



# Godrej Industries Ltd. Going For Indonesia



*Godrej*

**Godrej Industries Limited**

PREPARED BY:

Biswajit Dutta & Subrajyoti Das

IIF Alumni members

# **Table of Contents:**

➤ Introduction	2
➤ GIL Key Milestones	3
➤ PESTEL Analysis	4-6
➤ SWOT Analysis	7
➤ Good Now Frame Work	8-17
➤ Challenges and Conclusion	18
➤ Bibliography	19

## **INTRODUCTION :**

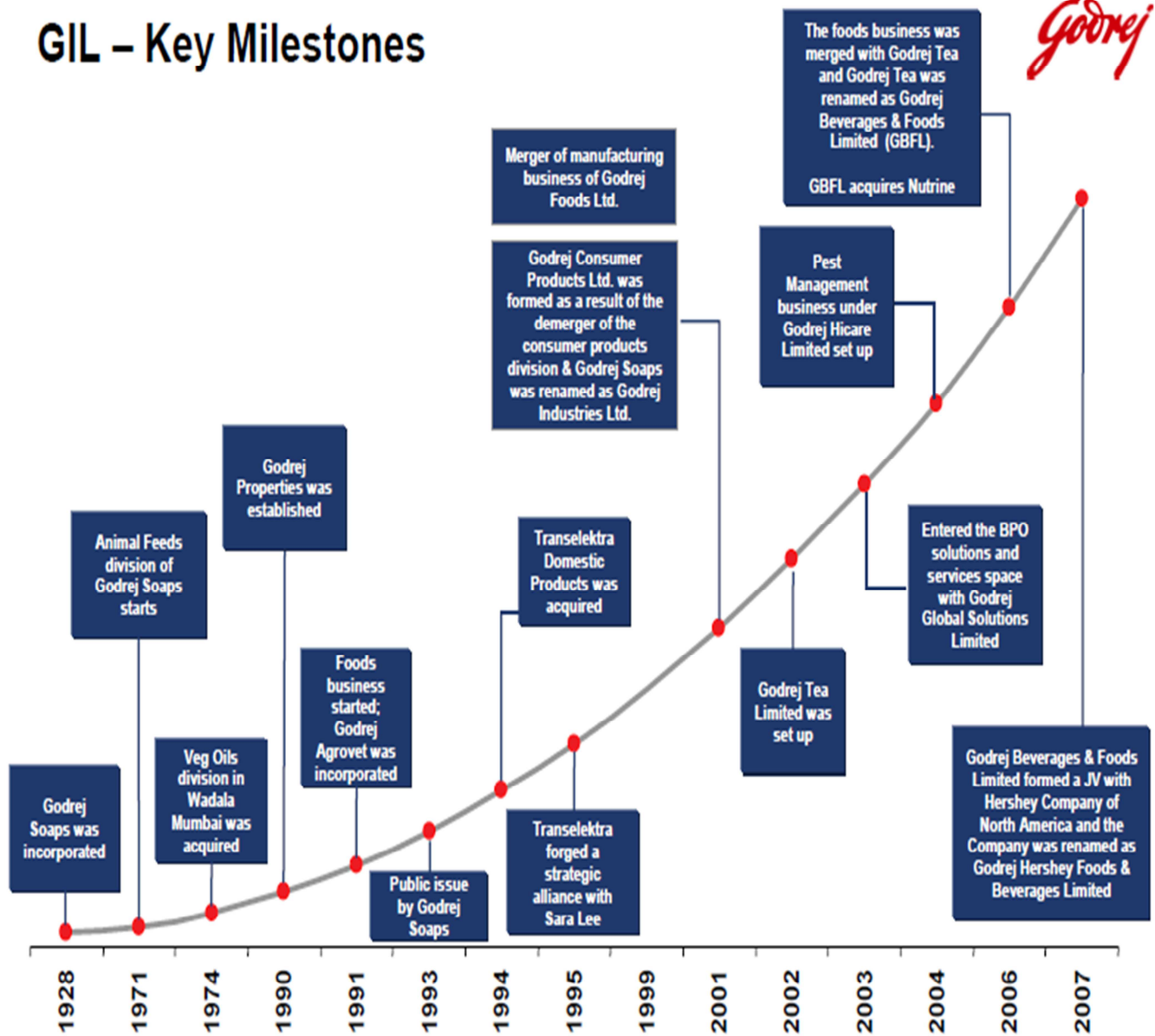
The Godrej group is one of India's oldest conglomerates, with roots going back to 1897. Today, with revenues over \$4 billion, Godrej group is now a multinational, with about half of those revenues coming from outside India. It now operates in 80 countries, and Indonesia is now one of its most important markets. In its core consumer goods business, Godrej Indonesia is the largest international business for its parent firm, Godrej Consumer Products Ltd (GCP), with revenue of about Rp 3 trillion in fiscal 2014-15, representing about 17% of GCP total revenues and 35% of its international revenues. In the last five years, the Indonesian unit has also seen annual sales growth of about 21% and EBIDTA growth of around 22%.

