

ITC LIMITED: DIVERSIFYING FOR GROWTH – A CASE STUDY

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ABSTRACT

The present paper is a case study of ITC Limited. We witness a great diversification in almost all business sectors, but diversification in ITC Limited seems to be a custom. We all know that for the survival in today's scenario every business firm has to diversify in other businesses as well but Indian public conglomerate company ITC Limited has diversified into multiple businesses first for survival and then for growth. Fast Moving Consumer Goods (FMCG), Hotels, Paperboards, Paper & Packaging and Agri Business are the main four segments where ITC Limited has diversified. ITC Limited follow the concept of "To Survive" that why it is often called as "Elephant that can dance". In the present paper I have made an attempt to study the diversification strategies, challenges faced and success achieved by ITC Limited.

Keywords: Diversification, Conglomerate, Survival, Expansion plans, Profit, Fast moving consumer goods.

"Our long-term vision is to be in retailing, including super stores. In the medium term, we aim to be in lifestyle retailing and in the short-term, we will be into relaxed wear retailing."

Y.C. Deveshwar, Chairman, ITC.¹

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¹ <http://www.icmrindia.org/casestudies/catalogue/Business%20Strategy1/BSTR040.htm>

Introduction

*ITC Ltd can be best defined by expressions like an Inspiring Vision, a Challenging Corporate Strategy, World Class execution, Unmatched Investment in Technology, brand and People. ITC Ltd has a strong team of 29,000, market capitalization of US \$ 35 billion and turnover of US \$ 7 billion. Business Today ranked it among Asia's 'Fab 50', world's most Reputable companies and World's best bid companies & India's most valuable companies.*²

ITC was incorporated on August 24, 1910 under the name Imperial Tobacco Company of India Limited. As the Company's ownership progressively Indianised, the name of the Company was changed from Imperial Tobacco Company of India Limited to India Tobacco Company Limited in 1970 and then to I.T.C. Limited in 1974. The full stops in the Company's name were removed with effective from September 18, 2001. The Company now stands rechristened 'ITC Limited'. The earlier decades of the Company's existence were mainly depending on growth and consolidation of the Cigarettes and Leaf Tobacco businesses, In the Seventies it started to transform into a corporate. ITC made its first foray into a non-tobacco business long back in the 1970s, when it entered the hotel industry. In 1975 the Company launched its Hotels business with the acquisition of a hotel in Chennai which was rechristened 'ITC-Welcomgroup Hotel Chola'. The objective of ITC's entry into the hotels business was rooted in the concept of creating value for the nation. Since then the company has diversified into a variety of other businesses- sportswear, greeting cards, and ready to serve packaged foods, confectionery and branded staples- to reduce its dependence on its cigarette business. ITC diversified into retailing and merchandising of sports goods and premium apparel under its cigarette brand, 'Wills'. These businesses helped keep alive the existing brands. However, so far ITC hasn't been able to earn significant profits through any of its non-tobacco businesses, because it has diversified into areas where there is intense competition. ITC is a professionally managed organization and the core value underlying our corporate philosophy is "trusteeship". We believe this organization has been handed to us by the various stakeholders in "trust" and we as professionals are the

² <http://www.itcportal.com/about-itc/itc-profile/history-and-evolution.aspx>

"trustees" of these stakeholders. It is therefore our responsibility to ensure that the organization is managed in a manner that protects and furthers the interests of our stakeholders.³

Industry

ITC is an Indian public conglomerate company (25.4% owned by British corporation, British American Tobacco) headquartered in Kolkata, West Bengal, India. Its diversified business includes four segments: Fast Moving Consumer Goods (FMCG), Hotels, Paperboards, Paper & Packaging and Agri Business. The company has its registered office in Kolkata.⁴

ITC Ltd and Diversification

ITC Ltd, often called the elephant that can dance, worked on 1% margin for approximately 30 years because they follow the concept of "To Survive". Indian rural and agri. market is 70% to other resources in India, but only 30 % of GDP is from agriculture in India ,but only 30 % of GDP is from agriculture sector . ITC realized it that their cigarette business has a limit further which they won't be able to tap profit a limit further which they would not be able to tap profit and their expansion plans. So diversification was needed in any case to build a foothold in Indian market⁵, so the **Packaging & Printing Business** was set up in 1925 as a strategic backward integration for ITC's Cigarettes business. It is today India's most sophisticated packaging house.

