

# 'We will wage a war on waste'

**Q&A** Hindustan Unilever (HUL), India's biggest consumer goods company, has done well in the December quarter with adjusted profit going up around 13 per cent. A dip in volumes growth due to the overall economic slowdown is a concern but **Nitin Paranjpe**, the youngest managing director & CEO the FMCG giant has had, is confident the company will stay on its consistent and profitable growth track. In this interview with **Shyamal Majumdar** and **Sapna Agarwal**, Paranjpe talks about the company's strategy. On the agenda is defending market share, reducing fixed costs and developing a mindset that is ready to win in a volatile market. Excerpts from the interview:

## Is the slowdown finally catching up with HUL? Volume growth was just 2.3 per cent in the December quarter.

The 2.3 per cent volume growth hides high single-digit growth in our foods and personal products segment. Reduced volume growth is a result of the reduced grammage (net weight reduction) of some of our products and the increase in prices to offset high commodity costs during the year. As a result, volumes have contracted in the detergents market. Lower commodity costs and the government's fiscal stimulus package are now helping us pass on some of the benefits to consumers through price reductions in select products in mass- and mid-market segments.

## But HUL has grown below the industry growth rate in the December quarter for the first time.

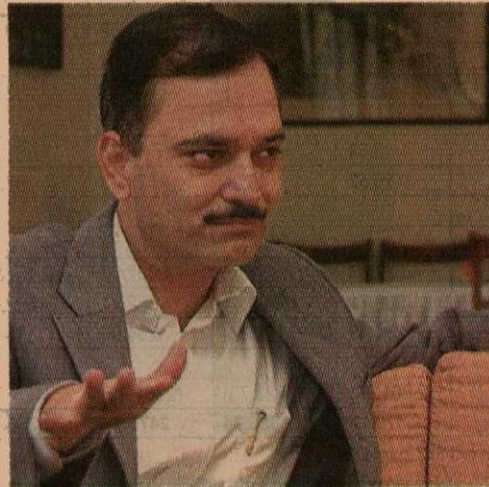
As I said, we have already taken specific actions — reducing prices across key segments and increasing grammage in key discount segments. We have also identified the causes and are taking corrective measures. We are committed to defending and growing our market.

## Isn't HUL losing out on margins as well?

The truth is that HUL has delivered strong growth in 2008 and has held operating margins. In a year of high inflation this is very creditable. Although we have lost some share in personal products, we have gained share in home care and foods. We remain committed to competitive and profitable growth over the long term.

## Can we consider the drop in pricing as an indication of a strategy that you will adopt in 2009 to win market share and gain volumes?

Pricing is subject to a variety of factors including in-



put costs, and we cannot speculate on commodity price behaviour in 2009. These are volatile times and our objective is to be competitive, offer great consumer value, take corrective action and be dynamic. In 2009, we will be more aggressive, more active and play our full portfolio, including the local jewels. For example, we will invest as appropriate across all our brands, including local jewels like Breeze, Liril, Moti, Pears, Hamam and Rexona.

## Does the focus on "local jewels" mean a deviation from making the HUL more premium?

We will continue to straddle the entire pyramid. As a secular trend, we will see premium products over a

longer term. Our research shows that the number of affluent Indian households will almost quadruple to 11 million by 2013 over 2003. These households could be spending almost Rs 6 lakh a year. At four people per household, this means we will have around 45 million consumers, almost the size of that in Britain, with almost equal spending power in PPP terms in relation to our categories.

Similarly, the number of mid-income households will treble by 2013. That's a huge opportunity for us. So we need to widen our portfolio with new benefits, variants and formats catering to affluent Indian who has the propensity to spend. Equally, there will be some people who will feel the squeeze and down-trade in difficult economic conditions. We will have to meet the aspirations of both categories of consumers.

There is also no taking away from our focus on the bottom of the pyramid. This segment will remain a large part of India in the foreseeable future.

## How can competitive and profitable growth be achieved in 2009?

We will ensure that our brands offer great consumer value and invest appropriately in all of them. Equally, we will wage a war on waste. We work on the premise that every business has scope for improvement. We will subject every element of cost to scrutiny. By ruthlessly focussing on this, we can systematically weed out these costs. We would also like to reduce our fixed costs and make them variable to the extent possible. All of this will give us the headroom to invest behind our brands. Even while we do so, our marketing spends will also be subject to scrutiny like never before to ensure we get a bang for our buck.

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### **What would the shift to variable costs mean?**

During uncertain times, it's prudent to limit fixed cost increases. For example, we have put in place measures like increasing the proportion of variable pay in salaries. This not only makes some of our cost variable but is also consistent with our objective of strengthening the performance culture.

### **2008 was a difficult and volatile year. How is the company going to cope with this in 2009?**

We have changed the way we think of plans and plan horizons. In these times, no company can get locked into an annual plan or a fixed growth target. We have a monthly rolling forecasting system that will help us be more dynamic and take action with speed. We have thought of a range of alternative scenarios and have definite plans on what we need to do for each, if they were to materialise. The goal is frozen, but the action to deliver the goals will change quarter-to-quarter or

even month-to-month. We need to be dynamic and develop a mindset that can deal with change and not look at it as confusion and chaos.

Leverites are being encouraged to get externally oriented and connected with the outside world — the accent being on the speed at which a trend is spotted. That's why we have put in place a series of measures to manage our costs, to measure every line of expenditure. The future will belong to companies that have the capacity to do course correction quickly and manage resources dynamically.

### **Your foods business has seen some growth, but it's nowhere near what you wanted.**

We have grown share but having said that, it's true that the market is small and the game in the foods business is just beginning. We want to make sure that we are ready when this game is played out. If I were to use a chess analogy, I would say we want to make sure that we

have all our pieces correctly positioned before the endgame. It's not about making a move today that is opportunistic for short-term gains but about making sure we make the right strategic moves so that our brands are well positioned to win. We will be disciplined in the manner that we enter and develop the category. The contribution of foods will grow. But we must have patience and faith in doing the right things.

You will soon see how we systematically build our foods business. While the technology might come from Unilever, it will be designed to suit the local palate.

### **You are a believer in execution rather than strategy.**

That's not entirely correct. Strategy is important, but what differentiates one company from another is often execution. No strategy can generate value unless it is executed flawlessly. We have consciously made a lot of effort to get people to understand this and make execution a lot more glamorous and exciting.