“Establishing a strong foothold in Indonesia was a key part of our strategy, both in terms of business size today as well as potential for the future. Indonesia is one of the fastest growing consumer markets in the world, with a young population. We believe that this will provide tremendous opportunities for both driving penetration and increasing consumption in our core categories,” says Adi Godrej, the group chairman, in an email quote for Forbes Indonesia:

Between 2007 and 2012, Indonesia enjoyed GDP growth of at least 6% a year (excluding 2009) and appeared to offer the prospect to multinationals of a healthy economy with household consumption on the rise.

Through this report we have tried to fix a most suitable entry mode for Godrej in Indonesia market which has been happened actually on 2010. We prepared this report based on the old data from 2005 to 2010 as if we had suggested Godrej Industry to find best mode.

## GIL – Key Milestones



# PESTEL ANALYSIS:

## POLITICAL:

1. The political system of the country is democratic and the president and vice president of the country are elected through parliament.
2. Similarly cabinet is appointed by the president. So for next 5 years there are more chances of stability of the government.
3. Indonesia has one of the largest labour forces in the world which make it stand on 5<sup>th</sup> rank.
4. According to labour laws, 7hour workdays and 40- hour workweeks, with one 30 minute rest period for each 4 hours of work is legal in Indonesia.

Labour force - by occupation:

Agriculture:42.1%

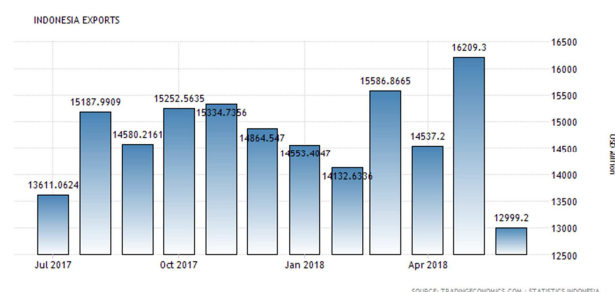
Industry: 18.6%

Services:39.3%

5. Indonesian company law of 1995 is the most important framework for the current legislation on corporate governance.
6. Under the Company Law, a company is a separate legal entity in which Directors and Commissioners represent the company. Every company must register their MOA under this law.
7. Tax system has various rules and categories. Income Tax from Indonesian bank is fixed at a final 15% for both companies and individuals.

## ECONOMICAL:

1. Indonesia has an average GDP growth rate of 5.06% pa. In 2017, the average inflation rate in Indonesia amounted to about 3.81 percent.
2. Rupiah has been continuing to weaken most due to external factors that affect demand of US \$ in the country.
3. People live below poverty line was still more than 10% of the population.
4. Central bank(BI) enforce tight monetary policy. Government targeted tax to GDP ratio at around 11.5% in 2017.
5. Exchange rate: 1 US is equal to 14502.40 Indonesian Rupiah and 1 INR is equal to 210.44 Indonesian Rupiah.
6. FDI inflow in Indonesia is 108.9 IDR Trillion as of Jan 2018.

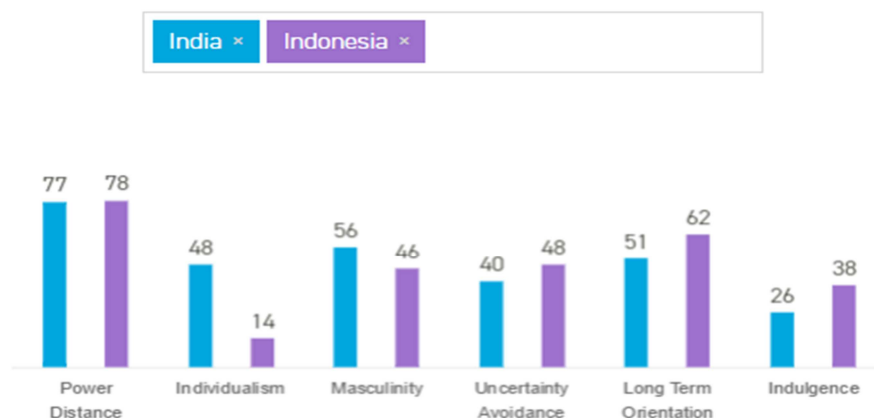




- Due to change in population, income, import and export in Indonesia are increasing every year. Imports to Indonesia increased 12.66 percent from the previous year to USD 11.26 billion in June 2018.
- In the same way due to economic growth improvement in productivity, government policies, export is also increasing rapidly. Exports from Indonesia rose by 11.47 percent from a year earlier to USD 13 billion in June of 2018

