know/ Can not say

To smoothen operational requirement	43%
To save time	22%
To maintain accountability and transparency	14%
Other reasons	15%
Do not know/ Can not say	06%

4. Do you agree that the material management system in your company has fulfilled the needs for which it was evolved?

(i) Strongly Agree

(ii) Agree

(iii) Disagree

(iv) Strongly Disagree

(v) Do not know/ Can not say

Strongly Agree	20 %
Agree	47 %
Disagree	15 %
Strongly Disagree	07 %
Do not know/ Can not say	11 %

5. What according to you is the major benefiit of going for an material management system by your company?

(i) It has made operational management possible

(ii) Improved production efficiency

(iii) Reduced Operational Cost

(iv) Other Benifits

(v) Do not know/ Can not say

It has made operational management possible	37 %
Improved production efficiency	26 %
Reduced Operational Cost	18 %
Other Benifits	10 %
Do not know/ Can not say	09 %

6. Do you have skiled professionals in your company for material management?

(i) Yes

(ii) No

(iii) Do not know/ Can not say

Yes	48 %
No	30 %
Do not know/ Can not say	22 %

7. What category of professionls is managing your company material management system?

(i) Skilled and trained

(ii) Only skilled but not trained

(iii) Non skilled but trained professionals

(iv) Non skilled and non trained professionals

(v) Others

Skilled and trained	32 %
Only skilled but not trained	16 %
Non skilled but trained professionals	20 %
Non skilled and non trained professionals	25 %
Others	07 %

8. Do you agree that your company gives more emphasis on software than skilled manpower with regard to material management?

(i) Strongly Agree

(ii) Agree

(iii) Disagree

(iv) Strongly Disagree

(v) Do not know/ Can not say

Strongly Agree	18 %
Agree	52 %
Disagree	15 %
Strongly Disagree	07 %
Do not know/ Can not say	08 %

9. Do you think that the software used by your company is according to the design and needs of the system?

(i) Yes

(ii) No

(iii) Do not know/ Can not say

Yes	86 %
No	10 %
Do not know/ Can not say	04 %

10. What is the prime challenge before yor company with rehard to material management?

(i) Lack of trained professionls

(ii) Maintenance cost

(iii) Changing requirements of customers

(iv) Other problems

(v) Do not know/ Can not say

Lack of trained professionls	42 %
Maintenance cost	21 %
Changing requirements of customers	27 %
Other problems	06 %
Do not know/ Can not say	04 %

11. What is the future of material management system in your company?

(i) Will continue as a successful mechanism

(ii) May change accoeding to time

(iii) Shall collapse

(iv) Do not know/ Can not say

Will continue as a successful mechanism	43%
May change accoeding to time	33 %
Shall collapse	12 %
Do not know/ Can not say	12 %

