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A Move to Rescue Profitability (A Mini Case Study of PZ Cussons Nigeria)

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ABSTRACT

The year 2016 marked the beginning of a major economic plummet for PZ Cussons Nigeria. This was due to various macroeconomic factors beyond the company's control. In August of that year, the headlines read, "Nigeria has slipped into an economic recession," which had a massive impact on the country's businesses, including PZ Cussons Nigeria. Despite the difficulties, the company attempted to make decisions that would position them to capture value for the overall company.

However, the company's annual report showed that profit and revenue had tanked for the first time. This was a significant blow to PZ Cussons Nigeria, which had previously been a giant within the PZ Cussons group. As revenue dwindled, so did profit, and the company became a shadow of its former self. It's unclear what quality of decisions were made that still led to a decline, and many people are left wondering how this happened and what could have been done differently.

PZ Cussons Nigeria

PZ Cussons, an international consumer goods group with an established portfolio of brands in different geographies worldwide, was founded by George Zochonis and George Patterson; this trading journey began in Sierra Leone, where they began trading commodities with the UK in 1884. In 1899, the founders opened their first office in Nigeria, a country that became their most significant market and largest employer of labour in the group.

PZ Cussons group headquarters is in Manchester, United Kingdom, with businesses in Europe/America, Asia, and Africa.

PZ Cussons Nigeria is one of its oldest and most prominent markets. [1]PZ Cussons operates in personal Care, home care, electricals, and food. It has a joint venture with Haier[2] and Wilmar[3]. PZ Cussons can easily be identified as a heritage company in Nigeria with over 120 years of doing business in Nigeria.

Personal Care has beloved brands like Premier Soap, Imperial Leather, and Joy Soap.

The food division had a dairy company called Nutricima[4] and PZ Wilmar, with products such as Olympic Milk, Nunu Milk, Mamador Oil, and Kings Oil.

The electrical division deals mainly with white goods, with Thermocool, Nigeria's foremost leading brand in freezers and fridges.

How the mighty have fallen.

The decline persisted in 2018 as they continued to record losses in revenue and profit. They could not change the tide, or so it seems in the annual report, it was.

Stated that "lack of liquidity in trade and reduced consumer discretionary income" accounted for the continued decline. However, looking at its closest competitor, Unilever Nigeria, one would beg to differ as it grew in revenue and profit from N85.1 billion Naira in 2017 to N92.8 Billion Naira in 2019; this accounted for 9% growth for Unilever Nigeria; one would question the quality of internal decisions, the company strategy, and the steps it has taken in the last two years after the recession.

[1] PZ Cussons annual strategic report 2016 Pg. 4
[2] Biggest white goods company in Asia
[3] Biggest edible oil producer in Singapore
[4] Now sold to Friesland Campina in 2020

In 2019, PZ Cussons group rolled out a new company strategy, "Focus, Scale and Accelerate" Its purpose was to reposition the company for growth by focusing on scaling up selected activities that would accelerate growth, transforming the country into a lean and more agile business to sustain the accelerated growth.

What does this mean for Nigeria? According to Caroline Silver, the Madam Chair for the group, "we cannot rely upon short-term economic conditions improving markedly in our key market and therefore taking action to reposition the group to return to profitable growth"[5], that meant deprioritising some brands and prioritising the ones that made profit for the business.

The MD of the PZ Cussons, Alex Goma, resigned, and the news of his exit sent a ripple to the whole company. The same year, the group CEO Alex Kanelis announced he was retiring, as the latest 2019 annual report showed a further decline in revenue and profits. Someone would need to take the fall, and I could also assume that the men stirring the ship would be the fall men.

I would think 2020 did not go as planned; the profits and revenue went into deficit, as seen above; that begs the question, was the new strategy the right call for the Nigerian business? Would the dynamism of the market and its VUCA environment allow for FOCUS, SCALE AND ACCELERATE?

The rumour in 2019 came true in 2020. PZ Cussons Nigeria sold their dairy business Nutricima to Friesland Campina in March 2020, and in June, the CEO of PZ Cussons Nigeria, Christos Giannopoulos, retired and a new CEO was appointed; in December 2020, the chairman of the board, Kola Jamodu also retired, this meant many changes in the business.

Profits and revenue continued downward; did they have the right strategy? Were they strategic in their pursuit of growth? Did they have the right people and culture? These are the questions that led to the deep dive below.

