



ITC LTD. STRATEGY ANALYSIS

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Authored by: Raunav Sharma



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Author's Connection to Topic

My choice of the Indian business conglomerate, ITC as the subject of this strategy report is deeply rooted in a unique combination of personal connections, aspirations, and a profound admiration for a company's values and sustainability efforts.

Family Legacy and Personal Stockholder: My paternal grandfather's dedicated service at ITC over 45 years instilled in me a sentimental connect to the company. Additionally, my family holds a fair holding of ITC stocks. The holding in the public limited company not just serves as a reminder of how well ITC looks after its shareholders (and employees), but also underscores my family's long-standing association with the organization.

Career Aspirations: Beyond sentiment, my choice is forward-looking, driven by a strong desire to play a leadership role within ITC. I aspire to leverage my strategic acumen to contribute to the company's journey towards excellence, aligning my professional goals with the company's vision.

Employee-Centric Values: ITC's commitment to its employees and retirees is noteworthy. The company's initiatives, such as regular meetups for retired employees, reflect a profound dedication to fostering a sense of community and loyalty that few organizations can match.

Sustainability Excellence: ITC stands as a trailblazer in sustainability, serving as the only company of its size in India to achieve carbon positivity, water positivity, and solid waste positivity. The company's extensive involvement in wind and solar energy projects underscores its dedication to environmental responsibility.

ITC Infotech Experience: My internship experience at ITC Infotech, a subsidiary of ITC Limited, which specializes in technology solutions, has provided me with valuable insights into the company's diverse portfolio. I am pleased to report that ITC Infotech is thriving and making significant strides in the technology sector.

In the pursuit of constructing this strategy report, my deep-seated connection to ITC is both personal and professional, reflecting the company's rich legacy, commitment to sustainability, and my aspirations for a future leadership role within this esteemed organization.

Stakeholder Audience Assessment

1. Ms. Heidi Leonord – Professor – Kelley School of Business
2. Shankar Ganesh – Strategy Consultant – Infosys
3. T.V. Ramaswamy – Retired ITC Employee

Overview / Background on Topic

ITC Limited is one of India's foremost private sector companies. With a gross revenue of \$8.27 billion and a net profit of \$2.23 billion (as on March 31, 2023)¹, the August 24, 1910 Kolkata (India) incorporated company, that in its initial years was primarily devoted to the growth and consolidation of its cigarettes and leaf tobacco businesses, has today diversified and transformed into a conglomerate with businesses interests spanning Fast Moving Consumer Goods comprising foods, personal care, cigarettes and cigars, education and stationery products, incense sticks and safety matches; hotels, packaging, paperboards and specialty papers, agri business and information technology.

ITC was incorporated under the name Imperial Tobacco Company of India Limited, but the progressive Indianization of the company's ownership also witnessed changes in its name. In 1970 the name of the company was changed to India Tobacco Company Limited, and then to I.T.C. Limited in 1974. In 2001, in recognition of ITC's multi-business portfolio, the full stops in the company's name were removed. The company now stands rechristened 'ITC Limited,' where 'ITC' is no longer an acronym or an initialized form. ²

Besides being one of India's leading FMCG marketers, ITC is today the clear market leader in the Indian paperboard and packaging industry, a business that was established in 1925 as a strategic backward integration for ITC's cigarettes' business. ITC's far-reaching agri business has been global acknowledged as a pioneer in farmer empowerment; while the company's pre-eminent hotel chain that began in 1975 with the acquisition of a hotel in Chennai (India) has today become a trailblazer in 'Responsible Luxury'. Today ITC's Hotels business has over 115 owned and managed properties spread across India, and is on the cusp of going international, with the opening of a super-premium luxury hotel in Colombo (Sri Lanka).³

ITC was recently ranked as India's most admired company, according to a survey conducted by Fortune India, in association with Hay Group. ITC aspires to be an exemplar in sustainability practices. It is the only company in the world, of its size and diversity, to be carbon, water and solid waste recycling positive. ⁴