Chapter-5

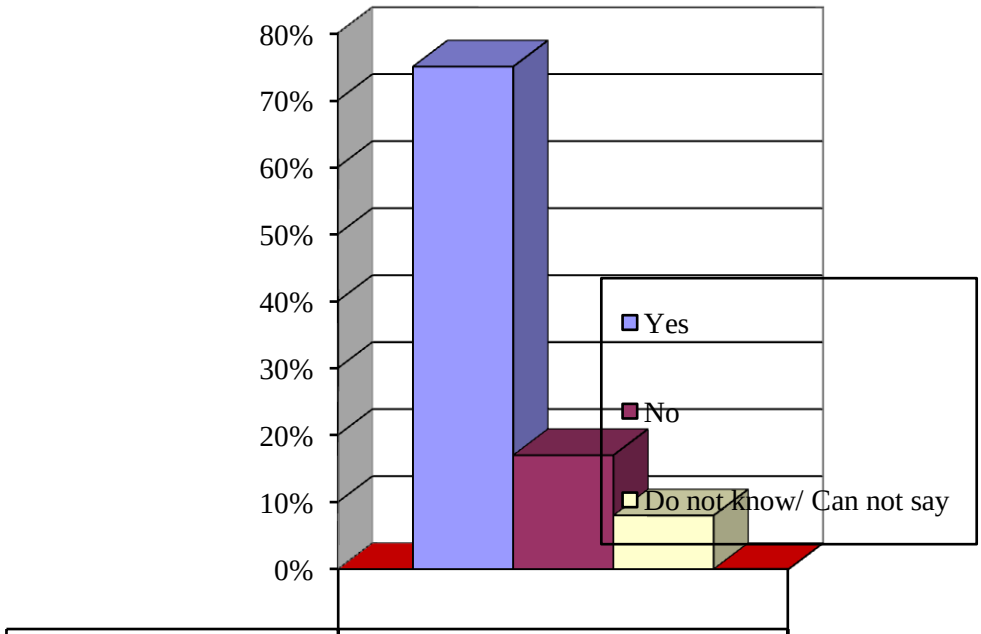
DATA ANALYSIS

1. Are you aware about the Material Management System?

(i) Yes ---------- 75 per cent

(ii) No ---------- 17 per cent

(iii) Do not know/ Can not say ---------- 08 per cent



Yes	75%
No	17%
Do not know/ Can not say	8%

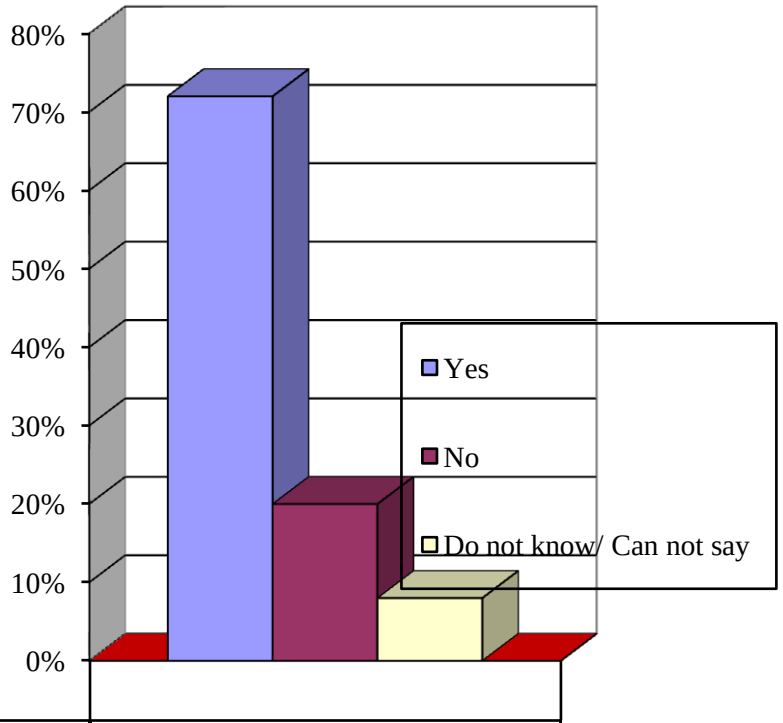
Interpretation: The awareness level among the company officials regarding the existence, functioning and applicability of material management system is high that is 75 per cent, as per the result of the study.

2. Do you know that your company has a material management system?

(i) Yes ---------- 72 per cent

(ii) No ---------- 20 per cent

(iii) Do not know/ Can not say ---------- 08 per cent



Yes	72%
No	20%
Do not know/ Can not say	8%

Interpretation: The company officials are aware about their company having a material management system. 72 per cent of the respondents do have this awareness as against 20 per cent+08 per cent of the respondents who are either not aware or not able to provide any infrmation in this regard.

3. For what reasons do you feel that there should be a material management system?

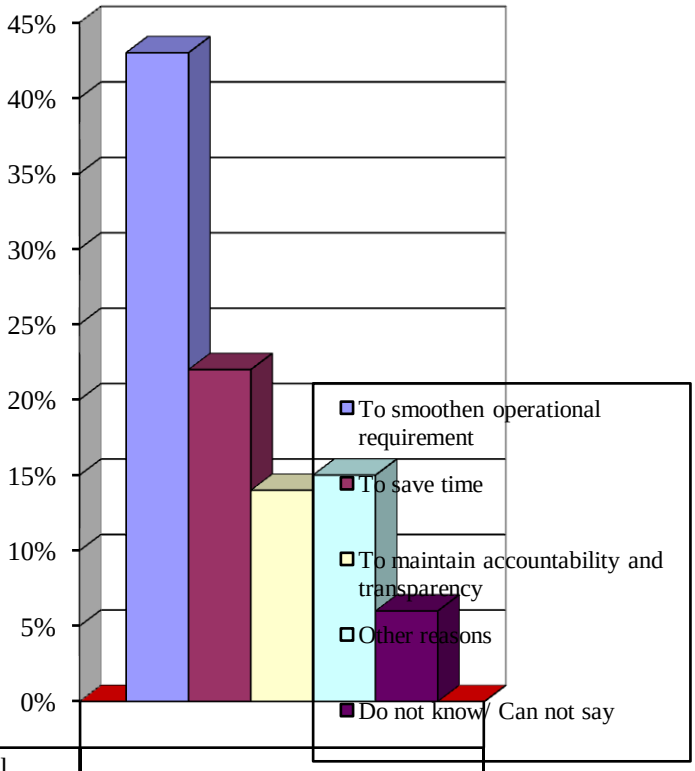
(i) To smoothen operational requirement ---------- 43 per cent

(ii) To save time ---------- 22 per cent

(iii) To maintain accountability and transparency ----------14 per cent

(iv) Other reasons ---------- 15 per cent

(v) Do not know/ Can not say ---------- 06 per cent



To smoothen operational requirement	43%
To save time	22%
To maintain accountability and transparency	14%
Other reasons	15%
Do not know/ Can not say	6%

Interpretation: 43 per cent of the respondents feel that it is an operational requirement and for operational smoothness purpose that material management needs to done and hence the need for an material management system. This is followed by the need for saving time and accountability and transparency factors.