A deep dive

Purpose: With the declining profitability and revenue mentioned above, this section critically analyses the factors that may have contributed to PZ's situation and proposes recommendations.

Frameworks

The frameworks below will be used to examine the issue raised in the case.

PEST Model to analyse the macro environment from 2016.

Porter 5 forces us to look at the operating microenvironment.

Swot analysis to analyse the company.

Macro battles

Political factors: The Nigerian political scene since 2015 has been volatile, with pockets of insurgence in different parts of the country, the Boko haram kidnapping in the North, and the Niger Delta vandalising oil pipelines in the South. Removal of fuel subsidies by the federal government means PMS prices will go up and further squeeze the discretionary income of the populace. The increasing rate of corruption has made doing business in Nigeria increasingly difficult for companies like PZ Cussons Nigeria.

Economic factors: Nigeria was in a vulnerable state; according to BBC News[6], the Nigerian economy in 2016 contracted by 2.06%, the vital oil industry was hit by weaker global prices, and barrel of oil dropped from $115 to $50 bearing in mind that 70% of the government's income comes from the sale of crude oil. Inflation was at an all-time high of 17%, and the Naira became weak, forcing the government to devalue the Naira; this was delayed and further constrained the Naira. PZ Cussons relies on the importation of raw materials; the weakened Naira means a higher cost of raw materials, and the cost of products will rise given the cost of raw materials.

Sociocultural factors: the unemployment rate continued to be a source of concern. Unemployment has been hovering at 8% -12 % since 2016, and this also affects consumer purchasing; if they do not have jobs, they cannot buy goods. A squeeze in discretionary income caused a shift in the downgrading to more.

Affordable substitutes.

PZ Cussons started to feel the impact of the macro effects on its sales and profitability, which continued. Sales started to stagnate, and a full-blown decline in revenue and profits started. This continued with an influx of smaller local players offering more for less; at that point, PZ Cussons lost its competitive advantage and started to look like its sheer size, its heaviness in terms of staff strength and the overheads from the factory started to weigh down on profitability. PZ Cussons did not think this would continue; they felt it would end after the recession; however, after the recession, it continued to decline, raising a question of whether the company strategy would sustain Nigeria through this VUCA[7] period.

[5] Quote from PZ investor relations portal (proshare)

[6] https://www.bbc.com/news/business-37228741

[7] VUCA means Volatile, Uncertain, Complex and Ambiguous

Industry heat: Bargaining Powers

Suppliers: PZ Cussons Nigeria depends solely on suppliers for raw materials and packaging materials. Nigeria is an importation country, meaning raw materials are majorly imported and then produced in the country. Supplier power has become high with the devaluation of the Naira, economic downturn, and lack of forex. PZ Cussons' annual report 2016 mentioned raw materials supply as one of its challenges. PZ Nigeria has no control over material and packaging prices and may be unable to absorb them, so it would have to pass them down to consumers. This may, in turn, affect the cost of production and, ultimately, the consumer price, making them less competitive in the market.

Buyers: According to the Kantar World Panel 2017 Household report, the consumer is going through "Switch, Swap and Squeeze". Switching to more affordable personal and home care brands, swapping to other packaging options that offered better pricing, swapping plastic bottles for refillable Doy packs, and squeezing the size of purchase instead of buying the usual quantity, they buy lower. With the entry barriers for personal and home care in Nigeria low, buyers can switch to alternatives and substitutes. So many macro factors listed above are affecting the consumer's purchasing power.

Industry heat: Competition

Barriers to Entry: The barriers to entry in the personal care category are low; with the rise in technology and business, it is easy to find a third-party manufacturer who has excess capacity and is willing to produce to optimise its is factory; the Nigerian boarders are also porous, that means, products from Indonesia, China, UK, US and other neighbouring countries are sold in Nigeria, asides the small cottage companies like WJ Bush, Aspira, Cormart, Givanas, Eko Supreme, Hello products, Four Brothers, Angos and so many others aside the big multinationals like PZ Cussons, Unilever and P&G.

Substitutes: As pointed out above, the barrier to entry is low, so there is an influx of substitute brands in the personal care category, offering more to the consumer in terms of size and price. Nigeria's barrier to entry is so low that the market has an influx of imported brands across the categories where PZ Cussons play, aside from the local brands and big multinationals like Unilever, P&G, Henkel, LG, and the like.

