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Chapter 2

The Power of Adaptability: HEMAS Blueprint for Economic Resilience

M.H.D.N. Perera[1], H.N.R. Gunawardane[2], D.C.H. De Silva[3], P.T.D. Liyanage[4], T.L. Navaratne[5], S.G.U.S. Chandrarathne[6], O. Silva[7], P.J.S. Fernando[8], M. Serasinghe[9]

[1, 2, 3, 4, 9]*Department of Entrepreneurship, Faculty of Management Studies and Commerce, University of Sri Jayewardenepura, Nugegoda, Sri Lanka*
[5, 6, 7, 8]*Department of Business Economics, Faculty of Management Studies and Commerce, University of Sri Jayewardenepura, Nugegoda, Sri Lanka*

Abstract

This case study explores the journey of Hemas, a Sri Lankan conglomerate involved in the fast-moving consumer goods (FMCG) sector, as it navigates through the complexities that arise due to the Covid-19 pandemic, including disruptions to the supply chain, uncertainties in the global market, and the economic crisis in Sri Lanka which led to fuel shortages, exchange crisis and power outages. This case study explores the journey of Hemas, a Sri Lankan conglomerate involved in the fast-moving consumer goods (FMCG) sector. While navigating through the complexities that arose due to the COVID-19 pandemic and the war between Russia and Ukraine, Hemas faced difficulties in obtaining raw materials, specifically sunflower oil. At present it faces the negative repercussions of the severe economic crisis in Sri Lanka. Hence, the case study explores Hemas' strategies in response to these challenges, including a highly adaptable approach, leveraging its reputation for better financial terms, and prioritising employee well-being.

Keywords: *Hemas, Covid-19 Pandemic, Resilience*

Overview of Hemas Holdings

Hemas Holdings PLC was established to empower families to aspire for a better tomorrow and it has now passed 75 years in successful operations and expansions with over 4500 employees. The journey of Hemas has been inspiring since its kick-off in 1948 as Hemas Drugs (Pvt) Ltd. In 1962 it started the production of personal care products while it launched travel and tourism partnerships in 1970. One of the major milestones was the initial public offering in 2003 and the expansion of the borders beyond Sri Lanka by launching the Bangladesh consumer business in 2011. With several significant expansions and acquisitions, Hemas Holdings PLC now stands taller with the ultimate purpose of “Empower families to aspire for a better tomorrow” and the vision of “To be the best at enriching lives”. The value system of Hemas is to provide quality products and services to customers through i. Passion for customer, ii. Obsession for performance, iii. Driven by innovation, and iv. Concern for people.

Hemas serves through a portfolio of world-class products in the Consumer, Healthcare and Mobility sectors. Consumer brand portfolio includes a range of personal care products rooted in Sri Lankan goodness, namely Baby Cheramy, Clogard, Dandex, Diva, Fems, Goya, Kumarika, Velvet, Gold, Paris, and the list goes on. Adding to the list of brands, Morison is a well-trusted brand in Sri Lanka with a product portfolio of Morison Gripe Mixture, Morison Lacto Calamine and Morison Valmelix, Morison Glucomile. The education sector of Hemas has many trusted and loved brands under its diverse portfolio, Atlas, Homerun, Zebra X and Innov8. The consumer brand portfolio of Hemas can be identified as a strong core portfolio with a high market penetration. The company plans their journey in the consumer brands through actions like the introduction of value-for-money alternatives to cater to the shifts in buying patterns, building power brands to drive brand loyalty, maintaining market leading position through purpose-led initiatives and entering into aspirations sectors for the future.

The healthcare sector of Hemas is the largest private sector healthcare provider since 1948, with a dominant presence in the entire healthcare value chain. Hemas excels in quality, innovation, ethical standards and affordability by being the largest pharmaceutical sales network in Sri Lanka by servicing over 2300 pharmacies island-wide, with two international standard hospitals accredited by the Australian Council of Healthcare Standards International (ACHSI) and having ISO 15189 and ISO 9001:2008 certified laboratory chain. Having an island-wide distribution network, comprehensive product portfolio, strategic partnerships with global principles, and strong manufacturing capabilities under modern technological infrastructure strengthens the healthcare sector of the company.

