

BUSINESS ENVIRONMENT- CASE STUDY OF PATANJALI

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BUSINESS ENVIRONMENT

The combination of internal and external factors that influence a company's operating situation. The business environment can include factors such as: clients and suppliers; its competition and owners; improvements in technology; laws and government activities; and market, social and economic trends.

TYPES

INTERNAL

Internal environmental factors are events that occur within an organization. Generally, internal environmental factors are easier to control than external environmental factors. Some internal environmental factors are:

- Management changes
- Employee morale
- Culture changes
- Financial changes and/or issues

EXTERNAL

External environmental factors are events that take place outside of the organization and are harder to predict and control. These factors can be more dangerous for an organization given the fact they are unpredictable and hard to prepare for. Some external environmental factors are:

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Changes to the economy

- Threats from competition
- Political factors
- Government regulations
- The industry itself
- External environment is further divided into Macro and Micro environments.
- External Environment

MICRO

Factors or elements in an organization's immediate area of operations that affect its performance and decision-making freedom.

These factors include competitors, customers, distribution channels, suppliers, and the general public.

MACRO

A macro environment is the condition that exists in the economy as a whole, rather than in a particular sector or region. The macro environment is closely linked to the general business cycle as opposed to the performance of an individual business sector.

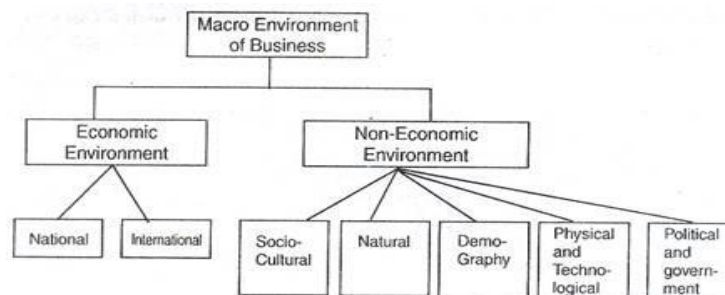


FIG. 4 : MACRO ENVIRONMENT OF BUSINESS

CASE STUDY

PATANJALI AYURVED LIMITED(PAL)

BASIC INFORMATION

Incorporated- in 2006-2007, as an Indian FMCG company.

Headquarters and Manufacturing units-Haridwar

Registered Office- Delhi.

Owned by PatanjaliYogapeeth, a trust founded and headed by Swami Ramdev.

Stakeholders

Acharya Balakrishna - 92%-94%.

Sarwan and SunitaPoddar, a Scotland-based non-resident Indian couple- 8%-6%

Tagline- PrakritikaAshirwad

Sales(FY 2015-16)- Rs. 5000 crores. The company manufactures 444 products including 45 types of cosmetic products and 30 types of food products.

IN LEAPS & BOUNDS

The Patanjali growth story so far

	Revenue (₹ cr)	Net profit (₹ cr)	Net profit margin (%)
2011-12	453	56	12.36
2012-13	849	91	10.72
2013-14	1,191	186	15.62
2014-15	2,006	317	15.80
2015-16	5,000	NA	NA

Sources: Registrar of Companies, Ministry of Corporate Affairs and Patanjali

Reasons for rise

PAL is an unlisted company which is just 9-10 years old. For such a company to shake the entire FMCG industry by storm is a big deal. Let's look at the reasons of its sudden popularity and growth.

The faith that Ramdev's millions of disciples repose in the yoga guru.

PAL Positioned as a **swadeshi brand**, which has an appeal among a category of consumers.

Relies on spreading itself across dozens of FMCG categories rather than focussing on one or two categories or products. (**carpet-bombing**)

Expansion is backed by a high-powered marketing campaign led by Ramdev himself. The company got two things right—one, the whole India-ayurveda connection and, second, the MNC style of advertising.

Patanjali exports products to the UK, US, Canada and Mauritius, which are home to large Indian populations.

Ramdev asks people to take pledge not to use products made by multinational companies of zero technology. The YouTube channel of Patanjali shows the **processes of making** ghee and other stuff. The future belongs to those who can confidently showcase their products, philosophy and ideas to the world consistently. And online content marketing is the best, most effective and affordable (in the long term) method. This is the exact same tactic used by Elon Musk for promoting his businesses.(Tesla)

Discount and profits-Most of Patanjali products are available at an attractive discount to competition. The company sources products directly from farmers and cuts on middlemen to boost profits. It makes 20% operating profit. This is the difference between total income and expenditure.

Distribution

Patanjali products are sold through three types of medical centres.

- 1.PatanjaliChikitsalaya,which are clinics along with doctors
- 2.PatanjaliArogya Kendra which are health and wellness centres and Swadeshi Kendra
- 3.Non-medicine outlets.

A typical Patanjali centre is 500 to 1,500 square feet in size. The group has 15,000 exclusive outlets across India. They also distribute through general retail stores. Patanjali sells its products through about 5,000 distributors, 10,000 health centers, 100 mega stores, besides through the retail market where it has tie ups with **Fortune group and Reliance retail**. It employs more than 15,000 people.

4. The business operates through dedicated franchise stores, which have grown to about 4,000 now from just 150 in 2012. The **franchisee model** has made the **product appear limited in quantity and exclusive**.

Product Categories



Take on Advertisements

In its initial years, Patanjali had negligible expenses of Marketing and advertising. Most of the work was done by Baba Ramdev through Aastha Channel through **word of mouth**.

Between January and March 2016, Patanjali **doubled** the number of advertisements it airs on TV channels. (Broadcast Audience Research Council India, or BARC.)

