

HUL head to stay course



In an extensive interview after one of the best quarters Hindustan Unilever Ltd has had in the last five years, chief executive Nitin Paranjpe discusses the segments the consumer products firm will grow, and how it will fight back against increased competition, rising inflation and soaring costs. In March, Paranjpe took over from the company's first expatriate CEO in recent times and analysts have looked to him to restore a certain local flavour. But Paranjpe, buoyed by strong results, says remaining aligned in structure with the parent company, Unilever Plc., is the way to go and that his challenge will be to keep growth afloat. Several food products are in testing stages, he added.

"We have always maintained that we will straddle the whole pyramid. We will always cater to every Indian consumer and thus, have a presence across every price point. We will have a large basket of products to suit every pocket and every taste," he said.

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Strategy speak: HUL CEO and managing director Nitin Paranjpe says that to succeed, firms need to manage their business more dynamically.

NITIN PARANJPE/HUL

HUL plans to add food items, alignment with parent firm stays

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MUMBAI

When Nitin Paranjpe took over in March as the chief executive and managing director of Hindustan Unilever Limited (HUL), the country's largest consumer products company both by revenues and product portfolio, all wasn't well. Outgoing CEO Douglas Baillie had brought about some fundamental changes in the business structure. During Baillie's two-year stint, the company's functions were aligned with its global parent, Unilever Plc. Market observers said the change in focus would hurt the company because the consumer products business is more about local affiliations and a customized touch. With Paranjpe taking over, those fears were doused. In an interview, the new CEO says global alignment is the best way forward for the company. He cites the recently announced and strong April-June quarter results as evidence of the strategy delivering results.

While determined not to bring about any fundamental changes in the business, Paranjpe says the company is keenly looking at entering some new product categories such as the top-end personal care segment, along with refurbishing some existing brands. Besides, he says, HUL's foods business will now get a greater push. "You will soon see how we systematically build our foods platform. The time for food has come now."

The company is also bringing about some structural changes to rein in costs. Global buying of key commodities, altering the mix of inputs, and efficient packaging are some

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immediate steps being taken to fight the challenges posed by rising input costs and high inflation. The company is also gradually building its modern retail business. Edited excerpts:

How does it feel to be the CEO of a company you joined as a management trainee 21 years ago? What have been the highlights so far?

It feels good. It also means a lot of responsibility both towards the business and the people. To that effect, the first thing I have done in the past three months is to make sure that I don't do anything unwittingly that derails the company from the growth path it's been on. We have a lot going for ourselves. And that's the result of the strategy and a growth process set in motion by my predecessors. I have not been too anxious to stamp my presence.

Market observers said with Doug Baillie at the helm—the first expatriate to head the company in recent times—HUL had started losing the local touch and with you taking over the local focus will be restored. But you are saying you want to carry Baillie's legacy forward.

This is not a one-man company. What Doug did was not what he wanted to do. What happened at HUL during his stint was part of a strategy designed by a team, of which I was also a part. We have put in place an organizational structure and a clear growth strategy and the current results (the quarter ended June was one of the best for the company in the past five years with revenue and net profit growing 21% and 20%, to Rs4,220 crore and Rs540 crore, respectively) suggest that it's paying off well. So

right now, I don't feel any need to bring about any fundamental change in the system.

Having said that, I will also add that no two individuals are similar. They have their own point of view on things and that comes across over a period of time. Of course, there will be course corrections but only when a situation demands it.

Doug came with a specific brief to align India with Unilever's global business. Is global alignment a good strategy for a consumer products company that has to cater to consumers with extremely diverse socio-economic backgrounds?

It's true that HUL today is much more globally aligned in the way it functions than ever before. And it is guided by the realities of the times we live in. Fifteen years ago, the world was a different place. At that time, markets were more isolated and competition was more local. Today, we live in a world where the consumers, their tastes and aspirations, competition, trade are all global. In this world, you are more likely to succeed if you are able to leverage global knowhow, technology and scale.

What specific opportunities does Unilever see in India?

Many people have said in the past that India is poised to take off. For us, it's no differ-

ent. We see the current inflationary pressures as a temporary blip. In the longer run, we feel India's demography, rising income and changing consumer predilections point towards a huge untapped opportunity. India is still a highly underpenetrated market for most of our product categories. Then, there are some that have not even taken off.

But HUL publicly boasts that two out of three Indians use its brands. That makes it seem you have penetrated deep into this market.

Even if two out of three consumers use HUL products, it still leaves behind a 300 million population. That isn't an insignificant number.

But this population is outside the consumption cycle as of now. More than one and a half decades after economic liberalization and after three years of fast growth, the Indian middle class, which is at the core of the current consumption boom, has managed to reach a 300-350 million number. And you are talking about people right at the bottom of the heap...

But they will come into the consumption basket at some point or the other. We are not talking about the next two or three quarters. HUL has been in India for 75 years and it has many more 75 years to go. Its current position in the country is because many of our predecessors did some pioneering work decades ago to educate consumers and create markets. It is our role now to create markets for tomorrow.