Hemas Mobility sector consists of strong global partners and key organizations in the global transportation industry, from aviation to maritime businesses. Thus, Hemas serves as the general sales agent for Emirates in both the cargo and passenger verticals connecting Sri Lanka with key global destinations. The Maritime arm of the group includes the Evergreen Line and the Far Shipping Line, which offers a range of services, including husbandry services, spare parts logistics and offshore support services.

Having a range of well-reputed and innovative brands locally, Hemas has successfully reached the global market space for home and personal care products covering hair care, skin care, baby care, oral care, laundry, feminine hygiene and fragrance. Export destinations of Hemas include a range of countries, including Canada, the UK, New Zealand, Australia, Jordan, Samoa, UAE, Seychelles, Singapore, Malaysia, Bangladesh, Nepal, Maldives and India. The company plans to further expand its international business sector.

Through its 75-year history, Hemas has not only survived difficult times but also grown to become a key player in the Sri Lankan business landscape by the end of 2023 with a market capitalization of 104 million USD and total assets of 256 million USD. The company proudly maintains a AAA long-term Fitch rating, which reflects its steadfast dedication to sound financial management approaches. Hemas had remarkable financial performance in the financial year 2022–2023 with a Return on Capital Employed (ROCE) of 22.9% and earnings per share of Rs. 7.16. In addition, the company experienced a 44.5% increase in sales from the prior year, demonstrating its capacity to overcome challenges and take advantage of possibilities amidst the crisis. Operating profits overall showed a significant increase, rising by 61.6% over the previous year.

Further, Hemas is directed by a series of clearly defined group strategies to sustain resilient growth in the future. Those are "Building More from the Core," which emphasizes accelerating the current strengths; "New within the Core and Adjacencies," which looks at innovation within current business domains; "New Business and Internationalisation," which concentrates on expanding into new markets; and "Efficiencies," which streamlines operations for increased effectiveness.

Considering the success achieved by Hemas during the recent past it is evident that the company survives and strategically positions itself for long-term value creation in the face of difficulties, confirming its position as a vibrant and progressive market player.

Contextual Background: Sri Lanka during the Crisis

Sri Lanka struggled with unprecedented economic, social, and political challenges since 2020. Since then, the nation has confronted shortages in vital commodities, diminished availability of foreign exchange liquidity, a significant depreciation of the Sri Lankan Rupee, surging inflation rates, and escalating interest costs. These multifaceted difficulties created widespread disruptions to economic activities, triggering civil unrest and fostering an atmosphere of political uncertainty.

The Sri Lankan rupee exchange rate witnessed a dynamic trajectory influenced by various economic factors. There was a strategic decision to devalue the Sri Lankan rupee in response to challenges, including pressure on foreign exchange reserves. This devaluation alleviates the strain on the country's foreign exchange reserves and enhances its economic resilience. Efforts were made to manage and stabilise the exchange rate, with interventions from the central bank and other monetary authorities. The exchange rate dynamics also reflected the country's engagement in programs with international financial institutions, such as the IMF, and negotiations for debt restructuring.

Fueled by a sharp depreciation of the Sri Lankan Rupee and elevated global commodity prices, the cost of imported goods and services experienced a significant surge throughout 2022/2023. The ripple effect of heightened prices for fuel, energy, and intermediary goods translated into an overall increase in both imported and locally manufactured products. The year-on-year change in the National Consumer Price Index (NCPI) reached its zenith in September 2022 at 73.7%, gradually subsiding to 49.2% by March 2023.

As a prerequisite for the IMF Extended Fund Facility (EFF) arrangement, a consensus between the Monetary Board and the IMF staff led to a decision to raise policy interest rates. This move aimed to narrow the spread between policy interest rates and the prevailing high market interest rates. Consequently, in March 2023, the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) were increased by 100 basis points each, reaching 15.5% and 16.5%, respectively.