4. Do you agree that the material management system in your company has fulfilled the needs for which it was evolved?

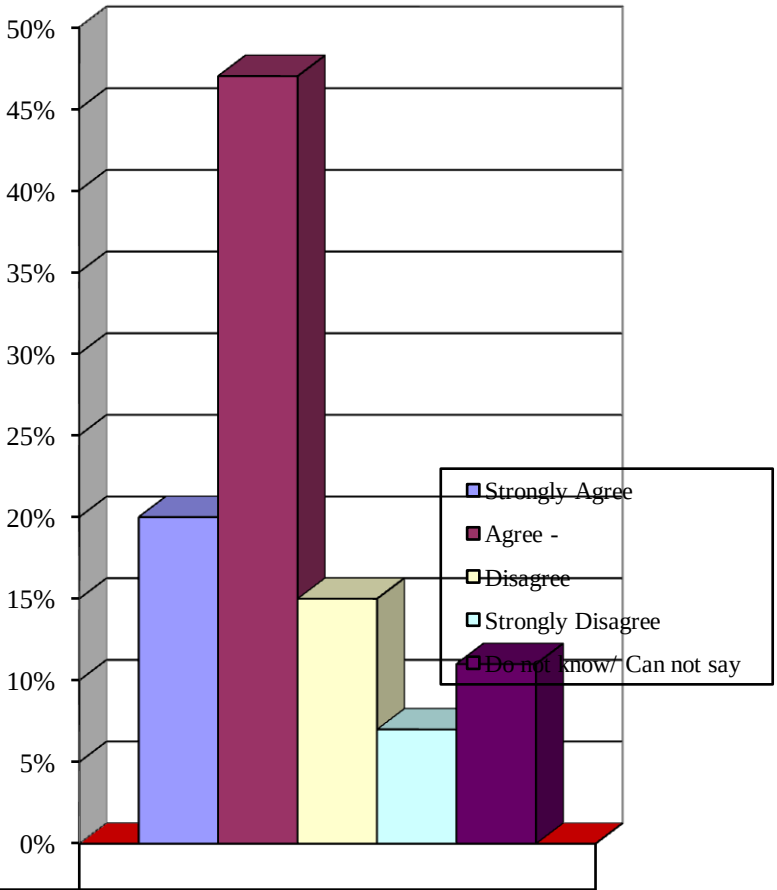
(i) Strongly Agree ---------- 20 per cent

(ii) Agree ---------- 47 per cent

(iii) Disagree ---------- 15 per cent

(iv) Strongly Disagree ---------- 07 per cent

(v) Do not know/ Can not say ----------11 per cent



Strongly Agree	20%
Agree -	47%
Disagree	15%
Strongly Disagree	7%
Do not know/ Can not say	11%

Interpretation: From the above response, it appears that the material management system has more or less achieved its objectives for which it was in place. This is evident from the 67 per cent of the respondents' opinion who have either agreed or strongly agreed in favour of this proposition. However the response of 22 per cent of the respondents who think otherwise also speaks something.

5. What according to you is the major benefiit of going for an material management system by your company?

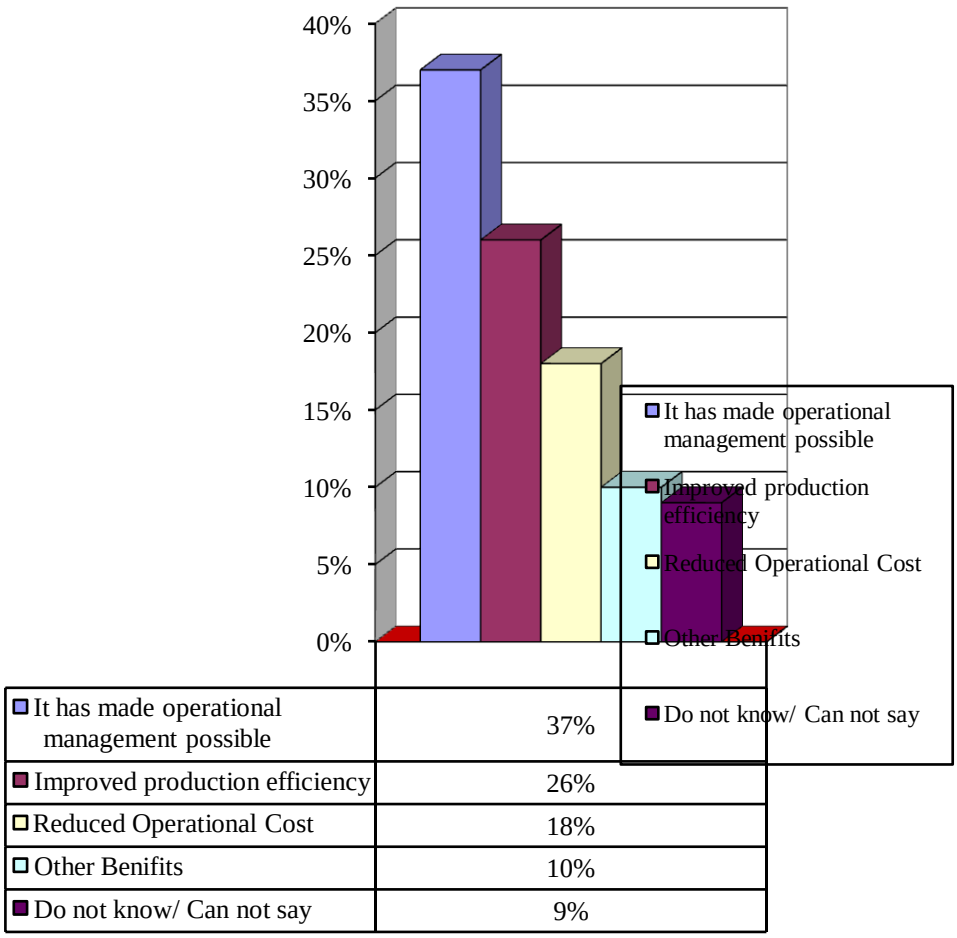
(i) It has made operational management possible --------- 37 per cent

