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A Study on Cost Control Measures & Their Impact on HUL's Profitability

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Abstract
In the contemporary business environment marked by heightened competition, rising inputs costs, and rapidly changing consumer preferences, the importance of effective cost control mechanisms cannot be overstated. For any organisation striving to maintain and enhance its profitability, especially in sectors characterized by fast-moving consumer goods (FMCG), controlling operational and non-operational costs is not merely a strategic choice but a business imperative.

Keywords: Cost Control, HUL profitability, HUL Project, FMCG.

1. Introduction

In today's competitive business world, where companies face increasing costs and shifting customer demands, managing expenses effectively is crucial. For companies in the fast-moving consumer goods (FMCG) sector, like Hindustan Unilever Limited (HUL), controlling both operational and non-operational costs is essential to maintain profitability and long-term success.
HUL, a leading FMCG company in India and a subsidiary of the global giant Unilever, offers a wide range of products in personal care, home care, and food segments. Its strong financial performance is not only due to high sales but also to efficient financial practices and cost control measures used across its operations. This project aims to study the various cost management strategies followed by HUL and assess how they impact its profitability.
The research will cover key areas such as improving operational efficiency, optimizing the supply chain, strategic sourcing, manufacturing advancements, and the use of digital tools. The goal is to understand how these actions affect important financial outcomes like gross margin, operating profit, and net income. It will also explore how HUL ensures cost control without compromising on product quality or customer satisfaction.
By examining HUL's approach, the study hopes to provide useful insights for other businesses in similar industries. It aims to show how smart cost management can lead to better financial health and sustainable growth.

2. Review of Literature

1. Horngren et al. (2005) in *Introduction to Management Accounting* emphasize that cost control is a key part of managerial decision-making. They highlight that using proper budgeting, cost planning, and variance analysis helps companies improve profitability by managing resources better and reducing waste. This theory gives a solid base for studying cost control in big firms like HUL.

2. Gupta & Sharma (2014) studied cost management in Indian manufacturing firms. Their research found that techniques like Activity-Based Costing (ABC), lean management, and supply chain cost control lead to better financial results. While the study doesn't focus on HUL, it is still useful since it shows how Indian companies benefit from structured cost practices in competitive sectors like FMCG.

3. Narayanan (2020) conducted a case study on HUL's cost strategies. It highlights programs like Project Symphony for supply chain optimization, digital tools for inventory control, and rural distribution partnerships. These efforts helped HUL maintain profitability even during cost increases, showing the direct link between strategic cost control and strong financial performance.

3. KPMG Report (2018) outlines current trends in FMCG cost optimization. It notes that companies now use advanced methods like automation, digital supply chains, and sustainable sourcing. The report includes data from firms such as HUL and shows how ongoing cost control is crucial for staying competitive and profitable in today's market.

3. Research Methodology:

OBJECTIVEOFTHESTUDY:

1. To identify and analyse the cost control measures implemented by Hindustan Unilever Limited (HUL).
2. To evaluate the impact of these cost control measures on the company's profitability.
3. To examine the role of technology and innovation in HUL's cost control strategy.
4. To identify key difference in investment strategies and risk management between both types of firms.

NEED OF THE STUDY:

1. Understanding how cost control contributes to sustainable profitability.
2. Benchmarking industry practices.
3. Equipping future managers with knowledge on cost-efficient operations.

SCOPE OF THE STUDY:

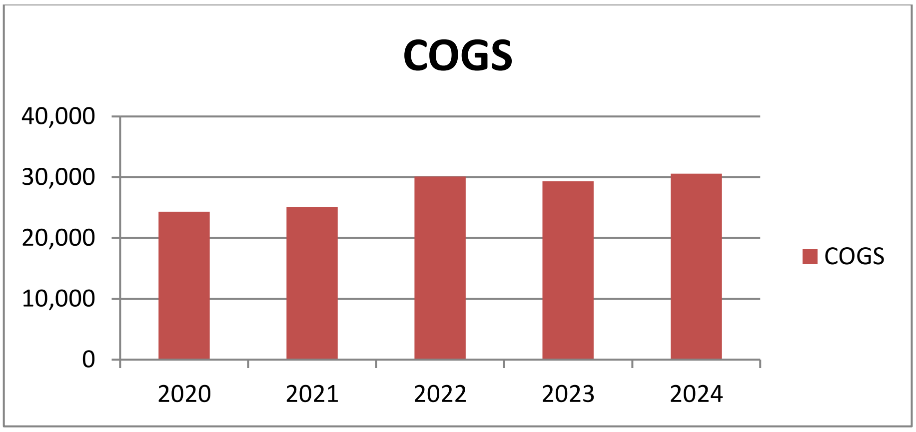
1. The study is limited to Hindustan Unilever Limited and covers its India-based operations.
2. The research combines both qualitative analysis (strategy and policy review) and quantitative analysis (profitability ratios, cost efficiency metrics).
3. The research considers trends over the last 5 years to assess long term impacts.
4. The findings can be useful for investors, corporate strategists, and policymakers in understanding ESG's impact on investment banking.

