

Determination of Sustainable Business Strategies during Recession: An Indian Perspective

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Abstract

In the pursuit of global growth to enhance profitability, and a continual creation of interoperable synchronization of ambitious business strategies with sustainable business strategies, it is essential for the organisations to distinctively synergize the business in the VUCA (Volatile, Uncertain, Complex and Ambiguous) world. The financial recession of 2007-08, which started in US but encompassed most of the economies gradually has fostered the idea of formulating sustainable strategies which would safeguard the interests of the organization even during the times of economic meltdown. Although the recession has shook almost all the organizations, yet a handful of organizations were able to withstand the financial stress and have performed extremely well to witness growth and increased business even during those times of the financial turmoil. These business houses had efficiently cultivated global interfaces of the recession and brought in impactful alignments by deployment of pandemic ideas to reap benefits from the stress situation. For these business houses, recession was an opportunity to increase market share, acquire cheap assets, improve profitability and scrutinize the operations. In this research paper, we analyze the strategies adopted by four Indian companies- JSW steel, GCPL, HDFC and Future Group from 2008 to 2011 that helped them in reap benefits during the on the basis of comparative case based methodology. Analysis has been done on the basis of merger and acquisition strategies, investment strategies, market capturing strategies and operational strategies adopted by these firms during the research period. Indovation and diversification of business has emerged as a new tool for survival during economic slowdown. Suggestions have been made to the corporate world about focusing on those sustainable business strategies that make their fundamentals strong and help them in surviving even in economic slowdown on the basis of the findings of the analysis.

Keywords – Sustainable Strategies, Economic Recession, Profitability, Indovation, Mergers & Acquisition

1. Introduction

In today's competitive scenario, the quest for sustainability has changed the perception of companies about the business models, technology and product portfolios. Sustainability has emerged as an integral goal of competencies development in business. Mapping the effectiveness of new capabilities in tackling the challenges at every stage of business life cycle gives a competitive advantage to companies in achieving sustainability. Achieving sustainability can be considered as three leg race for companies where two legs of companies try to focus on innovation, developing new products and processes whereas third leg of offering consumer benefits like superior quality and services at lower cost holds them back. In economic slowdown/recession time, it is very tough decision to decide in which direction the business should drive. Making business decisions in uncertain times is like a driving a car on unknown road where it is a difficult challenge to decide where we would go by taking the next turn. Right and wrong decisions under such uncertain times, leads to rise of remarkable leadership qualities. Leaders have to show the Promised Land to the investors after analyzing the two extreme scenarios of positive as well as negative sides

Financial crisis in the form of housing bubble burst in US in 2008 and it adversely affected the other major economies of world like Germany, France and India etc. Financial crisis leads to rise in food prices, soaring commodity and fuel prices, decrease in demand and investment, hitting consumer confidence negatively. Their impact transmitted in to major Indian economic sectors like Financial, Real Estate, Manufacturing and Services sector and p them towards bottom side. The major business houses suffered huge losses during the recession period. But there are some business houses that not only survived this tough time effectively but also reap

benefits from this scenario. These business houses adopted various strategies and their managers lead their organization from front and insulated their organization from hard hitting waves of recession. For those management leaders, Slowdown is an opportunity to increase market share, acquire cheap assets, improve profitability and scrutinize the operations. They gave more emphasis on research and innovation. Indovation has emerged as new tool for survival during economic slowdown. Indovation means innovation for Indian consumers.

2. Evidences from Literature

Sustainability means development of business model which synchronize with the present needs without compromising any future income generation and growth capabilities of company. Sustainability has raised the demand of business resilience. Business resilience is the ability of business to survive, adapt and grow in the face of turbulent times. (Konnola and Urrah, 2008) analyzed that for making a successful business, organisations must consider themselves as coevolving actors within the societal system to achieve radical innovation that further leads to enhance sustainability. (Anex and Focht, 2002) and (Beierle and Cayford, 2002) disclosed that Human and Social factors play a crucial role in making and implementing sustainable decisions and processes in business models. (Fiksel, 2003) analyzed that a sustainable business model can be designed with inherent resilience by taking advantage of fundamental properties such as diversity, efficiency, adaptability and cohesion. (Kasemir et al., (2003); (Cash et al. 2003) and (Backstrand, 2003) concluded in their research that a more structured approach that is capable of integrating analytical techniques and facilitating public discourse will produce better processes, result in better decisions and greater understanding and achieving sustainability. (Fiskel, 2006) concluded that in changing global business scenario, sustainability has become imperative at various stages of business. It is the need of hour to develop adaptive policies and strategies that enable business houses to cope with unexpected challenges, balancing their need to flourish and grow with long-term concerns about stakeholders and ecological wellbeing.