(ii) Improved production efficiency ----------26 per cent

(iii) Reduced Operational Cost ---------- 18 per cent

(iv) Other Benifits ---------- 10 per cent

(v) Do not know/ Can not say ---------- 09 per cent



It has made operational management possible	37%
Improved production efficiency	26%
Reduced Operational Cost	18%
Other Benifits	10%
Do not know/ Can not say	9%

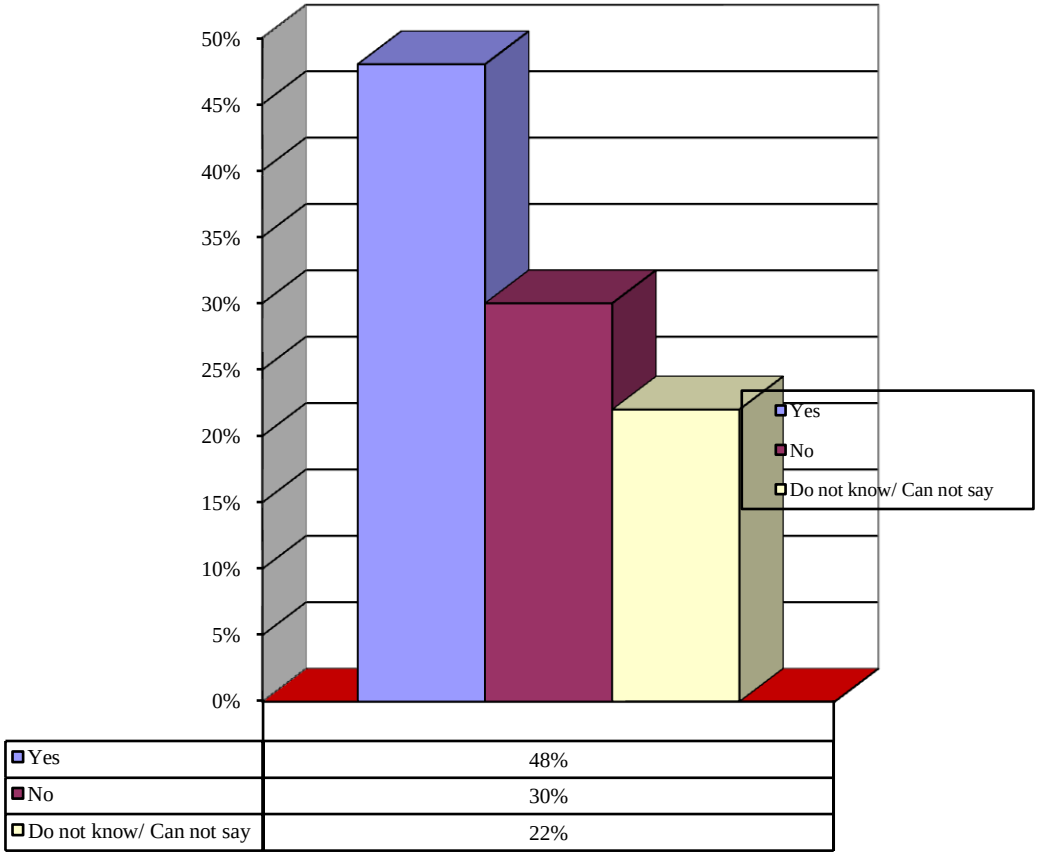
Interpretation: As regards the benifits of having a material management system by the company, the respondents are of the opinion that the major benifit lies operational requirement of the system which needs to fulfilled for the basic purpose of production. This is followed by increasing production efficiency and reduction in operational cost. However, all these benifits are interlinked and the separion between them is more analytical than anythingelse.