¹ <https://www.itcportal.com/about-itc/profile/history-and-evolution.aspx>

² https://en.wikipedia.org/wiki/ITC_Limited

³ <https://www.itcportal.com/about-itc/profile/history-and-evolution.aspx>

⁴ <https://www.itcportal.com/about-itc/profile/history-and-evolution.aspx>

The 1970s saw great changes at ITC:

Fully aware that tobacco was becoming increasingly irrelevant from the societal point of view, and coupled with tons of taxes and a backlash from successive governments, all of which began to put a squeeze on ITC's business, the company realized that they had to change and dovetail into an increasingly fast changing society. The simple option was to close the tobacco business. But the company's top honchos were not lost to the competencies that had been built into the company's decades old tobacco business over decades, be they by way of consumer preferences, trade, marketing, sales and distribution and technology.

Starting in the 1970s, ITC focused on being consumer centric and forayed into brand building and high quality. A natural corollary was the FMCG business: A business that is not very technical, but in keeping with ITC's knowledge in fast moving consumer goods. And ITC created the umbrella brand 'Sunfeast'. The company discussed a plethora of areas that could be got into, including beer. But ITC decided not to go from tobacco, which is federally taxed, to beer which is regionally (state) taxed. ITC's biggest strength was its sales network across India.

As it transformed ITC asked itself a few questions - what problems of the consumer are you solving? How is your solution superior to others? And how do we make sure that the entire learning and development on the organization is aligned to this? Answers were not easily forthcoming. Competition was also tough – Unilever, the consumer-packaged goods company was already well established and the market leader, in terms of biscuits. It wasn't easy.

ITC also forayed into chocolates, confectionary, and later into education and stationary products (sourced from its printing and packaging division), and even greetings cards. ITC also acquired WIMCO a company that was making safety matches in India. From matches ITC, given its expertise in the flavoring of tobacco went into the incense sticks business, which has been yet another success story.

ITC has been largely governed by an unwritten rule when entering any kind of business: 'Either be number one or two, otherwise get out'. But ITC has successfully bridged both the high-volume low margin, mass products business like tobacco, and the low volume high-margin business like luxury hotels.

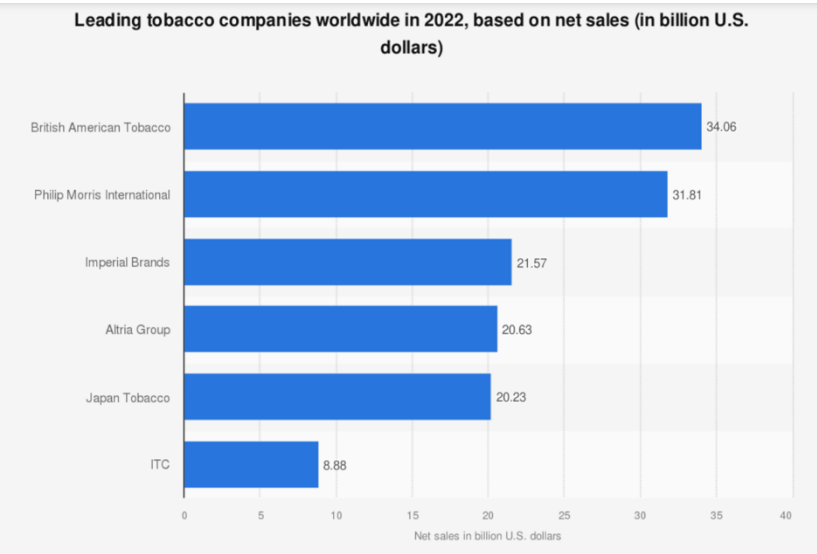
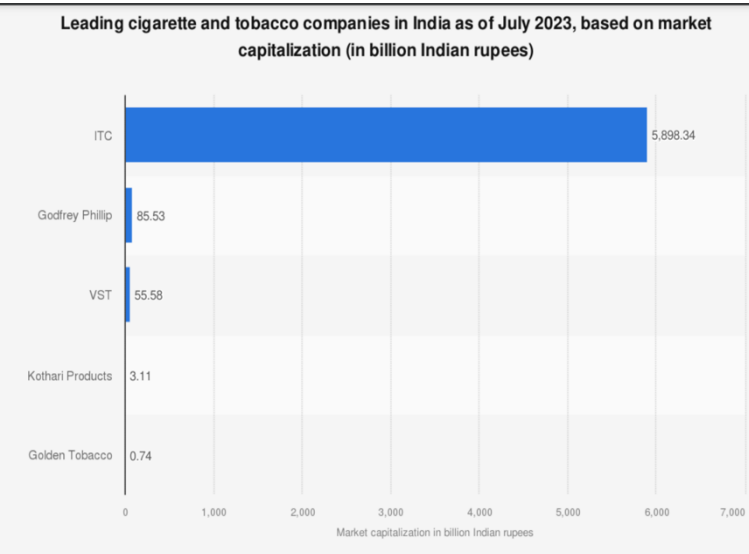
Tobacco continues to give ITC its maximum revenue, but there's the pressure that it may not carry on its tobacco business in perpetuity. Hence more diversifications, including into wind energy and a foray into healthcare as well.