Rivalry is intense: The rise of cottage companies in 2017, after the recession, an influx of small and large companies came back to Nigeria, and the competition was fierce across all categories PZ Cussons Nigeria played; in personal Care, there were small companies like Aspira coming in, and big companies like Henkel and P&G nesting their tent in the home care space.

Brands like Hisense, Polystar and other nameless white goods companies competing for a share of wallet, dairy and food categories saw an influx in both local and imported offerings; the heat was on for the multinationals with a heavy cost structure and overheads, the smaller companies tends to fight with price, cut their cost considerably, offer more to the buyers and maintain an acceptable price to the consumer therefore have competitive advantage over Multinationals like PZ Cussons.

Looking inward: PZ Cussons Nigeria.

Strengths	Weakness
• *Strong brands* • *Strong Heritage, over 120 years in Nigeria.* • *Size of the physical business, 2 major factories in Aba and Lagos, the biggest Detergent factory in Nigeria. 1 soap factory with multiple line, Edible oil and spread factory, dairy producing factory.* • *Over 2000 in staff strength* • *Part of a multinational company* • *A well structured business*	• *Too many smaller brands that have passed their product life cycle* • *Minimal investment in marketing* • *High factory overheads affecting the final price to consumer* • *Top heavy people structure, business running a matrix system, with global and regional hubs* • *Over-dependence on importation of raw materials* • *Innovation churn out is slow due to plenty processes* • *High attrition rate on staff, people leave en-mass*
Opportunity	**Threats**
• *3rd party manufacturing, PZ has got infrastructure to produce for themselves and small cottage companies.* • *Backward integration, buying local raw materials companies and helping them develop to meet the needs to the business.* • *Exporting to neighboring African countries in west Africa that cannot produce but rely on imports .*	• *Entrants of smaller players due to low barriers of entry* • *Close substitutes offering lower prices* • *Competition and price wars* • *Legislation and ban on importation of key raw materials* • *Weakened Naira to dollar, issues with getting forex to buy raw materials.* • *Natural disasters that is not in anyone's control like Ebola and Covid*

Tab 1.1: PZ Cussons Nigeria SWOT Analysis

Recommendations

From the analysis above, several factors have contributed to PZ Cusson's declining revenue and profits. While the annual reports attribute the decline to Nigeria's VUCA environment and other macro factors, further analysis has shown that other internal factors have significantly impacted PZ's performance from 2018-2020.

Change of strategy during the recession: Focus on high-margin brands and brands that have high differentiation in the market, Scale-up activities that will drive consumer offtake and accelerate the innovation pipeline that focuses on value products that will meet consumer needs in the harsh economic reality as consumers are trading down due to a squeeze in income. Even though the business did go into this strategy route in 2019, if they had done this earlier in 2016, it would have slowed the decline and given the business a fighting chance to recover.

Expanding into other African countries to optimise foreign exchange: Build export trade into other neighbouring countries like Benin, Chad, and Cotonou; this would boost sales of the business, factory utilisation, expansion of business into new countries and help in forex as business will be conducted in dollars or pounds sterling.

Backward integration: Due to the nature and size of the PZ Cussons Business in Nigeria, it would be beneficial for the business to own most of the businesses that supply its raw materials; being in Nigeria for over 120 years, one would think that would have happened. I would recommend that an investment be made in that regard.

Streamline products and focus on high-growth brands: PZ Cussons has over 300 stock-keeping units and about 30 brands. Selling off some brands that are not in line with the company's new strategy and cutting down the number of SKus[8] to a manageable number for efficiency.

Expand into third-party manufacturing for factory efficiency: With the decline in sales, there will be excess factory capacity; offer services to smaller cottage companies looking for manufacturing competencies; the barrier to entry is already low; offer the service, optimise the factory, and make profits. PZ Cussons has personal care expertise in manufacturing excess capacity to bring down the cost of production and sell that extra capacity to other smaller companies.

Restructure the whole organisation, keeping the structure flat: In order to reduce overheads and keep company costs under control, a restructuring from

A matrix system to a flat system is necessary to remove duplicating reporting lines.