6. Do you have skiled professionals in your company for material management?

(i) Yes ---------- 48 per cent

(ii) No ---------- 30 per cent

(iii) Do not know/ Can not say ---------- 22 per cent



Interpretation: Recruitment of skilled professionls well vesed with latest material management technology, particulary in FMCG Sector is a concern for the company as it appers that it lacks in this domain.

7. What category of professionls are managing your company material management system?

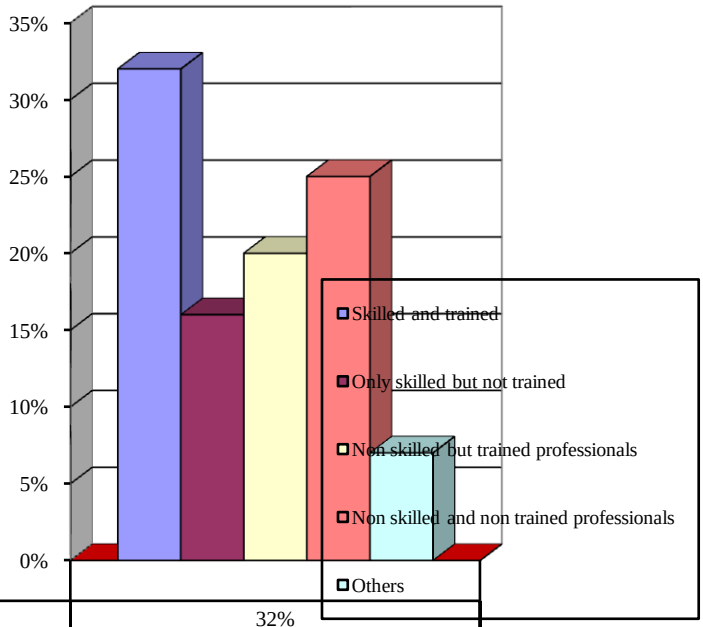
(i) Skilled and trained ---------- 32 per cent

(ii) Only skilled but not trained ---------- 16 per cent

(iii) Non skilled but trained professionals ---------- 20 per cent

(iv) Non skilled and non trained professionals -------- 25 per cent

(v) Others ---------- 07 per cent



Skilled and trained	32%
Only skilled but not trained	16%
Non skilled but trained professionals	20%
Non skilled and non trained professionals	25%
Others	7%

Interpretation: As already stated above in the earlier question, availability of trained and skilled professionals for inventory management needs serious attention of the company.

8. Do you agree that your company gives more emphasis on software than skilled manpower with regard to material management?

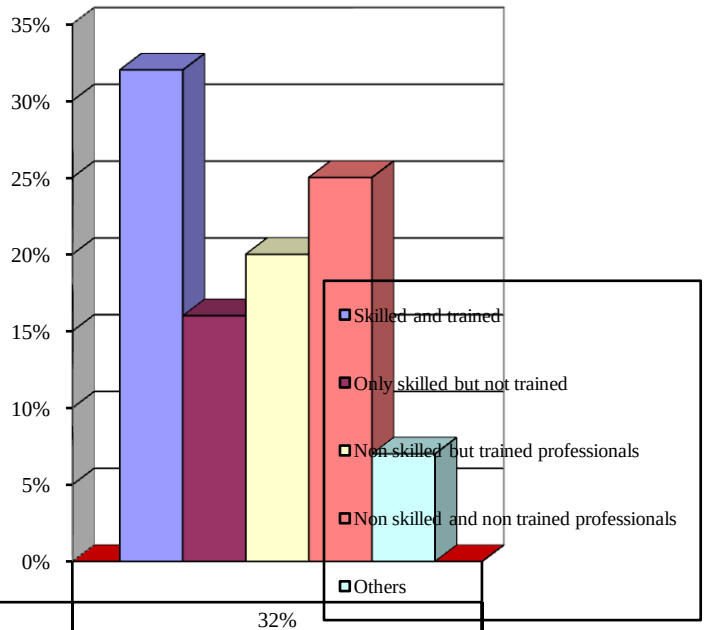
(i) Strongly Agree ---------- 18 per cent

(ii) Agree ---------- 52 per cent

(iii) Disagree ---------- 15 per cent

(iv) Strongly Disagree ---------- 07 per cent

(v) Do not know/ Can not say ---------- 08 per cent



Skilled and trained	32%
Only skilled but not trained	16%
Non skilled but trained professionals	20%
Non skilled and non trained professionals	25%
Others	7%