A company that values governance and ethics, ITC's businesses and value chains coupled with its world-class manufacturing infrastructure, extensive rural linkages, efficient marketing logistics,

human resources and cutting-edge research and development, has today created sustainable livelihoods for more than 6 million people across India, a majority of who represent the poorest in rural India.

According to a report by the Economic Times, ITC is the leading cigarette and tobacco company in India – completely dominating the market.⁵

It also has a considerable stake among the worldwide leaders of the tobacco industry based on net sales.⁶



⁵ <https://www-statista-com.proxyiub.uits.iu.edu/statistics/944956/india-leading-cigarette-companies-based-on-market-capitalization/>
⁶ <https://www-statista-com.proxyiub.uits.iu.edu/statistics/259204/leading-10-tobacco-companies-worldwide-based-on-net-sales/>

Analysis

Five Forces – Industry Analysis (Michael Porter)

The Five Forces Model⁷ which was developed by Michael E. Porter mainly aims to assess the competitive forces in an industry. In the case of ITC, this model can be used to further improve the company and ascertain the areas which need to be kept in check and focused on.

Existing Rivalries (High)

ITC has some huge rivals all over the world. This is mainly because ITC as a company doesn't deal with just one kind of product – it is a multinational conglomerate which has an extremely large, diversified portfolio ranging from FMCG, hotels, paperboards, cigarettes, software, packaging, and agribusiness being some of them. It is also worth noting that even though ITC is an Indian company, its products are exported to around 90 different countries. Due to this, the rivalry among existing companies is quite **high**.

According to GlobalData⁸, some of the biggest international rivals of ITC are:

1. **The Procter & Gamble Co:** Headquartered in the USA, this public company has a revenue of about \$82B.
2. **L'Oreal SA:** Headquartered in France, this public company has a revenue of about \$40.2B.
3. **British American Tobacco Plc:** Headquartered in the United Kingdom, this public company has a revenue of about \$34.1B.
4. **Reckitt Benckiser Group Plc:** Headquartered in the United Kingdom, this public company has a revenue of about \$17.8B.

Of course, apart from these overseas rivals, ITC faces stiff competition from competitors within India such as Hindustan Unilever Limited, Godrej Consumer Products, Marico, and more.

One must also keep in mind that ITC has numerous competitors **within** each of its sectors like FMCG, Tobacco, and Hospitality.