Conclusion

The Journey to recovery for PZ Cussons Nigeria is not a small feat, given that the environment is still VUCA; even though I have proposed some recommendations above, Nigeria is still part of the PZ Cussons group, and if the above is not in line with the overall business strategy, then implementation may not be achievable. Over 120 years of doing business should be an advantage for PZ Nigeria, and that knowledge should be used to storm cloudy waters.

Certain limitations can arise to hinder the called-out recommendation, government policies on importations, closure of the land borders, and unforeseen pandemics like COVID-19 and Ebola.

I still believe PZ Cussons Nigeria can reverse its decline and grow its Nigerian business.

[8] SKUs means Stock-keeping units

Appendices

1.1 PZ Cussons Nigeria Brand Portfolio

Figure 1.

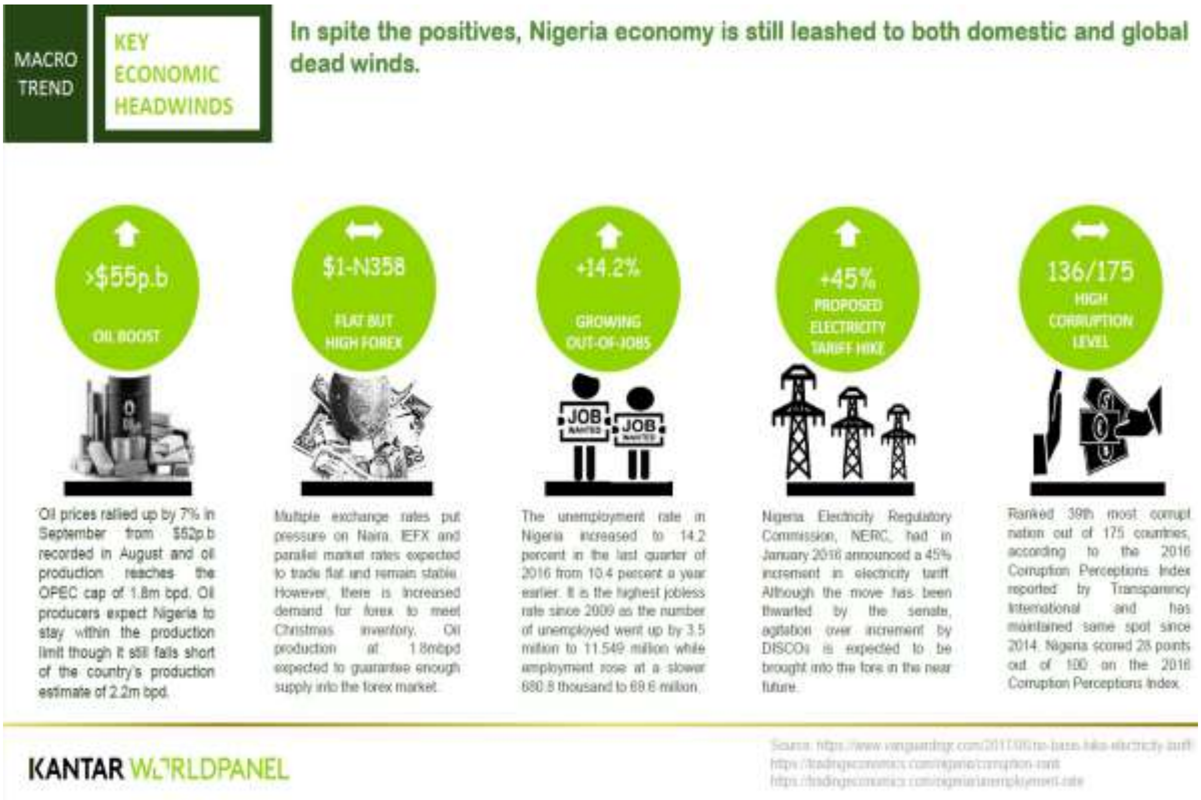

Figure 2.

1.2 Cross-section of personal care brands in Nigeria

Figure 3.

D. VRIO framework analysis for PZ Cussons Nigeria

Valuable	Rare	Costly/Hard to imitate	Exploited by the Organization	Competitive Implication
YES				Competitive disadvantage
YES	NO			Competitive parity
YES	YES	NO		Temporary Competitive advantage
YES	YES	YES	YES	Unexploited competitive advantage
YES	YES	YES	YES	Sustained Competitive advantage

Figure 4.

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