Also, let me clarify what "every two out of three consumers" mean. If you look at a product ever used, the universe of consumers will be very large; if you look at the number that used the product once in a year, it will still be quite significant. (When you bring it down to a month and to a week, the numbers will be very

small and that represents the true opportunity. To give an example, shampoo, which is a highly penetrated category, still represents a big opportunity for us because there are people who use shampoo once in a month or once a week. This frequency can be increased to twice a week.

Besides, the two out of three consumers aren't using all of our brands. So again, there is a lot that remains untapped. What we mean by "two out of three" slogan is that our brands are the most widely available and widely used.

The new launches in 2007 and the subsequent price hikes suggest HUL is renewing focus on the urban consumer. Is the rural consumer taking a back seat?

That's not correct. We have always maintained that we will straddle the whole pyramid. We will always cater to every Indian consumer and thus, have a presence across every price point. We will have a large basket of products to suit every pocket and every taste.

What has happened in the recent times is that the set of affluent consumers has expanded and brands have started targeting them more aggressively. Probably, that led to this impression that urban consumers are more in focus, but it's not right.

Globally, Unilever said it will be looking at boosting margins rather than market share. But in India, HUL is losing on both counts. Both your Ebit (earnings before interest and taxes) margins and market share have dropped in key categories such as personal care, soaps and detergents over the past few quarters.

We will never focus on margins at the cost of top line. We are committed to competitive profitable growth over the long term. Competitive growth means you must be in position to grow in line or ahead of the market. We have always grown ahead of the aggregated market. Our growth rate in the second quarter and in the first half this year has been higher than that of the overall market. We may have dropped margins in some categories but overall in the first half our Ebit margins have grown by 20 basis points.

As for market share, we may have lost in some categories but that's for different reasons. Are we worried about this? The answer is yes but then at the same time, we have expanded our market share in some categories. And it's an ongoing journey. Growth is not about two or three quarters. Overall, we have been doing well, yet we will continue to improve our performance.

In the current competitive environment, where levers such as marketing, brand-building, innovations, use of technology, quality and distribution have become things that most companies and brands have, how do you propose to differentiate your presence and retain your leadership, especially in the current inflationary environment?

Competition if anything is only going to increase. Obviously, if we see opportunities in India, others also see them. Many of the competitors may also have similar strategies. However, what will distinguish one from another is the ability to execute their strategy flawlessly. Equally in today's challenging and volatile times, to succeed, companies need to manage their business more dynamically.

As for the current inflationary pressure, we will use all the levers at our disposal creatively, rigorously and differentially. If there is price increase needed to offset some pressure, we will do it but we won't do it across all categories, across all our brands. We will go about it judiciously using our understanding of price elasticities across brands and

packs. Then, we will use other levers such as the scale of our business globally to mitigate the cost impact.

We shifted from local buying to regional buying to global buying for some commodities. We also have the advantage of our portfolio. We will try and drive our portfolio mix actively. We are using our cost and value engineering expertise to make sure we keep removing all non-value-added cost, business waste and drive the savings programme without impacting consumer experience.

What new innovations are we likely to see in the near future?

There is a certain amount of refurbishing that needs to be done to existing brands. Then, we will build and enter categories in which Unilever is a global market leader. We will bring winner brands from Unilever's global portfolio. Top end haircare, skincare and categories such as deodorants are some categories in point. Foods is going to be our focus area, too. You will soon see how we systematically build our foods platform. When it's about food, it has a lot to do with local palate, so while the technology might come from Unilever, it will be designed to suit the local palate. Amaze (a food portfolio) is in the test stage and we will take further steps once we study the results. Meanwhile, Pure-it, our water brand, is being rolled out nationally and we are very optimistic about its progress.

But we are yet to see real action in the food category. Since you don't share any numbers on investments or spending on R&D in categories, the only parameter one can look at is advertising and your ad spending on food don't reflect the kind of push you are talking about. Your media focus is still on the home and personal care (HPC) products, which also continue to bring in more than 75% of revenue.

The game in the foods category has yet to be played. Food requires certain socio-economic conditions and they are now coming together. At the social level we are seeing rising incomes, more working women, changing demographics, younger population willing to experiment, fight for time, and increasing globally awareness. On the trade front, the evolution of modern retail, cold chains and a more organized distribution structure also augur well for foods category. Now, as all these factors gain momentum, the packaged food business will definitely take off. We are determined to build our Knorr, Kissan and Annapurna portfolios besides the ice cream and the beverages portfolio.

As for the advertising, HPC brands operate in a different competitive environment. Our investment in foods category is appropriate to the competitive context and its needs. Besides, it has to be built differently.

How is the modern trade business shaping up? We have heard you have set up dedicated marketing team and sourcing, and manufacturing facilities for organized retail.

Modern trade does need a differential treatment and to that effect, we have resourced our modern trade team extensively. Our HULFES venture (Hindustan Unilever Field Services, the in-store execution and field services venture set up jointly with South Africa-based Smollan Holdings) is on a roll. We haven't set up any dedicated manufacturing units but there are kitting units that work exclusively for these formats.

We have big plans for organized retail but right now, I wouldn't go into details.

It will suffice to say that in the next three to five years, we expect organized retail to contribute 20-25% to our revenues against (the) current 6-7%.

The company has been in India for 75 years and it has many more 75 years to go.