### SOCIOCULTURAL:

- Government of Indonesia recognizes six official religions - Islam, Protestantism, Catholicism, Hinduism, Buddhism and Confucianism.
- Gender inequality index is 0.500 of which in medium human development.
- Indonesia has a large population which is steadily increasing at the ratio of 1.10%
- Male population is slightly higher than females.
- Sustainable FDI and DDI growth. Domestic market is very important since one of major populous country.
- Indonesia has an impressive literacy rate of 90.4%. The country spends 3.4% of its GDP on education.



### TECHNOLOGICAL:

1. Indonesia has developed their own transport system and they have 139 airports, railways and waterways to go to other parts and islands of the country.
2. Technology used is considered as “outdated” even though manufacturing is the largest contributor to GDP.
3. In agriculture government have made ample opportunities to use high tech technologies.
4. Great opportunity in Indonesia for both domestic and international companies, particularly in science and technology.
5. A major technological problem in China is that the development of the B2C industry does not have a safe and stable online payment system.

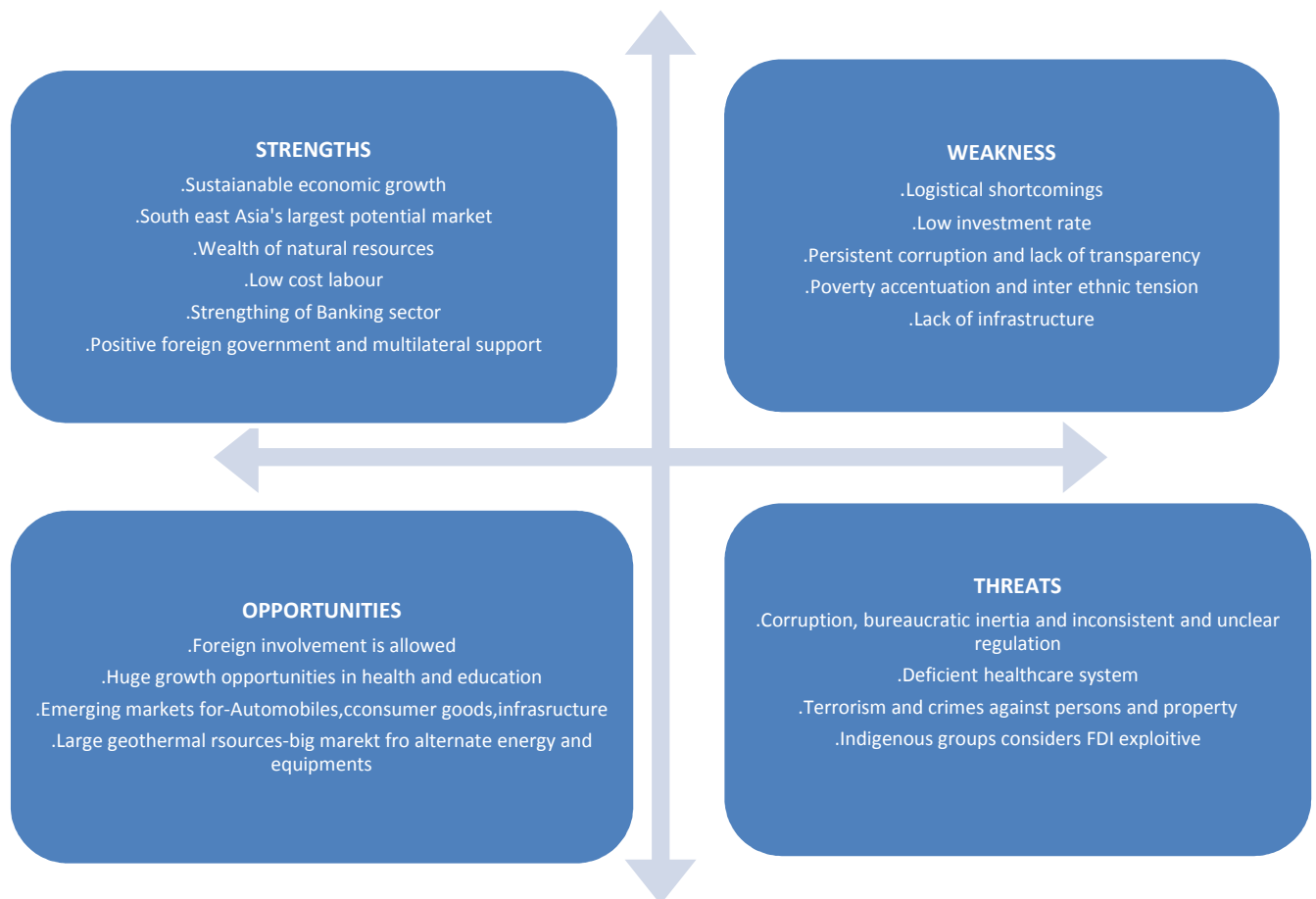
### ENVIRONMENTAL:

1. The Indonesian archipelago has been identified as one of the areas in Asia that is most vulnerable to climate change hazards.
2. Indonesia's greenhouse gas emissions are currently dominated by emissions from deforestation, land use conversion, forest fires, and peat land degradation.
3. Growth in the power sector has relied on coal, which emits twice as much carbon emissions as gas. Indonesia is the 3<sup>rd</sup> major producer of Greenhouse gases after china and USA.
4. Indonesia's decentralization policy presents many challenges for environment and natural resource management.
5. Since environmental costs disproportionately impact the poor, continued environmental degradation is expected to place additional burden on the state budget.

### LEGAL:

1. Indonesia has introduced rules and regulations in the country and labour laws was introduced to give right shares of income to the labor.
2. The government has already enacted environmental laws and Municipal Noise Reduction plans.
3. In business sector, tax slabs of various percentage was introduced depending on revenue.
4. Income tax is implemented on the companies as well as on individuals.
5. For few industrial sectors, it takes more than a year to formally obtain the operating license.
6. Regulatory revisions might cause business uncertainty especially for foreign investments.

## SWOT ANALYSIS OF INDONESIAN MARKET:





**GOODNOW FRAME WORK – IDENTIFY ENTRY MODE :**

**D) ENTERPRISE POLICY :**

a) **Enterprise Goal :** For our Indonesian business, along with continued strong organic growth, Godrej Industries Ltd continues to look to selectively bolt on brands that are strategic, financially accretive and provide significant synergies. They also look forward to strengthening our personal care presence in the country. They are driven by strong vision to make Godrej a leading home and personal care company in Indonesia. They focus on it's key brands - Hit, Stella and Mitu and further accelerate their growth trajectory.