3. Research Methodology

We have based our analysis on the basis of a comparative case based methodology of four Indian companies: Godrej Consumer Products Limited (GCPL), JSW Steel (JSW), Housing Development Finance Corporation (HDFC) and Future group on the basis of the their strategies and their performance in the post-recession period.

The data about the strategies of these companies have been collected from their annual reports, Magazines like Business World. We base our study on the basis of Strategic innovation or indovation¹, corporate restructuring (merger and acquisition), Market capturing strategies and perception of the top level management of these four companies in the post-recession period from 2008 to 2011.

4. Study of the Selected Companies

4.1. Godrej Consumer Products Limited (GCPL)

Godrej Consumer Products Limited is the leading player in FMCG sector in India. Since last five years, it has been emerged as one of the most successful companies in emerging markets. Company's CAGR is around 26% per annum. GCPL is one of the largest marketer of home care, toilet soaps and also market leader in hair colour and house hold insecticides in India. With acquisition of various companies in West Africa and South Africa, GCPL has emerged as a strong global player in hair care market. Organic growth has more than doubled GCPL's topline through strategies like such as targeting three geographies (Asia, Africa and South America) in three product areas (hair care, house hold and personal wash products). Company has intense focus on innovation and market initiatives in many areas. With its continuous innovation, strong sales force and superior

¹ Indovation: innovation for Indian people

global supply chain, company has been remained successful in sustain its business. Company's international business contributes 44% of total consolidated revenue. GCPL adopted various strategies which galvanized the company during hard waves of recession. Some of those strategies are following –

4.1.1. *Strategies of Godrej Consumer Product Limited*

To quote Adi Godrej, Chairman of Godrej Consumer Product Limited "During economic downturn, one should not revise or shorten his goals just because time is tough and investor sentiments are not bullish. One should revise its strategies to achieve pre decided goals. Leader must understand the macro economic factors and change its approaches according to them. Leader must scrutinize its competitor's approaches, their strategies, impact of strategies of competitors on his business revenue, brand image and then play its cards. Leader should be flexible enough to change its approaches with change in market scenario. Leaders must be innovative so that he can rebuild and strengthen its brand by launching new product range. Cost cutting strategy can be adopted by mergers and acquisition of various departments and subsidiaries."

- i. ***Investment perception of Top level management*** – During slowdown GCPL adopted its different investment philosophy which enabled the company to get cutting edge over its competitors. GCPL did not revise the targets but design new approaches to achieve the targets. Even in slowdown, GCPL's management emphasize on innovation through heavy investments in research and developments and also focus on cost cutting through forward and backward integration of operations.
- ii. ***Corporate Restructuring*** - During the year 2008- 2011, GCPL adopt corporate restructuring route to enhance its market share and product portfolio.
 - a. On April 1, 2008, GCPL acquired 100% stake in Kinky group, South Africa. Through this acquisition, GCPL diversify its hair product portfolio.
 - b. GCPL acquired Tura, a personal care brands with product range like soaps, medicated bar soap, moisture lotion, skin toning creams etc. from the Tura Group, Nigeria. The acquisition provided a strong platform for GCPL to introducing its brand into Nigeria and other Western African countries.
 - c. GCPL acquired PT. Megasari Makmur Group and its distribution company in Indonesia. Megasari Group deals in a wide range of household products including household insecticides, wet tissues and air fresheners.
 - d. GCPL acquired 49% stake in Godrej Sara Lee Limited.
- iii. ***Indovation*** - GCPL focus on research and development for new products. Company invest heavily in research and development during slowdown. GCPL introduced various new products for Indian people to enhance its presence across all segments.
 - a) Company re - launched its flagship brand "Cinthol" in new range of sprays, deodorant and talcs
 - b) By implementing new color guard technology GCPL launched Ezee Bright and Soft Liquid Detergent for non-woolen clothes.
 - c) Packaging configuration of Godrej expert hair color changed. This helped the company to cover more retail outlet
 - d) Fair Glow re - launched during the year with attractive new packaging and shape and the promise of fairness was strengthened with the addition of 'Fairness + Proteins'.

- e) GCPL launched a range of hair colors under Godrej Expert, offering multiple benefits. It has also initiated 'happy hair happy you' campaign for the launch.
- f) Goodnight Advanced Low Smoke Coil is the world's first low smoke coil that emits 80% less smoke while being 25% more effective.