⁷ <https://www.mindtools.com/at7k8my/porter-s-five-forces>

⁸ <https://www.globaldata.com/company-profile/itc-ltd/competitors/> ITC Ltd: Competitors

Threat of Substitutes (Moderate to High)

From the above numerous existing rivals in the industry, it goes on to show that the threat of substitutes can be **moderately high** if left unchecked. The number of alternative brands that a consumer can choose from is humongous – especially in the FMCG sector. However, since ITC has a stake in various other sectors like hospitality and tobacco, the threat of substitutes may not be as high as compared to the FMCG sector but moderately high, nonetheless.

In the hospitality industry, for example, people may choose which hotel to stay at depending on the type of service. Premium hotels face less direct competition from substitutes compared to mid-range or budget hotels.

STEEP Analysis

Social Factors:

Consumer Understanding and Brand Building: ITC's strengths lie in its deep understanding of consumer behavior and effective brand building. This focus on consumer preferences and brand image aligns with the evolving social dynamics of consumer-driven markets.

Changing Perceptions of Tobacco: Due to numerous anti-smoking campaigns and health awareness, there has been a gradual decrease in tobacco consumption and thus has put pressure on the company.

Shift to FMCG: ITC's shift to FMCG shows how they considered the social preferences for high quality, diverse products.

Employee Values: ITC hold its employees and past employees in high regard. Their commitment shows how its employee-centric approach, which is uncommon in many companies. This focus on employee well-being aligns with changing social expectations for responsible corporate behavior.

ITC can further enhance its consumer-centric approach by engaging with consumers and doing extensive research and development so that it can keep up with social trends – thus having a competitive edge.

It can also focus on health and wellness by expanding its FMCG product range to include healthier alternatives, organic options, and products aligned with wellness trends. This can address changing social attitudes towards healthier lifestyles.

Economic Factors:

Governmental taxations & Regulations: Tobacco is highly taxed in India. However, due to the ban of e-cigarettes, ITC expects a higher sale in tobacco-based products like cigarettes – thus leading to more economic benefits for the company.

Higher Employment Opportunities: According to a report in the Economic Times⁹, ITC was known to employ 4.5 crore (45 million) people with a total valuation of 11.79 lakh crore (\$118 million). ITC has also invested 6000 crores (\$60000 million) in the past decade and created employment for over 20,000 employees directly and approximately 5 million people indirectly.

ITC is moving in the right direction of diversifying – especially in the FMCG sector. This is so that the company isn't too heavily reliant on its tobacco sector and even though ITC's highest source of revenue comes from tobacco, the FMCG sector is not too far behind.¹⁰

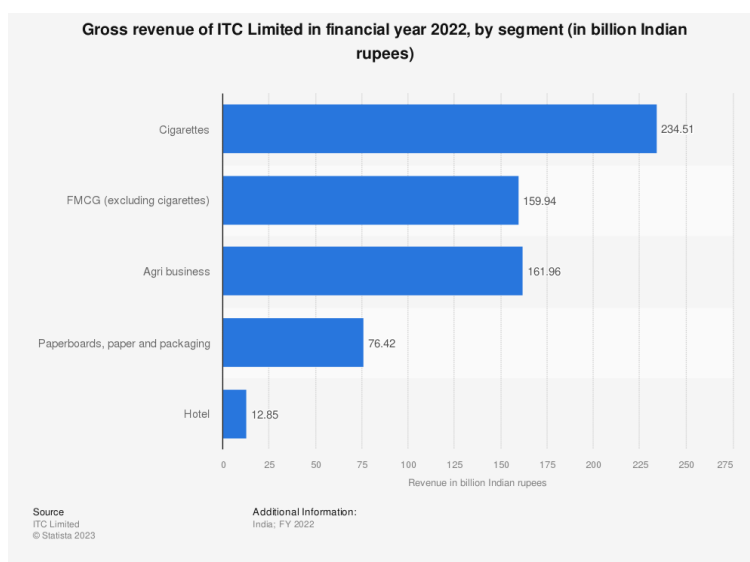


Figure 1: ITC Gross Revenue by Segment

Political Factors:

Taxations and Regulations: The government of India has regulated the sale of cigarettes strictly for those above the age of 18. It has also ensured that tobacco manufactures put up a statement of warning on each and every tobacco product. This in turn could hinder cigarette sales of ITC.