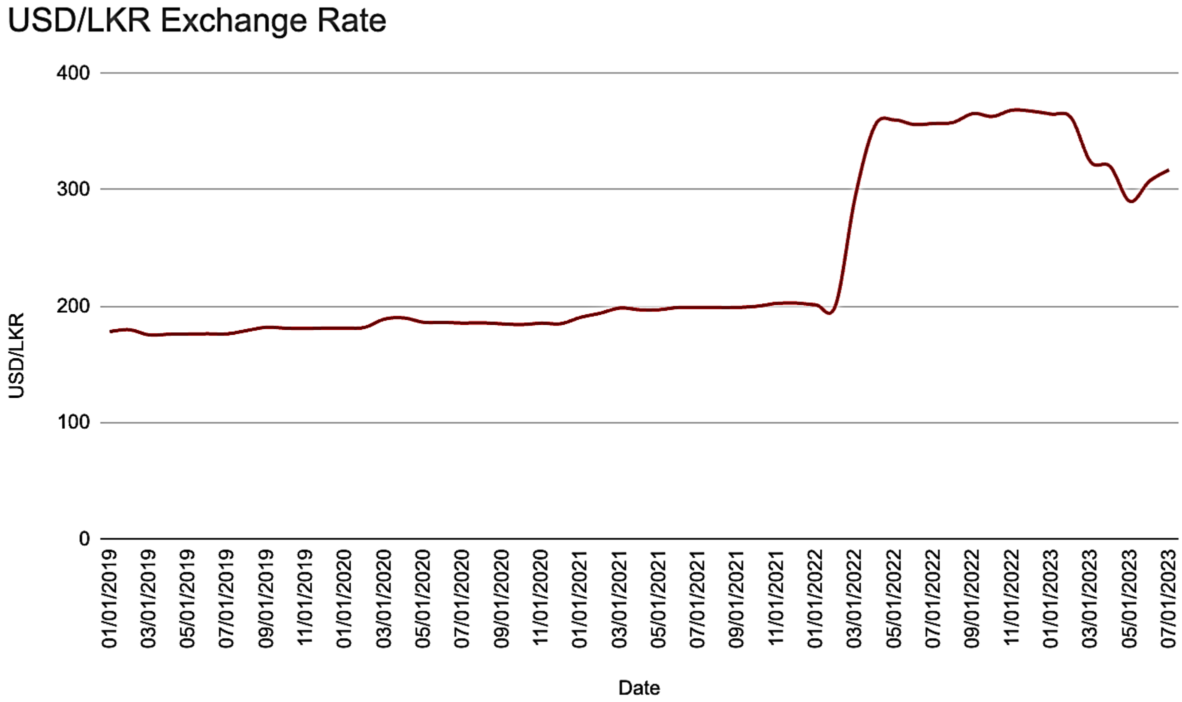

Figure 1: USD/LKR Exchange Rate
Source: Hemas Annual Report 2022-2023

The external sector of Sri Lanka grappled with challenges marked by a severe balance of payments crisis, diminishing foreign exchange reserves, a pronounced currency depreciation, and a shortage of foreign exchange liquidity within the banking system. In response to this challenging backdrop, the government implemented policy measures to restrict imports, resulting in a notable enhancement of the trade deficit, which narrowed to USD 5.2 billion in 2022.

Despite significant improvements in workers' remittances in the latter half of 2022, the full-year figures saw a decline of over 30%. This decline was attributed to substantial variations in exchange rates offered by the banking system compared to unofficial foreign exchange channels. This situation underscored the complexities faced by Sri Lanka in navigating the balance of payment issues during the specified period.

Despite having an unblemished record of external debt service since independence in 1948, the Sri Lankan Government in early 2022 declared that it would suspend its foreign debt service commitments due to a severe shortage in gross official reserves. The announcement had a snowballing effect, which triggered a significant downgrade in Sri Lanka's sovereign rating by all international rating agencies in multiple instances. Despite the improvement in market sentiment in early 2023 due to the successful qualification for the IMF's EFF arrangement, the Sri Lankan Government is still in the process of restructuring its external debt obligations.