4.2. JSW Steel

JSW steel is India's one of the largest steel producer. It is the largest exporter of coated products in India. The company has installed capacity of 14.3 million tonnes per annum. The company has main focus on innovation and Research & Development. JSW steel has established technology partnership with JFE Steel, Marubeni Itochu steel, Praxair and Severfield Rowen Plc. On the basis of technology, JSW Steel is recognized as low cost steel producer in the world. Since last five years, company has been growing at a CAGR of 29.87%. The topline grew 172% in the past four years. The growth strategy of company mainly depends upon its Vertical integration as well as Horizontal expansion strategy. With rise in demand in Indian Automobile sector, the demand of auto grade steel is expected to touch 5 million tonnes. JSW steel is building a 2.5 million tone cold rolling complex only for automobiles. In 2008 global crisis where many companies report a significant loss, JSW Steel has emerged as a profitable firm. Company has adopted the following strategies successfully to face the global melt down crisis.

4.2.1. Strategies of JSW Steel

To quote Mr Sajjan Jindal, MD of JSW Steel "When the market is bearish, business revenue turns down, then it is time for going back to basics and focus on business. Economic down cycle is the time for more investment. When the market become bullish, reap benefits from the investment. During economic downturn, investors make decisions very carefully. They consider every minute aspect of investment before funding it due to gloomy market scenario. The probability of faulty decisions reduced upto significant level. One should not go for blind investment when market is booming. Probability of mistakes becomes higher during bullish time."

- i. **Investment perception of Top level management** – The top level management of JSW steel works on philosophy of invest heavily during slow down and reap the benefits of investment when market flourish. They also emphasize on don't overinvestment blindly in good times as probability of taking wrong decision is high under such scenario. Because of its investment policy adopted during slowdown, company has been growing 30-35% currently as quoted by Sajjan Jindal.
- ii. **Corporate Restructuring** – On working its investment philosophy, JSW steel adopt following corporate restructuring route:
 - a. JSW Energy (Vijayanagar) Limited, an Associate of the Company, merged with JSW Energy Limited through a Scheme of Amalgamation.
 - b. JSW signed a Strategic Collaboration Agreement with JFE Steel Corporation.
 - c. For transferring super critical turbine manufacturing technology, technology transfer agreement has been signed with Toshiba Japan.
 - d. Company identified certain Coking Coal mines of aggregating 123 million tonnes in USA along with Railway Load out and Barge facility To enhance fuel security of company, JSW energy acquired South African Coal Mining Holing Limited (SACMH)
- iii. **Technology** – During economic slowdown by undergoing its investment policy, JSW Steel adopted most efficient technology in blast furnaces, Hot strip mill, Cold rolling mill, Steel melting shop and Power plants. To enhance fuel efficiency in captive power plant, JSW Steel introduced economizer in Power plant.

4.3. Housing Development Finance Corporation (HDFC Bank)

HDFC bank is the fifth largest bank by assets in India. By market capitalization of \$ 26.88 billion, it is the largest bank in India. The bank deals in core three product areas – Foreign Exchange and Derivatives, Local currency money market and Debt securities and Equities. HDFC is the leading player in various retail banking products. HDFC was the first bank in India to introduce International Debit card with VISA. Between 2008-09 and 2011-12, HDFC bank's topline grew 164 percent. 60% of branches of HDFC bank are outside the top 10-15 cities of country. Bank has more than 1980 branches and 5400 ATMs in India. HDFC took some remarkable initiatives for financial inclusion as its CSR activity. HDFC Bank reform self-help group and provide them training and market linkages. It helps the bank in collection of money disburse of money from the customer wherever they want. With introduction of technology at various functional stages, Bank also remains successful in reducing its turnaround time.

4.3.1. Strategies of HDFC Bank

To quote Aditya Puri – Chairman HDFC Bank "Bank focus upon improving product portfolio, saving waiting time of customers and enhancing satisfaction in service level and decentralize the operation hubs."

- i. **Investment perception of Top level management** – The philosophy of HDFC bank during slowdown was to invest in developing product range for semi urban and rural areas. Bank focused on formulating investment strategies to crack Bottom of Pyramid. During slowdown the investment approach of bank remain conservative investment approach. Top level management also focus on not to change the credit channels of bank.
- ii. **Corporate Restructuring** - The merger of Centurion Bank of Punjab and HDFC Bank was one of the major mergers in the Indian private sector banks in the post-recession period.
- iii. **Indovation** – During period of 2008-2011, bank introduced new products and services for Indian customers. Company reaps benefits of these services and products even after improving the market. Some of these services and products are as follows:
 - a. Bank targeted specific sectors to capture supply chain of certain crops from production stage to sales stage.
 - b. Bank extended its retail loan provisions to large rural segment where loan is used for income generating activities like loan on tractor, commercial vehicles
 - c. Prepare carbon management plan to reduce carbon footprint. Tree plantation drives organized to create awareness about climate change among employees.
 - d. Bank targeted specific sectors to capture supply chain of certain crops from production stage to sales stage.
 - e. On the basis of customer feedback, Bank started audit services.
- iv. **Technology** – During slowdown, HDFC bank invested in upgrading the technology in various service areas. Bank introduced Data warehouse. Under Data warehouse bank put relevant algorithm on top of the data to count marketing to target customer and to know in advance which customer shows delinquency behavior. During the period of economic slowdown, bank also developed an outbound call center that enables the bank to call the customer in 2 hours if customer shows some interest in any product