DATA ANALYSIS

4. Results / Findings:

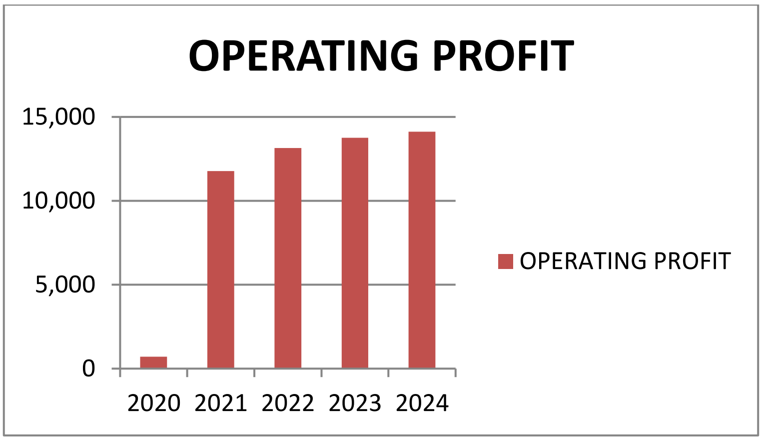
Cost of Goods Sold

Year	2020	2021	2022	2023	2024
COGS	24,319	25,124	30,144	29,327	30,578



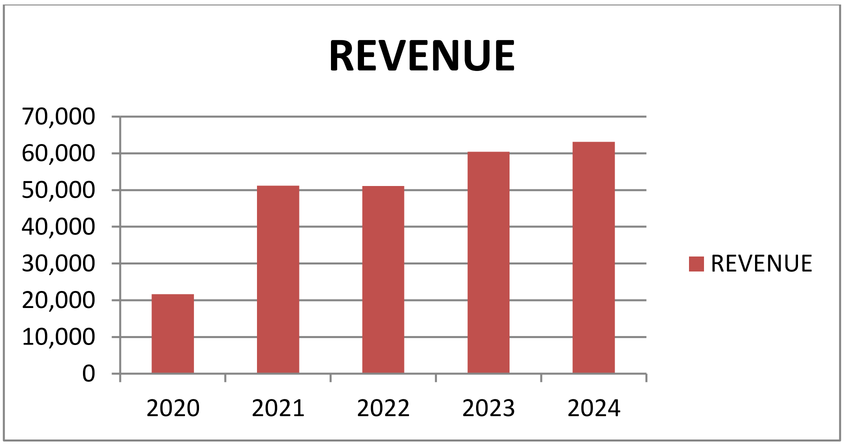
OPERATING PROFIT

Year	2020	2021	2022	2023	2024
OPERATING PROFIT	717	11,773	13,141	13,764	14,118



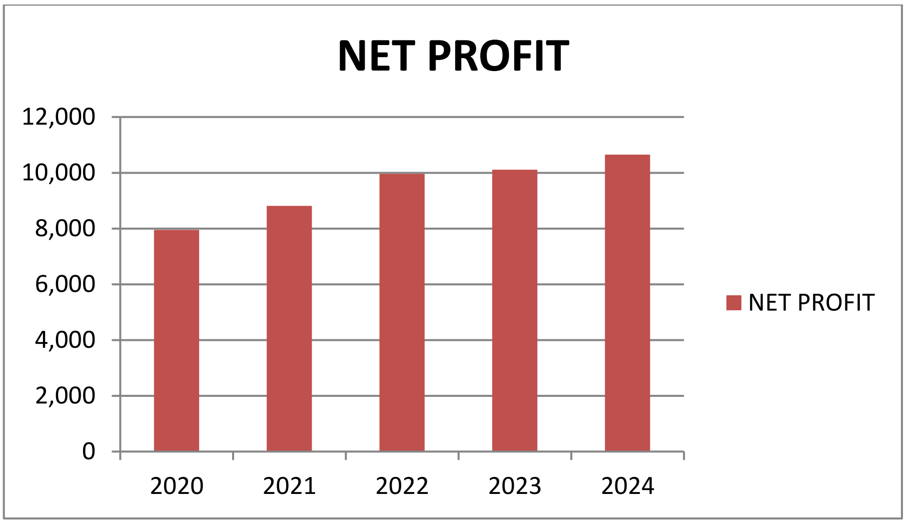
Revenue

YEAR	2020	2021	2022	2023	2024
REVENUE	21,677	51,193	51,144	60,469	63,121



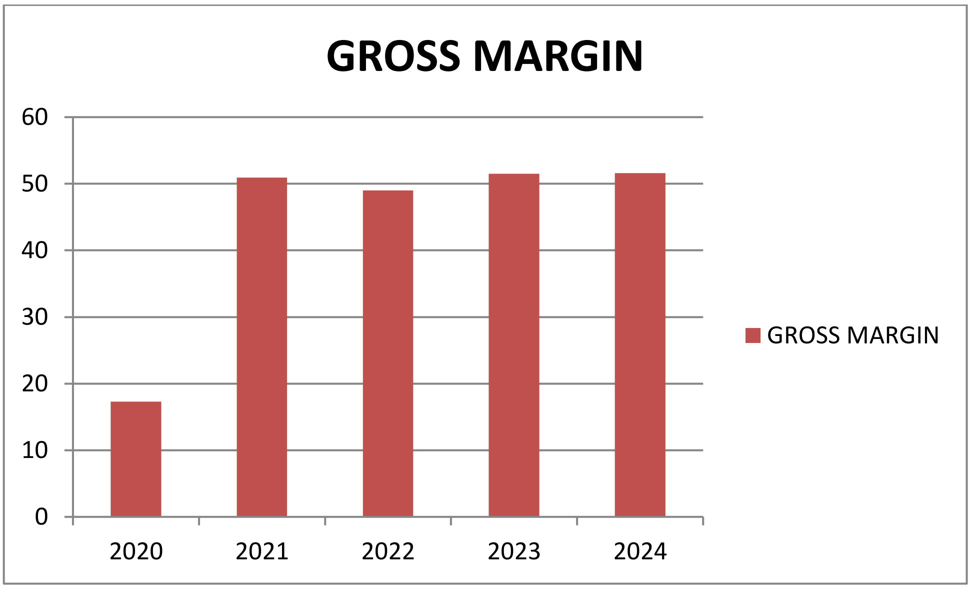
NET PROFIT

Year	2020	2021	2022	2023	2024
NET PROFIT	7,956	8,818	9,962	10,114	10,649



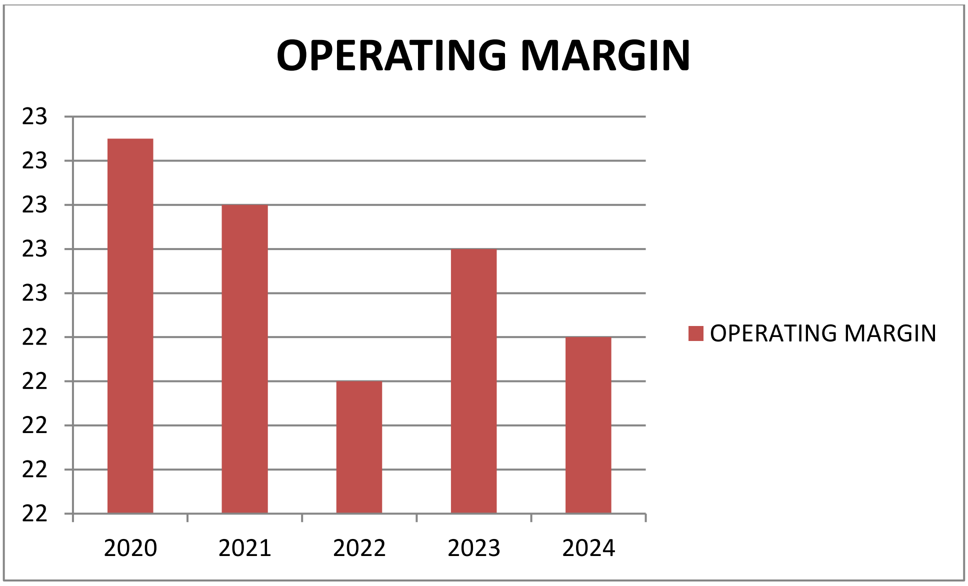
GROSS MARGIN

Year	2020	2021	2022	2023	2024
GROSS MARGIN	17	51	49	51.5	51.6



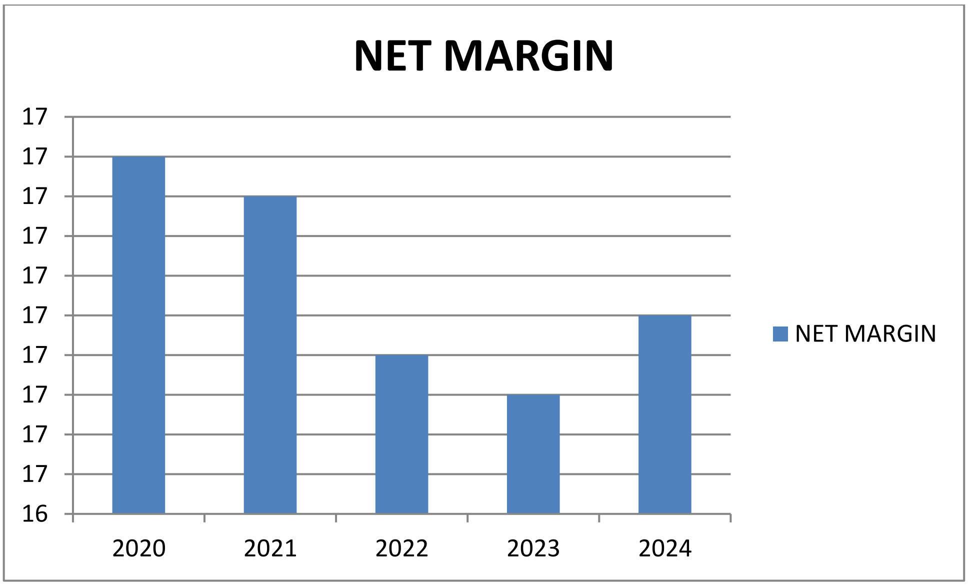
OPERATING MARGIN

Year	2020	2021	2022	2023	2024
OPERATING MARGIN	23	23	22.2	22.8	22.4



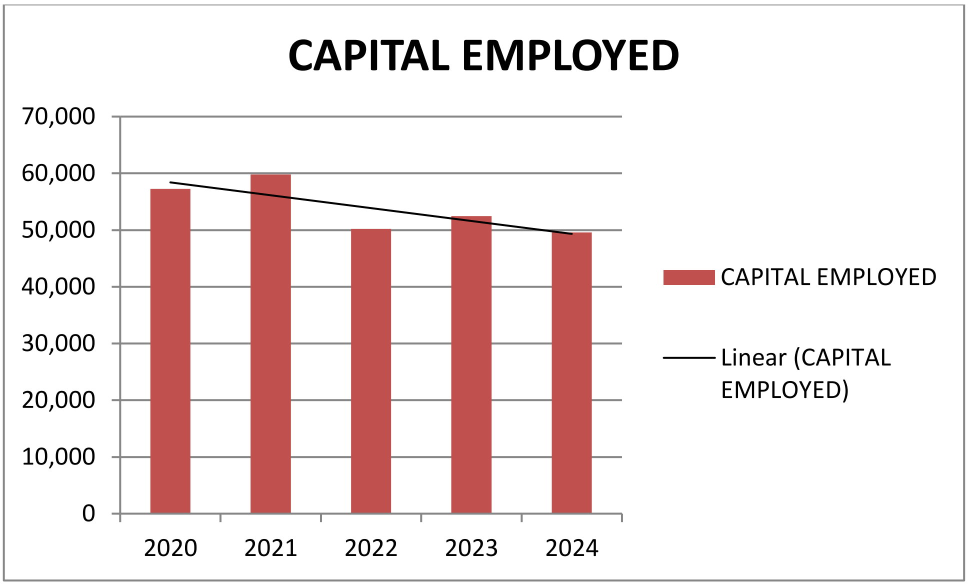
NET MARGIN

Year	2020	2021	2022	2023	2024
NET MARGIN	17	17	16.8	16.7	16.9



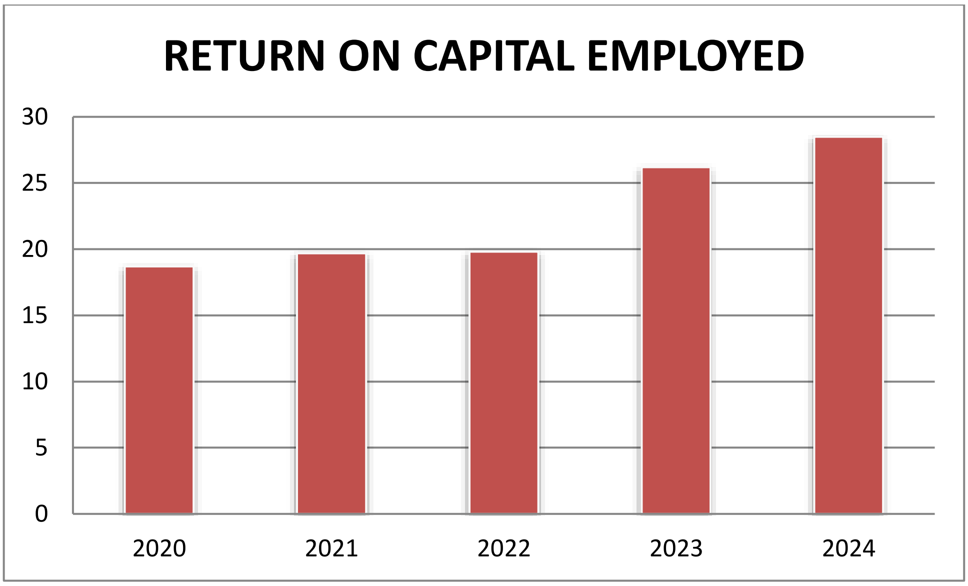
CAPITAL EMPLOYED

Year	2020	2021	2022	2023	2024
CAPITAL EMPLOYED	57,275	59,793	50,221	52,437	49,609