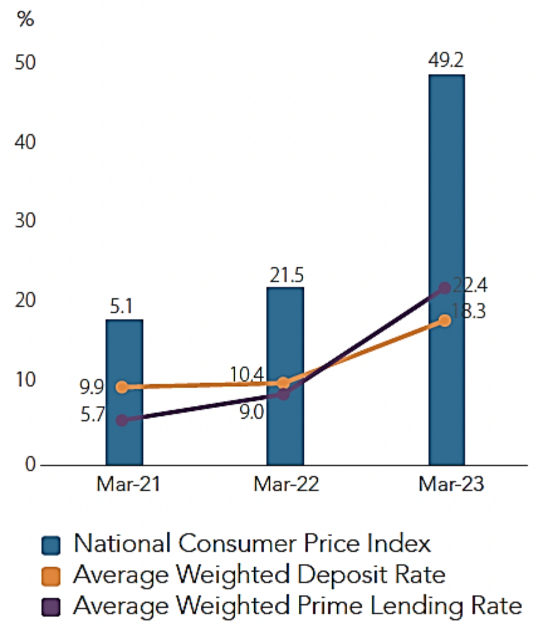

Figure 2: Inflation and Interest Rate
Source: Hemas Annual Report 2022-2023

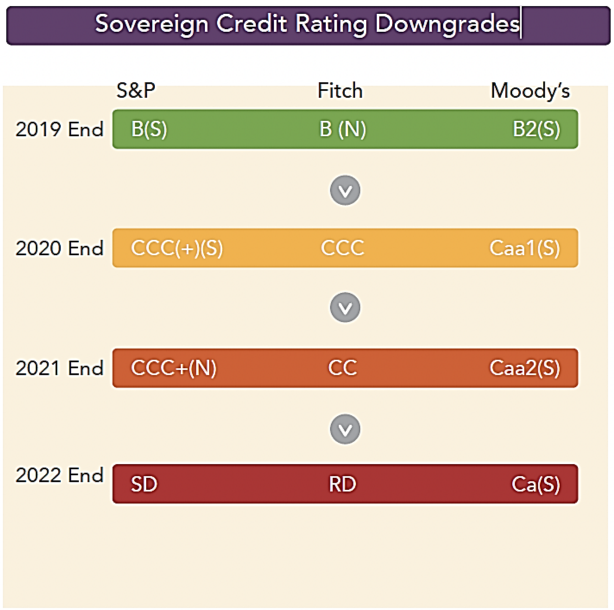

Figure 3: Sovereign Credit Rating Downgrades
Source: Hemas Annual Report 2022-2023

Against the Tide: Understanding Hemas' Challenges

From 2020 to 2023, Sri Lanka went through one of the worst economic crises the country has seen in recent times. Throughout this period, the company was compelled to critically examine and adapt its strategies, showcasing its innovative spirit and adaptability. This period of adversity underscored Hemas's capacity to navigate a turbulent business landscape, reaffirming its commitment to operational excellence and strategic agility.

Among the various challenges encountered by Hemas, the COVID-19 pandemic emerged as the most impactful. This global health emergency ushered in a wave of unprecedented disruptions, severely challenging the company's agility and crisis management capabilities. Hemas faced various pandemic-induced difficulties, including significant supply chain disruptions, complex workforce management issues, and navigating a rapidly shifting global marketplace.

One of the most daunting challenges Hemas faced was managing the factories during the time of the COVID-19 Pandemic. This was evident at Hema's factories located in Dankotuwa, Peliyagoda and Homagama where many of the residents in the area are employed. Many employees tested positive for the virus and were required to stay in quarantine centres which severely affected the workforce availability. These compounding issues significantly impacted Hemas during critical times of operation.

A significant hurdle for Hemas during this period was the impact of the COVID-19 outbreak on its primary raw material supplier, China. The lockdown in China caused substantial disruptions, resulting in considerable delays in the shipment of raw materials — a critical setback gave that 98% of Hemas's raw materials were imported. This issue was compounded by challenges in the local market, where the pandemic affected local suppliers, leading to interruptions in the supply chain and difficulties in procuring high-quality raw materials, particularly for packaging.