**Overall Strategy of GIL**

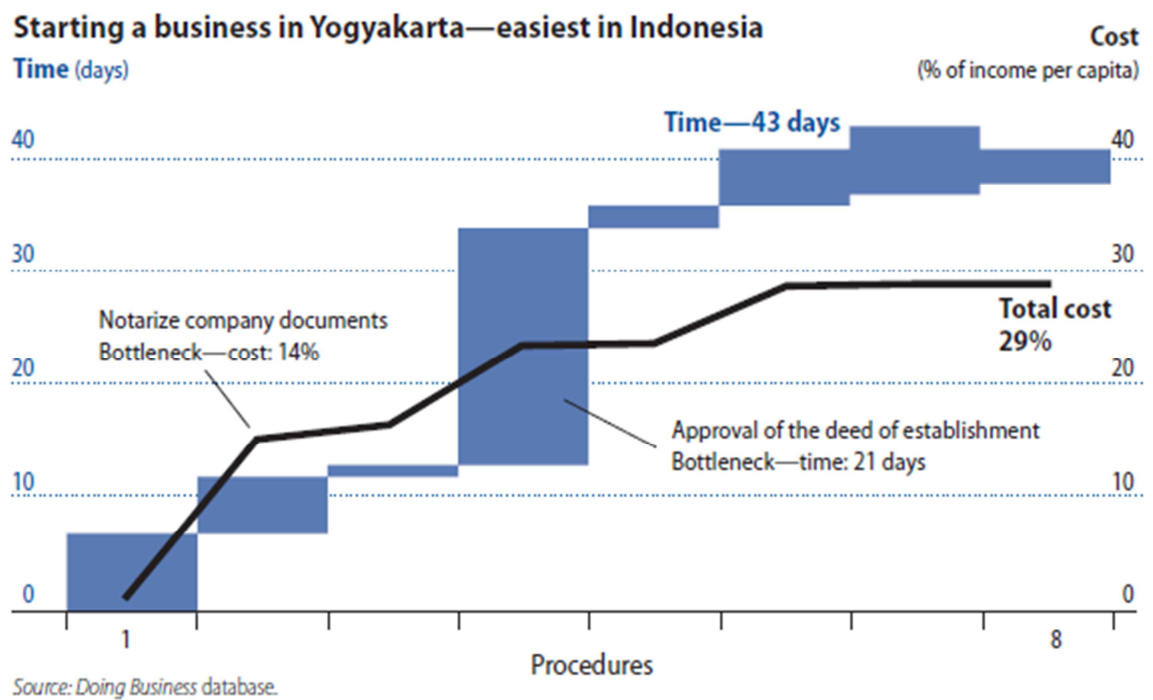


So this objective deserves high marks, e.g; 10.

b) **Desired Control :** Godrej Industries Ltd has got a strong brand value in Indonesia so they want to keep the control for Indonesia management. Even their past track record in management control sharing through JV was not very successful which motivates them to have full control of their operation in Indonesia. So the mark is also very high, i.e; 10

GODREJ'S FAILED JVS		
Joint venture	Start year	End year
Godrej-GE	1992	2001
Godrej-P&G	1993	1996
Godrej-Sara Lee	1995	2010
Godrej-Pillsbury	1996	2000
Godrej-SCA	2007	2009
Godrej-Hershey	2007	Reported to have ended
Godrej-IJM	2008	2011

c) **Perceptual Biases** : This value is average as Godrej Industry doesn't have any biases towards plant location, risk factors etc. So we put 7 point. However, we suggest to identify Yogyakarta for initial set ups for Godrej Industry based on below :



## II) ENTERPRISE STRENGTH :

- a) **Enterprise size :** The Godrej group is one of India's oldest conglomerates, with roots going back to 1897. With revenues over \$1.87 billion in FY07, Godrej group is a multinational, with about half of those revenues coming from outside India. It operates in almost 80 countries, and Indonesia is now one of its most important markets. In its core consumer goods business, Godrej Indonesia is the largest international business for its parent firm, Godrej Consumer Products Ltd (GCP). It employs 24000 employees across locations. It has got 100 manufacturing locations in India and abroad.

Therefore, we put maximum mark (10) against this point.

- b) **Technology uniqueness :** Godrej Industry is always a front runner for technology adoption which bring them competitive advantage over others. Their investment in technology up gradation in manufacturing of their products as well as in IT infrastructure has brought uniqueness in their business. Increase dependence on IT- to get real time data on inventory and sales, moved 70% of distributors to electronic payments etc are initiative by them using technology advancement. So, they deserve 9 marks against this point.
- c) **Relative enterpriser experience:** Godrej Industry is famous for overseas market through merger & acquisition. Their failure and successes from many ventures has given them enough experience to deal with overseas market. Their success in many acquisition gave them competitive advantages in respective countries.

Godrej is going in for international acquisitions with twin strategies - diversifying risk and tapping new markets. It expects good synergies from the Keyline acquisition and a double-digit growth in these brands. The Keyline brands garnered a revenue of £5.2 million (about Rs 44.08 crore) during November 2005-March 2006, while PBT was £0.6 million (about Rs 5.09 crore). Major Keyline brands include Adorn (hair spray), Aapri (skin care), Cuticura (talcum powder), Erasmic (shaving products) and Nulon (hand creams).

Sunil Sapre, executive vice-president (finance & commercial), says, "Although exports account for a minuscule 3 per cent of the business, at present, we see a big opportunity in South East Asia and Africa." Analysts see exports growing to 20 per cent of the total business, including the Keyline brands (*Source : June 12, rediff.com/business report*).

So, we allocated highest mark against this point, e.g: 10.

- d) **Financial flexibility:** As per past record it is understand that the company is an aggressive investor in overseas market. They did investment of huge capital for acquiring various local companies, e.g; In October 2005 the company acquired 100% ownership in Keyline Brands Ltd a UK based FMCG, In September 2006 the

company acquired the South African business of Rapidol UK with their subsidiary Rapidol International etc.