Diversification Decisions: These were based on brand building and ITC's high-quality products that just screamed wow. Political factors such as India's foreign exchange crisis in 1978¹¹, ITC was prompted to explore new revenue generating options.

⁹ <https://economictimes.indiatimes.com/industry/cons-products/fmcg/itc-says-helped-people-access-govts-rural-employment-scheme/articleshow/76855048.cms>

¹⁰ <https://www.statista.com/statistics/1124611/india-gross-revenue-of-itc-ltd-by-segment/> ITC Gross Revenue By Segment

¹¹ https://www.indiabudget.gov.in/budget_archive/es1979-80/1%20The%20Economic%20Situation%20in%201979-80.pdf

Environmental Factors:

Sustainability Initiatives: ITC is the only company in the world to be carbon positive, water positive, and solid waste recycling positive. These efforts positively demonstrate its dedication to environmental responsibility.

Renewable and Responsible Energy: ITC uses about 43% of its energy consumption from a renewable source like wind and solar energy.¹²

By increasing their sustainability efforts, ITC could promote brand loyalty – thus helping the world while increasing investments in the company and boosting its stock prices.

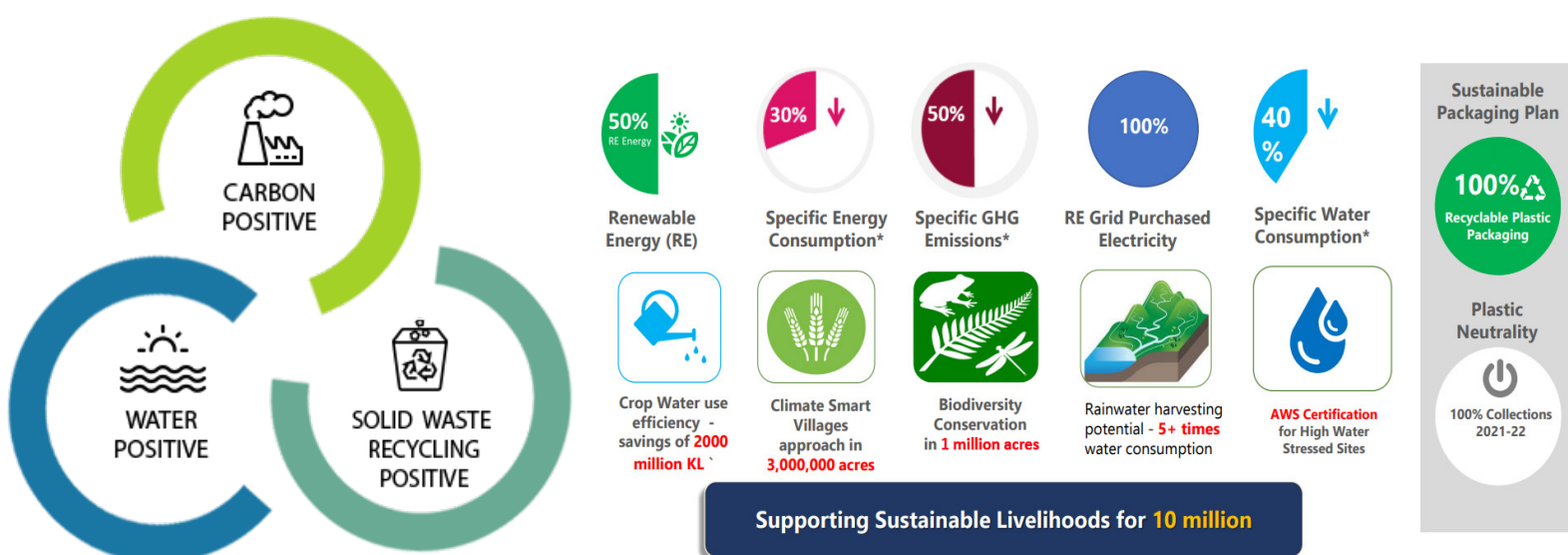


Figure2: left: ITC's current sustainability, right: ITC's sustainability goals 2030¹³

¹² <https://www.itcportal.com/sustainability/index.aspx>

¹³ <https://www.itcportal.com/sustainability/sustainability-goals-2030.aspx>

SWOT Analysis

Strengths:

Diversification: ITC has moved from being a solely based tobacco company to a diversified company which deals with FMCG on a huge level. They have also ventured into areas like hospitality and technology.

Continuing to diversify their portfolio would help them in the long run so that they wouldn't be so dependent on tobacco as their primary source of income.

Consumer Understanding & Brand Loyalty: ITC understands consumer behavior and is thus able to create consumer centric products which increase brand loyalty. The quality of ITC's products are top notch thus increasing their market presence as well. ITC also boasts brand leadership by being the number one brand in the Indian market for 'Atta' (wheat flour), Cream biscuits, Chips, Notebooks, Noodles, and Incense sticks.¹⁴

By continuing this and coming up with more diverse products such as healthier options, ITC is bound to grow.

Sustainability Initiatives: ITC is the only company in the world to be carbon positive, water positive, and solid waste recycling positive. By continuing these sustainability efforts, it can enhance reputation and contribute to environmental responsibility.