In these challenges, Hemas demonstrated remarkable resilience and adaptability, sustaining and succeeding. The company navigated a complex landscape where some of its suppliers were affected by COVID-19, leading to a scarcity of high-quality raw materials. Additionally, Hemas observed a shift in consumer behaviour during the pandemic, with most individuals prioritising necessities due to constrained incomes, thus impacting demand for other goods and services. Despite these obstacles, Hemas successfully maintained its market position while complying with the laws and regulations set by the Sri Lankan government.

Beyond the direct impact of the pandemic, Hemas also contended with a complex global environment rife with uncertainties. The unstable geopolitical climate and fluctuating economic conditions worldwide introduced additional layers of complexity into Hemas's strategic planning and decision-making. This required reactive measures, proactive foresight, and adaptability to steer through these unpredictable times.

Complicating matters further were the fuel and electricity challenges, vital to Hemas's manufacturing processes. These issues posed significant risks to the continuity of operations, calling for innovative and strategic solutions to maintain uninterrupted production. Managing these energy-related challenges highlighted Hemas's resilience and resourcefulness in facing external pressures and disruptions.

One of the most significant challenges Hemas had to overcome was the soaring costs associated with importing raw materials, a critical concern given that their primary business revolves around fast-moving consumer goods (FMCG). The freight charges for raw materials increased dramatically, from $1,200 to $6,500, representing a three to four-fold rise compared to previous levels. This escalation in costs posed a substantial financial strain on the company.

Moreover, the shortage of raw materials necessitated strategic decision-making regarding resource allocation among their Stock Keeping Units (SKUs). Hemas was compelled to determine the use of the limited raw materials available, deciding whether to prioritise home and personal care, education material or healthcare material. These decisions were crucial in ensuring the company continued to meet market demands while efficiently managing its resources during a period of unprecedented challenge.

In the global context, the conflict between Russia and Ukraine presented another significant challenge for Hemas, particularly in securing essential raw materials, some of which were sourced from Ukraine. This situation forced Hemas to manage production with limited resources, inevitably leading to increased product prices as they had to rely on existing rather than new inventory.

Hemas also faced import restrictions on certain crucial raw ingredients, including those for everyday essentials like toothpaste and other fast-moving consumer goods. This situation necessitated the temporary discontinuation of several product lines, compelling Hemas to focus on manufacturing goods that remained in high demand by the public. Transportation issues posed significant hurdles, particularly the difficulty of obtaining fuel, diesel, and kerosene oil. These challenges affected the company's ability to transport raw materials from ports to warehouses and deliver finished products to merchants.

With a dependency on imports for 98% of its raw materials from Europe, China, India and the USA, Hemas encountered significant economic hurdles. Fluctuating exchange rates forced the company to incur high costs for essential raw materials, intensifying its financial burden. This caused the raw material costs to soar to three or four times their usual rates. This sharp price increase imposed a considerable financial strain on Hemas, impacting its operational budget and requiring the company to recalibrate its finances strategically. This balancing act was crucial in maintaining a compromise between affordability and the quality of their products.

Complicating matters further, Hemas grappled with extended shipping delays, typically ranging from 6 to 8 weeks. These delays disrupted the supply chain, affecting the company's production schedules and capacity to meet consumer demands promptly.

A dramatic increase in freight costs of nearly 300% further augmented the financial strain in certain sectors of Hemas' portfolio. The price for a 40-foot container rose steeply from $1,300 to $6,500, adding a significant layer of economic complexity and prompting Hemas to reassess its logistics and transportation budgets carefully.

Amidst these challenges, the lack of assistance from the local government left Hemas to navigate these turbulent economic conditions independently. This absence of governmental support added to the company's challenges, requiring Hemas to devise and implement strategic measures to mitigate the impact of rising costs on its operations and financial stability.

Amidst rising costs, Hemas was committed to minimising the financial impact on its customers. The company passed on only necessary cost increases and introduced a more comprehensive range of product sizes for consumer convenience. However, these measures led to an unforeseen backlash on social media, where customers expressed dissatisfaction, creating negative sentiment. Effective and timely communication became crucial during this period. Hemas needed to explain the rationale behind price adjustments, underscoring that external factors like increased production costs and global economic pressures necessitated these couples with the devaluation of the rupee.