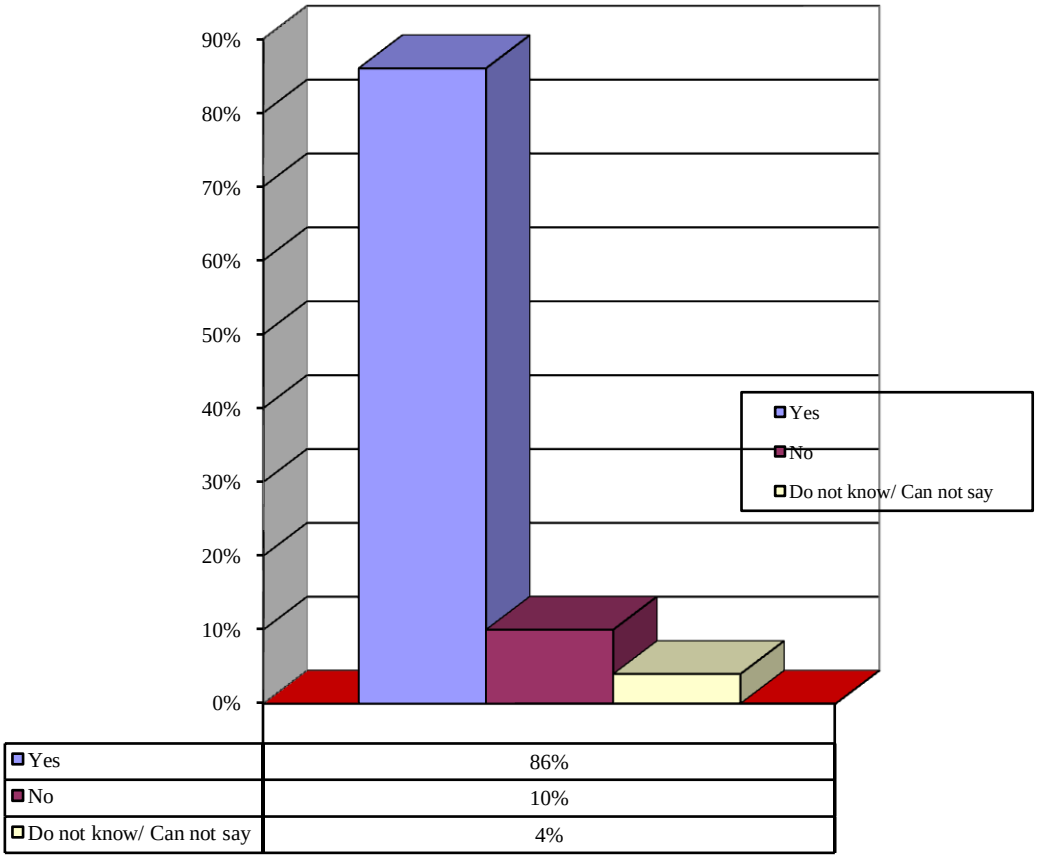
Interpretation: The above response gives an impression that the company puts greater emphasis on software than skilled manpower for maging the details of material procuring and processing.

9. Do you think that the software used by your company is according to the design and needs of the system?

(i) Yes ---------- 86 per cent

(ii) No ---------- 10 per cent

(iii) Do not know/ Can not say ---------- 04 per cent



Yes	86%
No	10%
Do not know/ Can not say	4%

Interpretation: The company appears to be using the software according to the system requirement and design and according to the customers' needs.

10. What is the prime challenge before yor company with regard to material management?

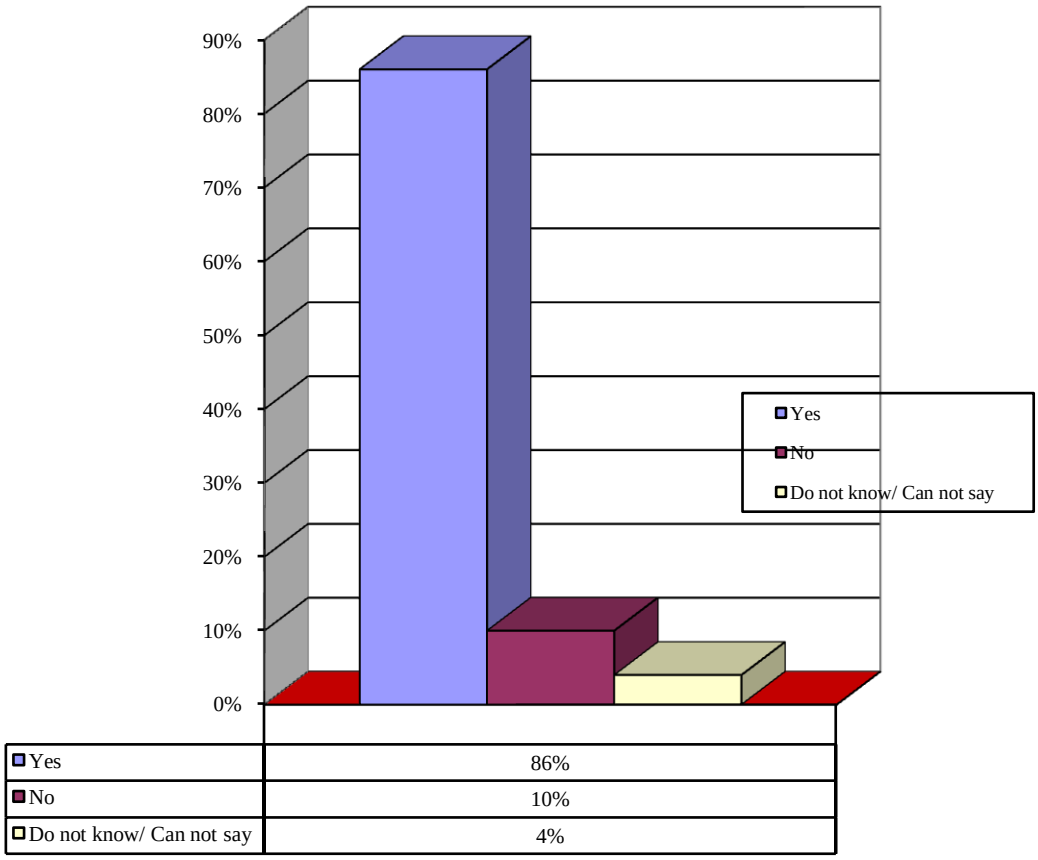
(i) Lack of trained professionls ---------- 42 per cent