Major Investment – Inside the group companies :

Company	Business	At Cost (Rs. mn)	% Holding
Godrej Consumer Products Ltd.	FMCG personal and household care products	922	10.2%
Godrej Agrovet Ltd.	Animal Feeds, Agri Inputs, Poultry, oil palm & rural retailing	638	70.3%
Godrej Properties Ltd.	Real Estate & Property Dev.	403	81.7%
Godrej Sara Lee Ltd.	Household Insecticides	473	20.0%
Godrej Hershey Foods & Beverages Ltd.	Foods, Beverages, Confectionery	914	43.0%
Godrej International Ltd.	International Trading	183	100%
Godrej Global Solutions Ltd.	Infobiz	355	99.9%
Godrej Upstream Limited	BPO	90	40.4%
Godrej Hicare Limited	Pest Management	36	84.1%
Ensemble Holdings & Finance Ltd	Investment and Loan company	132	100.0%
Others		64	-
<b>Total</b>		<b>4,210</b>	

*Holdings as on June 30, 2007; There have been some changes in our investments since June 30, 2007*

Major investment – outside the group :

Company	Business	At Cost (Rs. mn)	% Holding
Godrej Consumer Products Ltd.	FMCG personal and household care products	922	10.2%
Godrej Agrovet Ltd.	Animal Feeds, Agri Inputs, Poultry, oil palm & rural retailing	638	70.3%
Godrej Properties Ltd.	Real Estate & Property Dev.	403	81.7%
Godrej Sara Lee Ltd.	Household Insecticides	473	20.0%
Godrej Hershey Foods & Beverages Ltd.	Foods, Beverages, Confectionery	914	43.0%
Godrej International Ltd.	International Trading	183	100%
Godrej Global Solutions Ltd.	Infobiz	355	99.9%
Godrej Upstream Limited	BPO	90	40.4%
Godrej Hicare Limited	Pest Management	36	84.1%
Ensemble Holdings & Finance Ltd	Investment and Loan company	132	100.0%
Others		64	-
<b>Total</b>		<b>4,210</b>	

*Holdings as on June 30, 2007; There have been some changes in our investments since June 30, 2007*

Financial performance :

Rs. Million	FY05	FY06	FY07
Total Income	19,992	21,062	24,657
PBIDT	1,460	1,591	1,838
PAT	647	490	589
RoCE* (%)	13.9	11.6	9.7
PBIDT Margin (%)	7.3	7.6	7.5
PAT Margin (%)	3.2	2.3	2.4

From above it understand that GIL is very cash reach and also flexible to investment in strategic venture. Therefore, in financial flexibility they have been marked as highest, e.g; 10.

- e) **Relevant management experience:** The Godrej group is one of India's oldest conglomerates, with roots going back to 1897. They have vast experience in managing foreign assets, merger & acquisition in foreign market, controlling overseas operation through subsidiary/JV etc. Godrej group's JV (49:51) with USA based Sara lee corporation in 1991 has given huge experience to overseas operation which made them a market leader in Indian household insecticides category.


**Leading Market Positions In most of the Geographies :**

**SAARC**

1 Hair colours (Sri Lanka) 

3 Hair colours (Bangladesh)   
Household insecticides (Sri Lanka & Bangladesh)

**UK**

1 Stretch marks skin treatment 

2 Sanitisers

4 Sun care female deodorants

**INDIA**

1 Hair colours  
Household insecticides  
Liquid detergents 

2 Soap

**LATIN AMERICA**

**1** Hair colours\*  
(Argentina, Uruguay, Paraguay, Bolivia)

**2** Hair colours & Colour cosmetics (Chile)  
Hair extensions (Argentina & Chile)

**SUB SAHARAN AFRICA**

**1** Ethnic hair colours (14 countries)  
Hair extensions (10 countries)

**2** Hair extensions (1 country)

**3** Caucasian hair colours (South Africa)

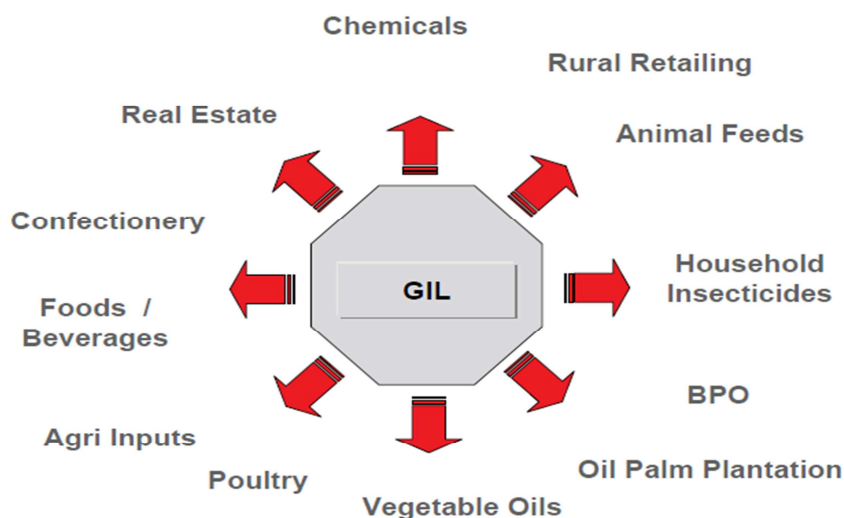
We keep 9 points for this.

f) **Competitive position:**




Godrej Industry has got several competitors in every business division. However, in FMCG, the domestic major competitors are Hindustan Unilever, Marico, Dubor India, Emami etc. Against this point, we give 9 marks.