Ethics: Being a highly ethical company, ITC has a strong market standing and strongly believes that a company cannot survive when a country doesn't survive. "Country comes first, corporate comes second".

Weaknesses:

High Dependence on Tobacco: Tobacco, being the primary source of revenue, could face regulatory challenges and declining consumption due to government restrictions and taxations. Declining consumption trends due to health concerns could also be an issue.

By developing strategies to slowly move away from tobacco and more into the FMCG sector could be a good way to solve this. Diversification would be the key element here.

Market Saturation and Stiff Competition: The FMCG sector sees many big companies, thus promoting stiff competition and is fairly hard to gain a market share.

By conducting competitive analyses, ITC can identify market gaps and consumer needs to promote consumer-centric goods.

Opportunities:

¹⁴ <https://www.itcportal.com/about-itc/shareholder-value/annual-reports/itc-annual-report-2023/pdf/ITC-Report-and-Accounts-2023.pdf>

Technology Advancements: ITC's branch of 'ITC Infotech' can work and invest in advanced technologies like artificial intelligence and data science solutions to help improve the other sectors in any way they can.

Global Expansions: ITC can diversify its portfolio and expand to global markets so as to rely less on its tobacco centric revenue and focus more on the FMCG and hospitality sectors.

Healthcare: Talks are being held to branch out to the healthcare sector – towards health and wellness products. This could potentially be an investment in research and development to develop and market healthier products.

Threats:

Government Regulations and Changes: There are many stringent regulations that the government of India has imposed on the tobacco industry which could potentially affect ITC's growth and profitability.

By adhering to these regulations and communicating with regulatory bodies can ensure compliance and anticipate regulatory shifts.

Strong Competition: The various sectors in which ITC operates has some extreme competition which can be tackled with brand loyalty, consumer-centric products and ethical values.

Health Concerns: Many people are getting health conscious and thus could decline the usage of tobacco. This could ultimately lead to lesser profits. From ITC's perspective, it could try to come up with more health beneficial products to go with the flow of health awareness.

Thus, ITC would be able to move forward if they can focus on diversification, innovation, and continuous adaptation to evolving market dynamics.

Sources

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