(ii) Maintenance cost ---------- 21 per cent

(iii) Changing requirements of customers ---------- 27 per cent

(iv) Other problems ---------- 06 per cent

(v) Do not know/ Can not say ---------- 04 per cent



Yes	86%
No	10%
Do not know/ Can not say	4%

Interpretation: Lack of availability of trained professionls coupled with maintenance cost and changing needs of the customers are perceived to be the management challenges before the company.

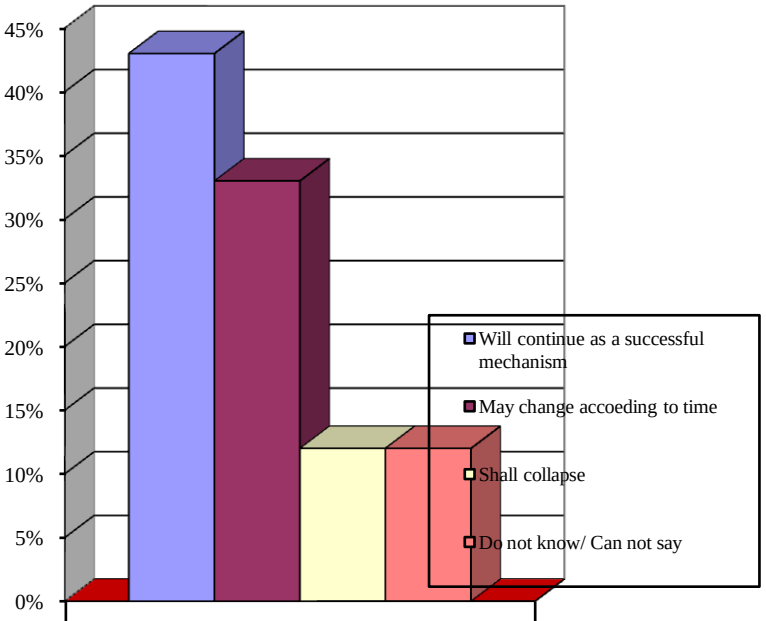
11. What is the future of material management system in your company?

(i) Will continue as a successful mechanism ---------- 43 per cent

(ii) May change accoeding to time ---------- 33 per cent

(iii) Shall collapse ---------- 12 per cent

(iv) Do not know/ Can not say ---------- 12 per cent



Will continue as a successful mechanism	43%
May change accoeding to time	33%
Shall collapse	12%
Do not know/ Can not say	12%

Interpretation: The future of material management system at HUL appear to pretty good, going by the response of our study.

Chapter-7

RECOMMENDATION

Key attribute components:

1. Value for money and Customer Care
2. Operational attributes.
3. Physical attributes.
4. Brand Image.
5. Customer Specific Details.

In any correspondence with the customers the message should be sent in these components only to have the maximum benefit from the advertisement. Also these components should be dealt with independently. The advertisements should speak only of the believable concepts rather than glorifying the pretentious ones. The basic need of the customer need to be addressed which is actually not much expensive and better quality.

HLL sales growth in june 2007 was decreased due to the problem with promotion and pricing. Although being the most competitive product on the basis of the Market Operating Price (MOP), the shampoos are still not selling much. This is perhaps due to the bargaining stress on the customer and the weak push given by the dealer to the particular item, when actually it should be sold like a high volume product.

Another serious suggestion is that HLL must give good attention to their all the products rice and all are not getting much attention. The dealers don't provide much support to the customers in making them

understand the real Quality behind them. Either, the technical details should be presented in a clearer manner or the dealers need to be educated properly.