Exploring deeper into Hemas's journey, set against a backdrop of global uncertainties, energy challenges, and the disruptive impacts of the COVID-19 pandemic. It becomes clear that the conglomerate's ability to adapt, innovate, and prioritize its workforce, as well as efficiently manage resources across its group of companies, has been crucial in its path towards resilience and sustainability. This journey reflects Hemas's commitment to overcoming obstacles while steadfastly focusing on its core values and objectives.

Turning the Tide: Overcoming the Challenges

Throwing out the Playbook:

The Pandemic and the economic crisis were unprecedented events in the history of Sri Lanka. Never in its history did the country face such a crisis back to back that challenged the very way we live our day-to-day lives and conduct business.

This meant that any traditional planning approaches were rendered obsolete, demanding the creation of innovative strategies on the fly. Hemas recognised that a single strategy would not suffice due to the constantly evolving and often deteriorating situation. Thus, they embraced a highly adaptable approach, discarding conventional methods to meet emerging challenges head-on. This adaptability was made possible by their highly motivated staff and a company culture that accepted and encouraged change. Hemas conducted daily meetings to assess the situation, allowing immediate course corrections when necessary. This blend of proactive and reactive decision-making was critical to Hemas' successful navigation through the uncertainty and ambiguity of the national crisis.

Leveraging:

Hemas, a conglomerate with a notable presence in the industry, capitalised on its extensive history and magnitude to navigate the financial strains brought about by both the Pandemic and the economic crisis that followed. Their reputation and goodwill afforded them credibility in the eyes of the banks and lending institutions. By leveraging their established track record, Hemas could secure funds and negotiate better terms and reasonable rates that would otherwise be unavailable in the market. In a time when capital was expensive and complicated, especially for companies struggling due to the Pandemic, this negotiation played a pivotal role in their financial strategy.

Hemas' strategic leveraging extended beyond the financial sector. Their spotless track record and the longstanding relationships they have maintained with their suppliers, which extend to the global scale, positioned Hemas in the best stance to negotiate better credit terms with them. The long history of successful transitions and mutual trust and respect made it easier for them to convince their suppliers who recognised the value of their partnership and offer them extended credit periods and other favourable terms in these difficult times. This flexibility in supplier agreements has eased the pressure in aspects like creditor turnover and enhanced their financial resilience during challenging times.

Converging Competition into Cooperation: A True Leader

The majority of Hemas' consumer brands operate in an Oligopoly market. Although oligopolists are profit-seeking in their original form, when the COVID-19 pandemic hit and the country went into deep turmoil, Hemas prioritised their customers and their wellbeing rather than going behind profits or taking advantage of the desperate situation of their customers and the greater community. Further, on the market competition aspect, Hemas tried their level best to cooperate, coordinate and work in harmony with the rest of the industry competitors so as to achieve synergies and together serve the people of the country when they were going through some of the worst time periods in humankind. Examples include the continuation of the sanitary napkins project aimed at getting more and more Sri Lankan women to use sanitary napkins when needed rather than opting for other unhygienic options and the introduction 'Aya' product aimed at ensuring affordability to all women. Hemas invited other key players in the market with open arms to join this initiative and the worthy cause.

Staff First | The Branson Way:

Hemas places great importance on the well-being of its employees, adhering to the belief that a well-cared-for workforce will reciprocate in dedication to the company. This ethos was particularly evident during the Pandemic when Hemas took extra measures to guarantee employee safety. Amidst the economic turmoil that led to a fuel crisis, Hemas proactively provided transportation assistance to its staff, alleviating the burden of the fuel shortage and promoting sustainable practices. Additionally, the company encouraged using alternative transportation methods, such as e-bikes. This initiative saw enthusiastic participation from employees at all levels, demonstrating Hemas' commitment to employee welfare and environmental sustainability. Furthermore, Hemas had already established an in-house model enabling employees to live temporarily within factory premises in response to the COVID-19 crisis. This arrangement ensured continued operations and provided safe accommodation facilities for employees during uncertain times.

