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India Inc tightens up to cope with inflation

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NEW DELHI: India Inc's in a belt-tightening mode. Corporates across sectors have started resorting to drastic measures to cope with the difficult times — double digit inflation and high interest rates. Deferring hiring, minimising travel costs by opting for video-conferencing, experimenting with working-from-home initiatives and cutting down on entertainment allowances are just some of the initiatives being tried out. Companies are also resorting to long-term contracts for raw materials, bulk buying and centralised sourcing to cushion the high costs. This is in addition to regular practices like fine-tuning manufacturing efficiencies.

Godrej Consumer Products executive director and president, Hoshi Press, reflected the mood: "All of us have to go on an austerity drive to cut costs, especially fixed costs, dramatically." Detailing on the measures, Mr Press said: "In such times, the headcount becomes very important. We are looking at minimising and optimising our workforce, since in good times companies tend to put on a little flab. We are cutting down travel costs and revisiting purchasing activity such as reverse auction procurement and sourcing through e-auctions which lower costs."

Companies believe that options like hiking consumer prices, product re-grammage (tinkering with weight and packaging) and reducing ad spends don't provide the desired solution, as beyond a point, these options run the risk of hitting demand. Henkel India managing director A Satishkumar said: "How long can we hike prices? It's a double-edged sword because it negatively impacts consumer demand. Also, reducing marketing spends is equally risky for an FMCG company like ours. So, we are looking at each and every aspect of the profit and loss — transport, warehousing, travel, distribution, and optimising raw material procurement — our biggest cost element."

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Hit by rising costs of raw materials like steel and copper, the consumer durables sector is opting for equally stringent measures. Ajay Bajaj, head of air conditioners and washing machines at Videocon, said: "We are trying to do 'value engineering', among other measures such as shortening the credit cycle for our distribution channel and moving towards a centralised material sourcing strategy."

Jindal Steel and Power (JSPL) is working on making the entire transport system more efficient, as high fuel costs have inflated transport costs, which in turn are impacting the company's profitability. JSPL director (finance), Sushil Maroo, said: "Efforts are being made to reduce waiting time for vehicles, ensure that departure of material to various customers happens at one go, that too using lesser number of vehicles and to cut down on damages caused to vehicles during transit."

Even non-manufacturing sectors, such as BPO, are trying their best. “Transport and power account for 7-8% of our operating costs in India. We are constantly undertaking cost rationalisation initiatives. Several other initiatives are under way, which are also environmentally sensitive. Going green is one of them,” said WNS group CEO Neeraj Bhargava. The company is in process of turning all its offices into green buildings. While this would mean a significant initial investment, the BPO firm’s energy costs would come down in the long term.

Genpact, country’s largest BPO firm, is experimenting with a work-from-home initiative for its employees in finance, legal and HR divisions. Genpact recently formed a joint venture with training major NIIT that will train as many as 10,000 people in the first year. “It will bring down the cost of training for us and NIIT is more efficient at training people than we are,” said Genpact’s president and & chief executive officer, Pramod Bhasin. On rising transportation costs, Mr Bhasin said one advantage of going to tier-II and III cities is that transportation costs are relatively lower in these cities.

According to HR consultants, while this is not the time to press the panic button, things are going to be difficult. “Companies have started rationalising their manpower across all levels. Whether it’s an under-performer at the entry level or at senior level, they stand chances of being shown the door. People may not loose jobs, but more people may not get jobs. Companies want the existing employees to be more productive, rather than hiring new ones. If the inflationary trend continues, it might be reflected on compensations. However, the real impact would be felt only after December, when companies will go for appraisals once gain,” says Manpower India managing director, Naresh Malhan.

Some say the Indian arms of multinationals will take a bigger hit on the HR front. Director of Headhunting firm, Executive Access (India), Ronesh Puri, said, “It is the multinationals that might face a double whammy. First, US slowdown and now the inflationary pressure. As money becomes dearer in the coming months, crucial times lie ahead.” Among the sunrise sectors, retail, which has created a huge employment demand in the last couple of years might also get affected leading to slower hiring. “For the premium retail segments, sales may come down. As a result, hiring in the industry as a whole may slow down a bit. The current inflationary pressure may also affect the growth momentum in the retail industry,” said Subhiksha managing director, R Subramaniam.

Driven by cost pressures, many companies had already started postponing their expansion plans, and many more will follow the trend. While some companies like TCS, IBM and banking major ICICI had shown the door to ‘poor performers’, others like Infosys and HCL have indicated that they will go slow while hiring. HCL senior vice-president and global head-talent transformation, Anand Pillai, said, “It is true that hiring rules in the IT industry have become more stringent than earlier. Bench strengths have reduced and the preference has shifted from quantity to quality.”

When it comes to the auto sector, the inflation pinch is more of a demand squeeze. Both motorcycles, and to a lesser extent cars, had been battling sales slowdown since last year. According to industry insiders, inflation has managed to gobble up the excise benefits offered to small cars in this year’s budget, dampening sentiment and affecting growth. Although it’s not yet negative, car sales will barely manage single digit growth this year, say analysts. That’s why most auto companies are battling inflation with a marketing and sales push instead of belt-tightening to squeeze out extra costs.

As for squeezing out cost from the supply chain, that's something the industry has been working on given the sales and sentiment dip since last year. "No one is on the gravy train, so there's no question of getting of," says chief executive officer of a top Delhi-based auto component company.

Bajaj Auto managing director, Rajiv Bajaj, pointed out: "My own view is that in a year's time, a little after the US elections, major issues like the dollar, commodities and oil prices will settle down. So let's not throw the baby out with the bathwater. I don't see any impact on Bajaj's sales or profitability since most of our capex is for product and market development and capacity. So, there will be no cutback. I believe that such pressures are actually good as they keep us honest."

(With inputs from Pramughdha Mamgrain and Mahima Puri)