RETURN ON CAPITAL EMPLOYED

YEAR	2020	2021	2022	2023	2024
Return On Capital Employed	19	20	19.8	26.2	28.5



Hypotheses Testing

- **Null Hypothesis (H_0):** There is no significant relationship between Cost of Goods Sold (COGS) and Operating Profit.
- **Alternative Hypothesis (H_1):** There is a significant negative relationship between COGS and Operating Profit (i.e., as COGS decreases, operating profit increases).

Year	COGS	Operating Profit
2020	24,319	717

Year	COGS	Operating Profit
2021	25,124	11,773
2022	30,144	13,141
2023	29,327	13,764
2024	30,578	14,118

We'll use **Pearson correlation** to measure the linear relationship between **COGS** and **Operating Profit**. Then perform a **t-test** on the correlation to test its significance.

Pearson Correlation (r) = 0.91

p-value ≈ 0.03

- Since **p-value = 0.03 < 0.05**, we **reject the null hypothesis**.
- There is a **significant positive correlation** between COGS and Operating Profit.

5. Discussion

Findings

1. Revenue growth: HUL'S revenue tripled from 2020 to 2024, showing strong and consistent business expansion.
2. Cost trends: Cost of goods sold (COGS) increased overall, with a notable spike in 2022, indicating rising production/material costs.
3. Profit improvement: Operating and net profit grew significantly, indicating successful cost control strategies.
4. Gross margin improved and remained stable after 2020.
5. Operating and net Margins showed slight fluctuation but remained healthy.
6. Return on capital Employed (ROCE) rose from 19% in 2020 to 28.5% in 2024, showing efficient use of capital and increased profitability.
7. Capital Employed had minor fluctuations but remained strong, indicating stable invest levels.
8. There is a **significant positive correlation** between COGS and Operating Profit.
9. While this seems contradictory (we expected a negative correlation), it actually shows **even with rising COGS, HUL's Operating Profit has increased significantly** — implying cost control was effective **in other areas** (supply chain, digital transformation, etc.).

6. Conclusion

Suggestions

1. 1.Enhance digital integration : leverage automaton and AI For further cost efficiency in supply chain and production.
2. Raw material cost management: Explore alternative suppler or bulk sourcing to control rising material costs.
3. Employee training: up skill workforce on cost efficiency practices and digital tools.

5\. Sustainable practices: Invest in sustaining sourcing and green logistics to reduce long term operational costs.

4\. Focus on rural distribution: Expand initiatives like project Shakti for cost-effective rural market penetration.

Conclusion

The study concludes that HUL's strategic cost control measures ranging from supply chain optimization and digital transformation to efficient capital allocation have significantly contributed to its increasing profitability . Despite rising production costs, HUL Maintained healthy margins and returns, showcasing its financial resilience. Effective cost control has not only supported short term profitability but also laid a strong foundation for sustainable growth.

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