³ www.itcportal.com/about

⁴ www.itcportal.com/about

⁵ <http://www.scribd.com/doc/16050075/ITC-After-Diversification>

In 1973, it appointed Ulka Advertising Agency to bring out an advertising campaign designed to draw attention to the diversification projects of ITC, namely, seafood exports, and hotels for earning foreign exchange, and its activities as an export house.⁶

In 1975, the Company launched its **Hotels business** with the acquisition of a hotel in Chennai which was rechristened '**ITC-Welcomgroup Hotel Chola**' (now renamed My Fortune, Chennai). ITC chose the Hotels business for its potential to earn high levels of foreign exchange, create tourism infrastructure and generate large scale direct and indirect employment. Since then ITC's Hotels business has grown to occupy a position of leadership, with over 100 owned and managed properties spread across India under four brands namely, ITC Hotels - Luxury Collection, WelcomHotels, Fortune Hotels and WelcomHeritage.

In 1979, ITC entered the **Paperboards business** by promoting ITC Bhadrachalam Paperboards Limited, which became a division of the company. In 1990, ITC acquired Tribeni Tissues Limited, a Specialty paper manufacturing company and a major supplier of tissue paper to the cigarette industry. The merged entity was named the Tribeni Tissues Division (TTD). In November 2002, both divisions merged to form the **Paperboards & Specialty Papers Division**. ITC's paperboards' technology, productivity, quality and manufacturing processes are comparable to the best in the world. It has also made an immense contribution to the development of Sarapaka, an economically backward area in the state of Andhra Pradesh. In 2004, ITC acquired the paperboard manufacturing facility of BILT Industrial Packaging Co. Ltd (BIPCO), near Coimbatore, Tamil Nadu.

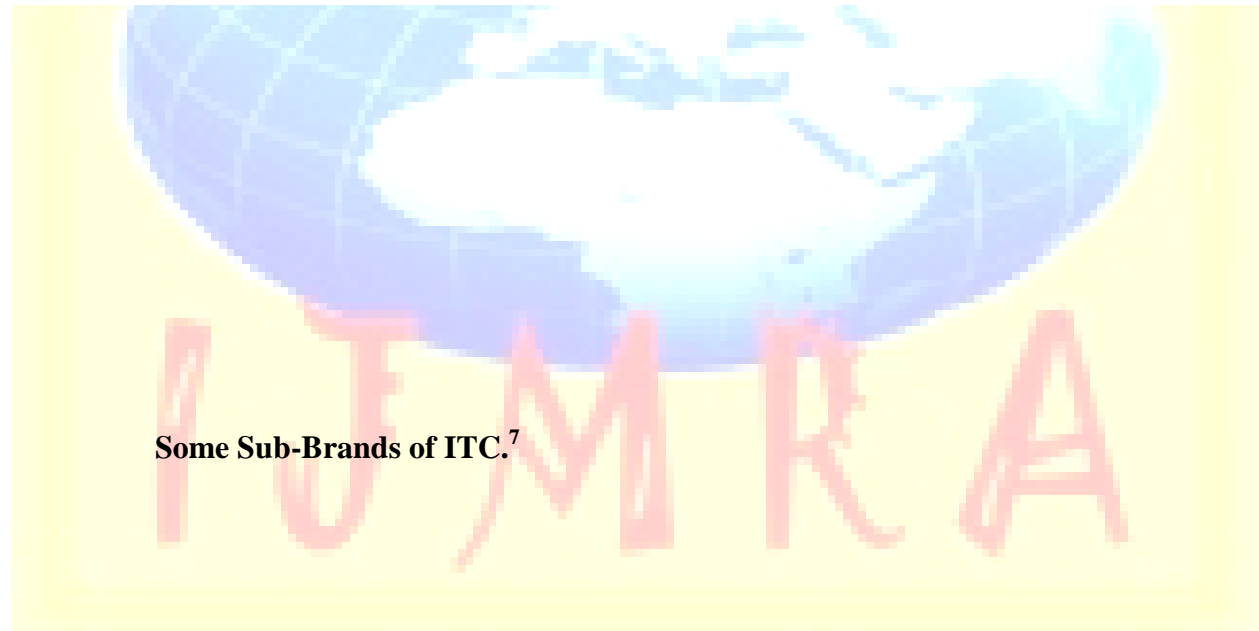
In 1985, ITC set up Surya Tobacco Co. in Nepal as an Indo-Nepal and British joint venture. In August 2002, Surya Tobacco became a subsidiary of ITC Limited, named as Surya **Nepal Private Limited** (Surya Nepal). In 2004, the company diversified into manufacturing and exports of garments.

Also in 1990, leveraging its agri-sourcing competency, ITC set up the **Agri Business Division** for export of agri-commodities. The Division is today one of India's largest exporters.

⁶ <http://cases.iimahd.ernet.in/index.php/itc-diversification-campaign.html>

ITC's unique and now widely acknowledged e-Choupal initiative began in 2000 with soya farmers in Madhya Pradesh. Now it extends to 10 states covering over 4 million farmers.