**III) PRODUCT CHARECTERISTIC :**

**Key business Areas :**



## FMCG Products :

Key Categories	Key Brands
Household Insecticides	
Soaps	
Hair colour	

## Agro Products :



### animal feed

India's largest commercial feed miller; market leader in cattle, poultry and aqua feed

### oil palm

Largest oil palm cultivator in India

### agri-inputs

Niche player focused on plant growth regulators and herbicides

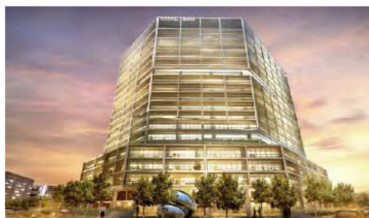
### poultry

JV with Tyson Foods, leading global meat processor

### seeds

New business currently focused on maize, bajra, and paddy

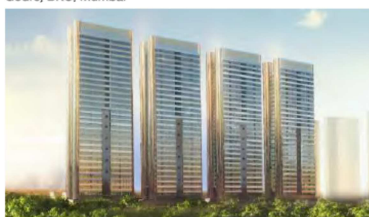
## Real estate ( Snap shot ) :



Godrej BKC, Mumbai



Godrej Summit, Gurgaon



Godrej Platinum, Mumbai



Godrej Horizon, Pune

We put 8 points.

#### **IV) DOMESTIC GOVT POLICY :**

The Indonesian Investment Coordinating Board (BKPM) provides “**One Stop Services**” for certain types of direct investment approvals from both domestic and foreign investors. Before establishing an office in Indonesia, investors need to think whether using a local partner would be more effective in penetrating the local market. A foreign company can also establish a representative office. Three of the most common types of representative offices in Indonesia are: (1) Foreign Representative Office (Kantor Perwakilan Perusahaan Asing); (2) Foreign Trade Representative Office (Perwakilan Perusahaan Perdagangan Asing); and (3) Foreign Construction Services Representative Office.

Indonesia continues to maintain a Negative Investment List which includes some sectors, that are closed entirely and some open with conditions. Apart from the Negative Investment List industries, 100% foreign ownership is allowed. Since 2013, foreign firms entering Indonesia are allowed 100% ownership without divestment. As a practical matter, a local joint venture partner is often essential for success in this market, for the same reason that an active Indonesian agent or distributor has advantages over a foreign trade representative office. The choice of an Indonesian joint venture partner is critical for many reasons, especially for knowledge of the local environment and contacts, which are important for successful operations in Indonesia.

As above, we have kept 10 .

#### **V) COMPARATIVE COST :**

Godrej Industry always focus to the middle class segment for their FMCG products. Their prices are very competitive compare to thrie close rivals. They normally acquires local companies to access their value chain which always gives them cost advantages compare to other MNC and also local players. They deserve maximum point 8 for this.

#### **VI) HOST COUNTRY MARKETING OPPORTUNITY :**

Advertising in local media and newspapers is recommended for introducing new products, particularly in areas of purchasing power concentration, such as Jakarta and West Java. We keep 8 marks against this.

#### **VII) HOST COUNTRY ECONOMIC DEVELOPMENT & PERFORMANCE:**

Indonesia is Southeast Asia’s largest economy with a GDP of \$888 billion (based on ppp), ranking 10th in the world and averaging over 5% growth over the last decade.

During the global financial crisis, Indonesia outperformed its regional neighbours and joined China and India as the only G20 members posting growth. Indonesia is South East Asia’s largest economy which accounts for one-third of the ASEAN economy. The government of Indonesia is focussed on reinvigorating the economy by announcing economic stimulus packages and tax incentives aimed at fiscal and non-fiscal measures.



Indonesia will remain on a positive growth trajectory given the growing domestic demand, liberalization measures, improved investment climate, and the drive to bolster exports and investments. This position is very suitable for Godrej to go for direct investment in Indonesia. So, we give 10 marks for this.