During the challenging economic crisis, Hemas remained committed to safeguarding its employees' job security. Despite the widespread difficulties, including those faced by large corporations like Hemas, they prioritised their workforce's stability. Throughout the Pandemic and the ensuing economic turmoil, Hemas maintained a firm stance against layoffs, ensuring that none of their employees were made to bear the brunt of these unprecedented times. This decision underscored Hemas's dedication to its employees and highlighted its compassionate approach to corporate responsibility.

Not Passing the Ball

While all this is happening, Hemas took it to heart not to pass the burden off to their customers as much as possible. While a price increase was inevitable due to the exponential increase in the cost of production, Hemas took every opportunity to ensure that the customers were left better off. They attempted to form partnerships and agreements with competitors to ensure that prices are kept at reasonable rates. They took a step further in introducing more choices to customers regarding size. For instance, they introduced the 75g pack instead of the 100g for their soap products, making the product more affordable. These attempts ensured that customer loyalty was maintained even during the crisis and that their most important asset, their customers, was safeguarded.

Hemas' resilience and success during challenging times can be attributed to a multifaceted strategy of cooperation and innovation. The support from supply chain partners was paramount; suppliers showed exceptional cooperation, demonstrating the strength of these relationships. Hemas engaged in ad-hoc contingency planning, effectively managing emotions during uncertain times. Their prior investment in technology proved invaluable, seamlessly facilitating the transition to work-from-home conditions. This foresight extended beyond technology to nurturing a mindset receptive to change among employees, fostering a culture with minimal resistance to transformation.

The leadership team at Hemas exhibited remarkable flexibility, quickly adapting to organic planning methods as situations evolved. Their commitment to their core values was evident in their refusal to compromise on quality, even in the face of adversity. Despite the challenging environment, this commitment was also reflected in their decision to continue with ongoing initiatives, such as purpose programs and efforts to educate women about female hygiene products.

"Innovations and Renovations" became a guiding principle, with Hemas identifying and acting upon the need to increase dollar revenue. This led to developing a separate export arm within the group, building on existing operations like exporting colognes to the Maldives and exploring expansion opportunities in markets like the Middle East and Australia.

Furthermore, Hemas navigated ethical dilemmas with a strong moral compass, particularly when allocating limited resources between its pharmaceutical and FMCG arms. Decisions were made with the country's best interests at heart, emphasising a deep sense of corporate responsibility. Overall, Hemas' ability to survive and thrive under difficult circumstances was a testament to its well-established foundation in culture, technology, and solid relationships.

Further, the most significant point of the day was the company's in-built structures facilitating the adoption of contingency plans as and when needed. Accordingly, despite many challenges faced during the past two years, Hemas secured its positioning by capitalising on its existing networks, information and communication technological advancements and human capital.

The Takeaway

During one of the largest economic crises in Sri Lanka, Hemas managed to have outstanding financial achievements that underscore the Hemas Group's capacity to thrive in challenging environments. The Group achieved its highest consolidated revenue in over seven decades, reporting a record topline of Rs. 113.9 billion for the Financial Year ended March 2023. The resilient performance of domestic businesses in Consumer Brands and Healthcare drove this remarkable growth of 44.5% against the previous year. The Consumer Brands segment achieved a noteworthy 54.7% growth, reaching a topline of Rs. 47.6 billion.

This growth was primarily fueled by maintaining and, in certain segments, expanding market share across key categories in a challenging consumer purchasing power environment. The strategy involved introducing value-for-money alternatives, ensuring continuous product availability, and implementing cautious pricing decisions, coupled with successful new product launches and a thriving back-to-school season.

The impact of the pandemic transcended a mere hiatus in the country's day-to-day operations; it heralded an economic crisis that caused extensive damage to the local economy. This period saw enterprises, irrespective of scale, grappling with the turbulent waters of financial survival. This case study sheds light on the challenges caused by the pandemic intertwined with the economic turmoil, particularly spotlighting those faced by Hemas.

It underscores how their strategic manoeuvres enabled them to weather this storm of uncertainty. The narrative underscores the importance of readiness and adaptability in response to unfolding events, emphasising the significance of leadership and an organisational culture that is resilient and agile enough to pivot in the face of evolving local and global economic landscapes.

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