ITC launched line of premium range of notebooks under brand **Paperkraft** in 2002. To augment its offering and to reach a wider student population, the **Classmate** range of notebooks was launched in 2003. **Classmate** over the years has grown to become **India's largest notebook brand** and has also increased its portfolio to occupy a greater share of the school bag. Years 2007- 2009 saw the launch of Practical Books, Drawing Books, Geometry Boxes, Pens and Pencils under the '**Classmate**' brand. In 2008, ITC positioned the business as the **Education and Stationery Products Business** and launched **India's first environment friendly premium business paper** under the '**Paperkraft**' Brand. '**Paperkraft**' offers a diverse portfolio in the premium executive stationery and office consumables segment. In 2010, **Colour Crew** was launched as a new brand of art stationery.



⁷ <http://www.scribd.com/doc/30512081/ITC-Brand-Diversification-Strategy>



ITC also entered the **Lifestyle retailing business** with the **Wills Sport** range of international quality relaxed wear for men and women in 2000. The Wills Lifestyle chain of exclusive stores later expanded its range to include **Wills Classic formal wear** (2002) and **Wills Clublife evening wear** (2003). ITC also initiated a foray into the popular segment with its men's wear brand, **John Players**, in 2002. In 2006, Wills Lifestyle became title partner of the country's most premier fashion event - **Wills Lifestyle India Fashion Week** - that has gained recognition from buyers and retailers as the single largest B-2-B platform for the Fashion Design industry. To mark the occasion, ITC launched a special '**Wills Signature**', taking the event forward to consumers.

In 2000, ITC spun off its information technology business into a wholly owned subsidiary, **ITC Infotech India Limited**, to more aggressively pursue emerging opportunities in this area. Today ITC Infotech is one of India's fastest growing global IT and IT-enabled services companies and has established itself as a key player in offshore outsourcing, providing outsourced IT solutions and services to leading global customers.9463994800,

ITC's foray into the Foods business began in August 2001 with the introduction of '**Kitchens of India**' ready-to-eat Indian gourmet dishes. In 2002, ITC entered the confectionery and staples segments with the launch of the brands **mint-o** and **Candyman** confectionery and **Aashirvaad** atta (wheat flour). In July 2003, ITC forayed into the biscuits market with its Sunfeast range of glucose, marie and cream biscuits. Twelve years since, ITC is now well ensconced in the biscuits space, a segment that is relatively inflation-proof⁸. ITC entered the fast growing branded snacks category with **Bingo!** in 2007. In 2010, ITC launched Sunfeast Yippee! to enter the Indian instant noodles market. In just over a decade, the Foods business has grown to a significant size under seven distinctive brands, with an enviable distribution reach, a rapidly growing market share and a solid market standing.

In 2002, ITC's philosophy of contributing to enhancing the competitiveness of the entire value chain found yet another expression in the **Safety Matches** initiative. With its foray into the marketing of **Agarbattis (incense sticks)** in 2003, ITC now markets popular **safety matches** brands like **iKno, Mangaldeep and Aim**.

ITC entered the Personal Care Business in 2005. In seven years, the Personal Care portfolio has grown under '**Essenza Di Wills**', '**Fiama Di Wills**', '**Vivel**' and '**Superia**' brands which have received encouraging consumer response and are also being progressively extended nationally.

In 2010, ITC launched its handrolled cigar, **Armenteros**, in the Indian market. Armenteros cigars are available exclusively at tobacco selling outlets in select hotels, fine dining restaurants and exclusive clubs.

⁸ News Article, Business Standard, 11 March, 2013

Over the years, ITC has evolved from a single product company to a multi-business corporation. Its businesses are spread over a wide spectrum, ranging from cigarettes and tobacco to hotels, packaging, paper and paperboards and international commodities trading. Each of these businesses is vastly different from the others in its type, the state of its evolution and the basic nature of its activity etc.