4.4. Future Group

Future group is India's leading retail player having multiple retail format in its kitty. Group subsidiaries are also present in other areas like leisure and entertainment, brand development, retail media and logistics. Operating strategy of company depends upon scale and efficiencies. Company's retail business is based upon four verticals of Food, Fashion, General Merchandise and Home. Future group has established a partnership with LT food to utilize integrated food parks facilities for setting up milling, processing and storage facilities. In 2011, the supply chain of future group got ISO certification for its quality services. Today future group connects more than 4000 small and medium Indian manufacturers and entrepreneurs. Because of its strategies, Future group has been emerged as a successful business house during recession.

1.4.1 Strategies of Future Group

- i. **Investment perception of Top level management** - Future group focus on identifying trends and categories that have potentials and invest in them. Future group identified trends in food processing and handbags and identified beauty as category and then invest in them. The company focuses on reducing the number of variables on which the business operates. The company emphasize on taking decision on 360 degree view.
- ii. **Corporate Restructuring** – By adopting its investment philosophy, future group adopt the following corporate restructuring route during economic slowdown
 - a. Future Group acquires rural retail chain Aadhar from the Godrej Group, which has a presence in 65 rural locations.
 - b. Future Group partners with Hong Kong-based Li & Fung Group to strengthen its supply chain and logistics network across the country
 - c. Future Capital Holdings becomes the second group company to make a successful Initial Public Offering (IPO) in the Indian capital market
- iii. **Indovation** – Future group started working on Food Park for Indian consumers and retailers during slowdown period. Food park bring down the supply chain cost, reducing wastage and get all food processing activity became economical at one place.

5. Discussion: Successful Sustainable Strategies during Recession

On the basis of our study, we identified the following strategies which helped in maintaining a sustainable growth during the time of recession.

i. **Corporate Restructuring**

Most of the business houses prefer to adopt inorganic growth route through merger and acquisition during economic slowdown. Companies prefer to accelerate their investment cycle due to availability of cheaper deals with expectations of reaping benefits during good times. With change in business scenario and market structure, slow down cycle time has been reduced to 2-3 years as compared to 5-7 years before.

ii. **Investment Perception of Top Level management**

With Globalization and frequently change in customer taste, the business environment has become very competitive. Now companies prefer to long term sustained growth rather than short term profit. The perception of senior managers and CEO of companies has been changed after the recession. They prefer to no to go to overboard in good times as the probability of doing mistakes is high in boom time. They consider recession is good in investment as in that time probability of taking wrong decisions is very

less. Companies take calculated risk during recession. Companies try to reduce dependent variables in their business to make the business less vulnerable to macro-economic factors.

iii. Indovation

Indovation has been emerged as a new business model technique. Now companies launch their products as per their taste. They innovate new products as per the market demand of Indian consumers. With change in geographies, the taste of consumers diversifies. As India is known as one of the most diversified countries in its culture, language, taste and geographies so one product cannot suite to all the consumers across India. Companies have to launch customized innovative products as per customers' taste to increase their market cap.

iv. Technology

The leadership style has been changed. Now leaders understand the importance of adoption of latest technology in its business model. With upgradation of technology, companies try to reduce their turnaround time, make availability of their products with consumers by saving their waiting time and improve the quality of product that must be customer friendly. Companies try to capture new market by satisfying customers with adoption of new technology. Successful companies spend huge money for upgradation of technology even during recession. During recession, companies focus more on refining and redefining their existing process through technology.

Conclusion

Thus a proper mix of indovation, corporate restructuring, adoption for new technologies with an able perception of the management of the firms can bring in success and growth even during times of financial turmoil. However our study is focused only on the four companies which are selected from different industries. Although the different strategies discussed in this article can be a framework for companies during the times of recession, it would not be advisable for the companies of other industries to adopt these strategies without further critically analyzing the strategies of a particular industrial sector.

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