Ad insertions by Patanjali are 20% more than those by the next most-advertised brand on TV—Cadbury, a chocolate brand owned by Mondelez India Foods Pvt. Ltd.

Now, Patanjali has allocated a separate budget for advertising expenditure. Patanjali has hired two top advertising agencies McCann and Mudra to prepare the business for the next phase of growth.

Recent controversy

Several ads by the company, including ones for its best-selling product, 'DantKanti' toothpaste has been found misleading by the Advertising Standards Council of India (ASCI). Patanjali ads for mustard oil (Kachi Ghani), fruit juices and cattle feed (Dhugdhamrit) were also found ambiguous by ASCI.

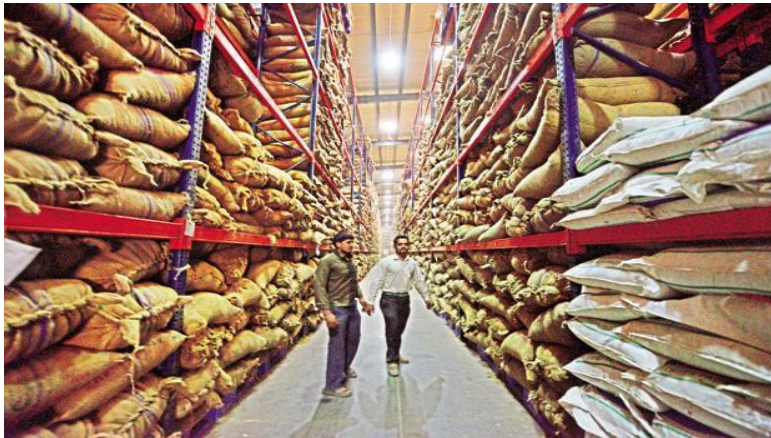
Environmental Analysis of PAL

External

1. Political- Govt regulations, Ramdev's relations
2. Technological- Processes
3. Natural- Scarce ayurved resources
4. Legal
5. Social- Yoga, followers
6. Economic- FMCG industry

Internal

1. Simplified processes and structure.
2. Less sophistication
3. Product Validation committee



SWOT ANALYSIS

STRENGTHS

1. Ramdev- His image, followers and his relations.

2. Ayurved. Swadeshi connection
3. Many product lines.
4. Single brand strategy
5. Price 20-30% lower

WEAKNESSES

1. Less market share.
2. Lack of managerial talent
3. Lacks institutional framework and management structure
4. Dull packaging

OPPORTUNITIES

1. Global markets, export
2. New tie-ups with Reliance, Future Group- More access
3. Large Domestic Market
4. Simple, less sophistication, easy to expand. Low manufacturing entry barriers in FMCG

THREATS

1. Too many products, some may not do well.
2. Ayurvedic plank-works for some products, not all.
3. Greater market share of competitors, better processes. controversies
4. Organic resources, scarce

Competitors

Nestle India's turnover-Rs 8,175 crore,

HUL-Rs 30,805 crore

Colgate-Palmolive-Rs 3,981 crore, at the end of 2015.

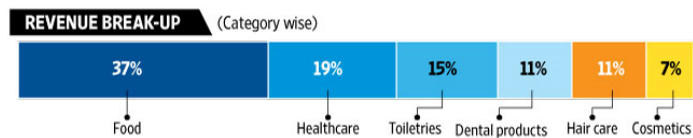
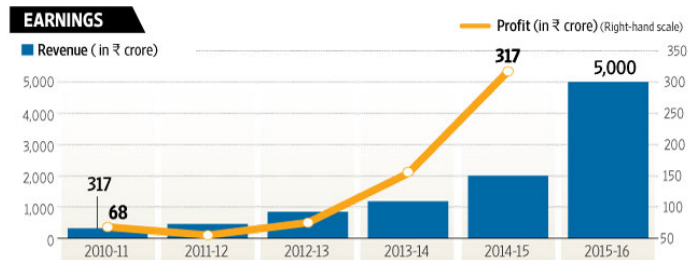
According to its last official filings for **FY15**, Patanjali Ayurved had total sales of **₹2,013 crore**.

A report by Brickworks Ratings estimates provisional sales for FY16 at ₹3,267 crore (for 10 months up to January 2016). Annualising, this would place Patanjali ahead of smaller listed FMCG players such as Jyothy Labs (₹1,644 crore) and Emami (₹2,600 crore), and neck-and-

neck with GSK Consumer (₹4,500 crore) and Colgate Palmolive (₹4,100 crore) last fiscal. **But it is yet to break into the big league of Hindustan Unilever (₹31,000 crore), Godrej Consumer (₹9,000 crore), Dabur India (₹8,450 crore), Nestle India (₹8,200 crore) and Marico Industries (₹6,100 crore).**

ITC, Godrej Consumer Products Ltd and Nestle are least likely to be impacted due to few common categories

OPERATING METRICS



KEY RIVALS (Listed companies)

Product category	Competitor
Wheat flour	ITC
Biscuits	ITC, Britannia
Toothpaste	Dabur, Colgate, HUL
Shampoo/hair conditioner	Dabur, HUL
Chyawanprash	Dabur
Soap, bath gel, hand wash, pain balm	ITC, HUL, Godrej Consumer Products, Emami, Marico
Malted beverages	GSK
Noodles	Nestle

Source: Registrar of Companies, Patanjali, HSBC Securities and Capital Markets (India) report dated 5 February 2016, and UBS Securities