Opportunity & Challenges faced by ITC

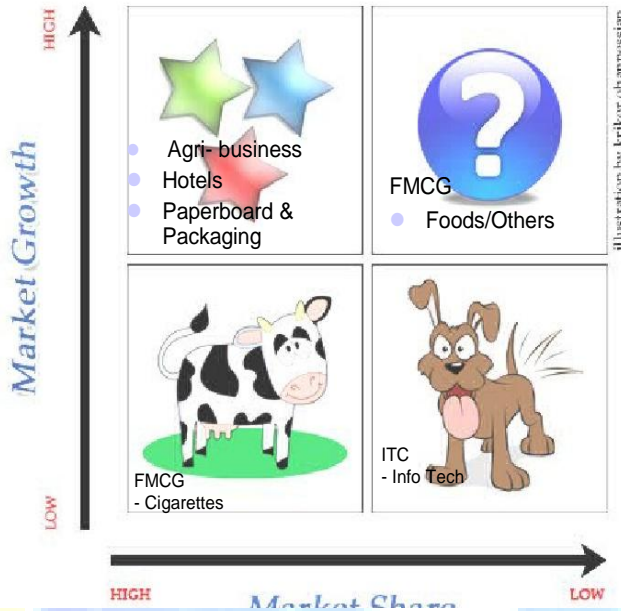
In February 2001, the Government of India announced a ban on advertising by cigarette companies and restrictions on the sale and consumption of tobacco products. The declining sales of cigarettes, the proposed ban on advertising, the increasing anti-tobacco campaigns and the experience in developed countries seemed to suggest that tobacco would no longer be a profitable business in the future. Consequently, ITC decided to diversify into non tobacco businesses.⁹ ITC leveraged its traditional businesses to develop new brands for new segments for example it used its experience of transporting & distributing tobacco products to remote & distant parts of India to the advantage of its FMCG products. ITC master chefs from its hotel chain are often asked to develop new Food concepts for its FMCG businesses. ITC is a both, product related and product unrelated diversified company, trading in a number of business sectors including Cigarettes, Hotels, Paper, Agriculture, Packaged Foods & Confectionary, Branded Apparels, Personal Care, Greeting Cards, Information Technology, Safety matches, Incense Sticks & Stationary.

BCG Model of ITC Business.¹⁰

⁹ <http://www.icmrindia.org/casestudies/catalogue/Business%20Strategy1/BSTR040.htm>

¹⁰ <http://www.scribd.com/doc/28193037/itc-diversification-case-solution>

ITC's Businesses -The Present Scenario



But to fund its cash guzzling FMCG start-up, the company is still dependent upon its tobacco revenue. Cigarettes account for 47% of Company's turnover & that in itself is responsible for 80% of the profits. So there is an argument that ITC's move into FMCG is being subsidized by its tobacco operations. Its Gold Flakes Tobacco brand is the largest FMCG brand in India and this single brand holds 70% of the tobacco markets. ITC diversified into retailing and merchandising of sports goods and premium apparel under its cigarette brand, 'Wills'. These businesses helped keep alive the existing brands. However, so far ITC hasn't been able to earn significant profits through any of its non-tobacco businesses. ITC's core business, cigarettes continue to contribute more than 70% of total net revenues, the operating profit earned from this business has sequentially dropped from 83% of the total profit in the quarter ended June 2010 to 77.5% in the September quarter this fiscal. The cigarette business contributed 62% of revenues

and 88% of the operating profits.¹¹ Analysts feel that ITC's ability to grab a sizable share of the markets it has entered and progressively make profits is doubtful, because it has diversified into areas where there is intense competition, apart from home competitors, Western Companies will also see India as an exciting opportunity for themselves to find new market segments for their own offerings.¹²

Conclusion

ITC's positioning strategy is "Touching your life everyday". ITC follows a triple bottom line policy which includes fulfilling the economic purpose, not messing up with the environment (ITC fulfilling the social purpose (through eChaupal). ITC started with Cigarettes and then moved into printing; later on following a government regulation where no company could control more than 50% market share, ITC started diversifying into other sectors. Company now has 13 businesses. Through e-Chaupal initiative ITC is trying to improve the rural condition if not solving the problem completed.¹³ ITC has transformed itself from a leading cigarette manufacturer to an umbrella group that offers a diversified product mix to enhance its brand image and reduce dependency on tobacco related products.¹⁴ While ITC is an outstanding market leader in its traditional businesses of Cigarettes, Hotels, Paperboards, Packaging and Agri-Exports, it is rapidly gaining market share even in its nascent businesses of Packaged Foods & Confectionery, Branded Apparel, Personal Care and Stationery. The Company's diversification in to segments other than cigarette & heavy investments in segments like food, personal care & Paper, will reduce company's dependence on Cigarettes business going forward, which we believe will come down to 50% levels in next 2-3 years time. This will insulate the company

¹¹ http://articles.economictimes.indiatimes.com/2010-11-01/news/27617745_1_cigarette-business-fmcg-business-hotel-business

¹² www.scribd.com/ ITC- Brand diversification Strategy

¹³ http://www.doms.iit.ac.in/documents/CC_R_Srinivasan.pdf

¹⁴ http://www.ibscdc.org/Case_Studies/Strategy/Diversification%20Strategies/DIS0006.htm

against any potential danger to the cigarette business due to government intervention or taxation policies.¹⁵ ITC is promoting their brands through advertisement campaign as well as door to door promotion. ITC is also focusing on Retailers and Wholesalers to promote their brand. ITC knows their strength and weakness in the personal care market, so they are applying new concept to overcome their weaknesses. ITC now offering more margins, exiting offers and long credit period to retailers and wholesalers¹⁶



¹⁵ http://www.moneycontrol.com/news_html/files/news_attachment/2009/ITC%20FINAL.pdf

¹⁶ <http://www.scribd.com/doc/14617954/ITC-PPT-1>