## VIII) HOST COUNTRY LEGAL & POLITICAL ENVIRONMENT :

During our respective struggles for independence, the national leaderships of India and Indonesia led by Jawaharlal Nehru and President Sukarno collaborated closely in supporting the cause of independence of Asian and African countries and later laid the foundation of the Non-Aligned Movement at the Asian-African Conference held in Bandung in 1955. Since the adoption of India's 'Look East Policy' in 1991, there has been a rapid development of bilateral relations in political, security, defence, commercial and cultural fields. The current Government wants to further deepen the relationship with East Asia and has therefore rightly titled its policy as "Act East".

During the State Visit of President Mr S. B. Yudhoyono to India in 2005, the two countries signed a Joint Declaration on Establishing a Strategic Partnership.

### Reforms in Indonesia\* 2005–2009

Doing Business report	Starting a business	Dealing with construction permits	Employing workers	Registering property	Getting credit	Protecting investors	Paying taxes	Trading across borders	Enforcing contracts	Closing a business
DB 2006					✓	✓				✓
DB 2007	✓									
DB 2008		✓			✓	✓				
DB 2009	✗				✓					
DB 2010	✓			✓		✓				

Note: ✗ indicates a negative reform.

\* Represented by Jakarta

Source: Doing Business database.

### Best practices in Indonesia compared internationally

Indicator	Indonesia in DB 2010 (represented by Jakarta)		Indonesia best practice		Global rank (183 economies) How Indonesian cities compare globally
	Performance	Global rank (183 economies)	Best performing city within Indonesia	Performance	
Number of procedures to deal with construction permits	14 procedures	47	Yogyakarta	8 procedures	5
Days to deal with construction permits	160 days	68	Makassar	56 days	9
Days to register property	22 days	49	Manado	12 days	24
Cost to deal with construction permits	194.8% of income per capita	98	Semarang	107.6% of income per capita	78
Number of procedures to register property	6 procedures	79	All cities	6 procedures	79
Number of procedures to start a business	9 procedures	116	Yogyakarta, Palangka Raya, Surakarta	8 procedures	93
Cost to start a business	26% of income per capita	118	Jakarta	25.1% of income per capita*	117
Days to start a business	60 days	158	Yogyakarta, Bandung	43 days	143
Cost to register property	10.7% of the property value	150	Bandung, Jakarta	10.7% of the property value	150

\* At the time of publication of Doing Business 2010 the cost was 26% of income per capita.

Source: Doing Business database.

Keeping in view of the very potential market, 10 marks to be allotted against this.

**IX) GEOCULTURAL ENVIRONMENT :**

India and Indonesia have shared two millennia of close cultural and commercial contacts. The Hindu, Buddhist and later Muslim faith travelled to Indonesia from the shores of India. The Indonesian folk art and dramas are based on stories from the great epics of Ramayana and Mahabharata. The shared culture, colonial history and post independence goals of political sovereignty, economic self-sufficiency and independent foreign policy have unifying effect on the bilateral relations.

There are around 100,000 Indonesians of Indian origin in Indonesia mostly concentrated in Greater Jakarta, Medan, Surabaya and Bandung. They are mainly engaged in trade dealing in textiles and sports goods. There are more than 7500 Indian nationals living in Indonesia including engineers, consultants, chartered accountants, bankers and other professionals. The Indian community is very well regarded in Indonesia, is generally prosperous and includes individuals holding senior positions in local and multinational companies. Indonesian consumers have culturally specific shopping behaviours; they are risk averse and brand loyal. Therefore, we give highest mark 10 for this.

**CONCLUSION:** The score is very close to 10, so Godrej Industry should go for wholly owned subsidiary either green field investment or by acquiring any existing local company. Also, from the analysis we can also conclude that Indonesian market is very favourable for Godrej to venture into since it is an emerging economy with lots of opportunities. Also from their past track record it is clear that Godrej has acquired many industries in various continents and those ventures were every successful too. Advantages of using wholly owned subsidiaries include vertical integration of supply chains, diversification, risk management, and favourable tax treatment abroad. But there are still some disadvantages too like possibility of multiple taxation, lack of business focus, and conflicting interest between subsidiaries and the parent company.

## **Bibliography:**

- <https://www.hofstede-insights.com/models/national-culture/>
- <http://www.doingbusiness.org/data>
- <http://press.gettyimages.com/>
- [https://en.wikipedia.org/wiki/Godrej\\_Industries\\_Ltd](https://en.wikipedia.org/wiki/Godrej_Industries_Ltd)
- <https://www.google.com/>
- <http://www.godrejindustries.com/>
- <http://www.godrejindustries.com/investors.aspx>