Chapter-8

CONCLUSION

The Fast Moving Consumer Goods (FMCG) sector is a corner stone of the Indian economy. This sector touches every aspect of human life. The FMCG producers now realize that there is a lot of opportunity for them to enter into the rural market. The sector is excited about the rural population whose incomes are rising and the lifestyles are changing. There are as many middle income households in the rural areas as there are in the urban. Thus the rural marketing has been growing steadily over the years and is now bigger than the urban market for FMCGs. Globally, the FMCG sector has been successful in selling products to the lower and middle income groups and the same is true in India. Over 70% of sales is made to middle class households today and over 50% of the middle class is in rural India. The sector is excited about a burgeoning rural population whose incomes are rising and which is willing to spend on goods designed to improve lifestyle. Also with a near saturation and cut throat competition in urban India, many producers of FMCGs are driven to chalk out bold new strategies for targeting the rural consumers in a big way. But the rural penetration rates are low. This presents a tremendous opportunity for makers of branded products who can convert consumers to buy branded products. Many companies including MNCs and regional players started developing marketing strategies to lure the untapped market. While developing the strategies, the marketers need to treat the rural consumer differently from their counterparts in urban because they are economically, socially and psycho-graphically different to each other.

Materials Management is an organizational concept whose primary objective is to integrate and manage the sourcing, flow, and control of materials using a total systems perspective across multiple function reports to a different executive, which can result in each function or activity pursuing conflicting

organizational goals and objectives. A Materials Management structure traditionally separate materials functions to report to an executive responsible for coordinating the entire inbound materials process, and also requires joint relationships with suppliers across multiple tiers. The Materials management executive can design and manage a system that meets a firm's performance objectives at the lowest total cost.

Providing some organizational structure to logistics activities in the FMCG Sector also defines the necessary lines of authority and responsibility to ensure that goods are moved accordingly to plan and that preplanning is carried out when needed. If the balance between customer service and the costs to produce the service are critical to the operation of a particular firm, someone should be placed in charge of overseeing product movement. In effect, someone has to manage logistics. Whereas such areas as order processing, traffic, and warehousing may be individually supervised for good control, a manager is often required to coordinate their combined operations. Only a manager in the FMCG Sector has the scope to balance these operations to achieve the highest level of efficiency.

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ANNEXURE

1. **Are you aware about the Material Management System?**

   (i) Yes ---------- 75 per cent

   (ii) No ---------- 17 per cent

   (iii) Do not know/ Can not say ---------- 08 per cent

2. **Do you know that your company has a material management system?**

   (i) Yes ---------- 72 per cent

   (ii) No ---------- 20 per cent

   (iii) Do not know/ Can not say ---------- 08 per cent

3. **For what reasons do you feel that there should be a material management system?**

   (i) To smoothen operational requirement ---------- 43 per cent

   (ii) To save time ---------- 22 per cent

   (iii) To maintain accountability and transparency ----------14 per cent

   (iv) Other reasons ---------- 15 per cent

   (v) Do not know/ Can not say ---------- 06 per cent

4. **Do you agree that the material management system in your company has fulfilled the needs for which it was evolved?**

   (i) Strongly Agree ---------- 20 per cent

   (ii) Agree ---------- 47 per cent

   (iii) Disagree ---------- 15 per cent

   (iv) Strongly Disagree ---------- 07 per cent

(v) Do not know/ Can not say ----------11 per cent

5. What according to you is the major benefiit of going for an material management system by your company?

(i) It has made operational management possible --------- 37 per cent

(ii) Improved production efficiency ----------26 per cent

(iii) Reduced Operational Cost ---------- 18 per cent

(iv) Other Benifits ---------- 10 per cent

(v) Do not know/ Can not say ---------- 09 per cent

6. Do you have skiled professionals in your company for material management?

(i) Yes ---------- 48 per cent

(ii) No ---------- 30 per cent

(iii) Do not know/ Can not say ---------- 22 per cent

7. What category of professionls are managing your company material management system?

(i) Skilled and trained ---------- 32 per cent

(ii) Only skilled but not trained ---------- 16 per cent

(iii) Non skilled but trained professionals ---------- 20 per cent

(iv) Non skilled and non trained professionals -------- 25 per cent

(v) Others ---------- 07 per cent

8. Do you agree that your company gives more emphasis on software than skilled manpower with regard to material management?

(i) Strongly Agree ---------- 18 per cent

(ii) Agree ---------- 52 per cent

(iii) Disagree ---------- 15 per cent

(iv) Strongly Disagree ---------- 07 per cent

(v) Do not know/ Can not say ---------- 08 per cent

9. Do you think that the software used by your company is according to the design and needs of the system?

(i) Yes ---------- 86 per cent

(ii) No ---------- 10 per cent

(iii) Do not know/ Can not say ---------- 04 per cent

10. What is the prime challenge before yor company with rehard to materialmanagement?

(i) Lack of trained professionls ---------- 42 per cent

(ii) Maintenance cost ---------- 21 per cent

(iii) Changing requirements of customers ---------- 27 per cent

(iv) Other problems ---------- 06 per cent

(v) Do not know/ Can not say ---------- 04 per cent

11. What is the future of material management system in your company?

(i) Will continue as a successful mechanism ---------- 43 per cent

(ii) May change accoeding to time ---------- 33 per cent

(iii) Shall collapse ---------- 12 per cent

(iv) Do not know/ Can not say ----------12 per cent