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Unilever Group CEO Paul Polman *(centre)*, flanked by Unilever emerging markets chief Harish Manwani *(left)* and Hindustan Unilever CEO Nitin Paranjpe in Mumbai on Friday. **Polman talked about the company's plans and strategies for India in an interaction.**

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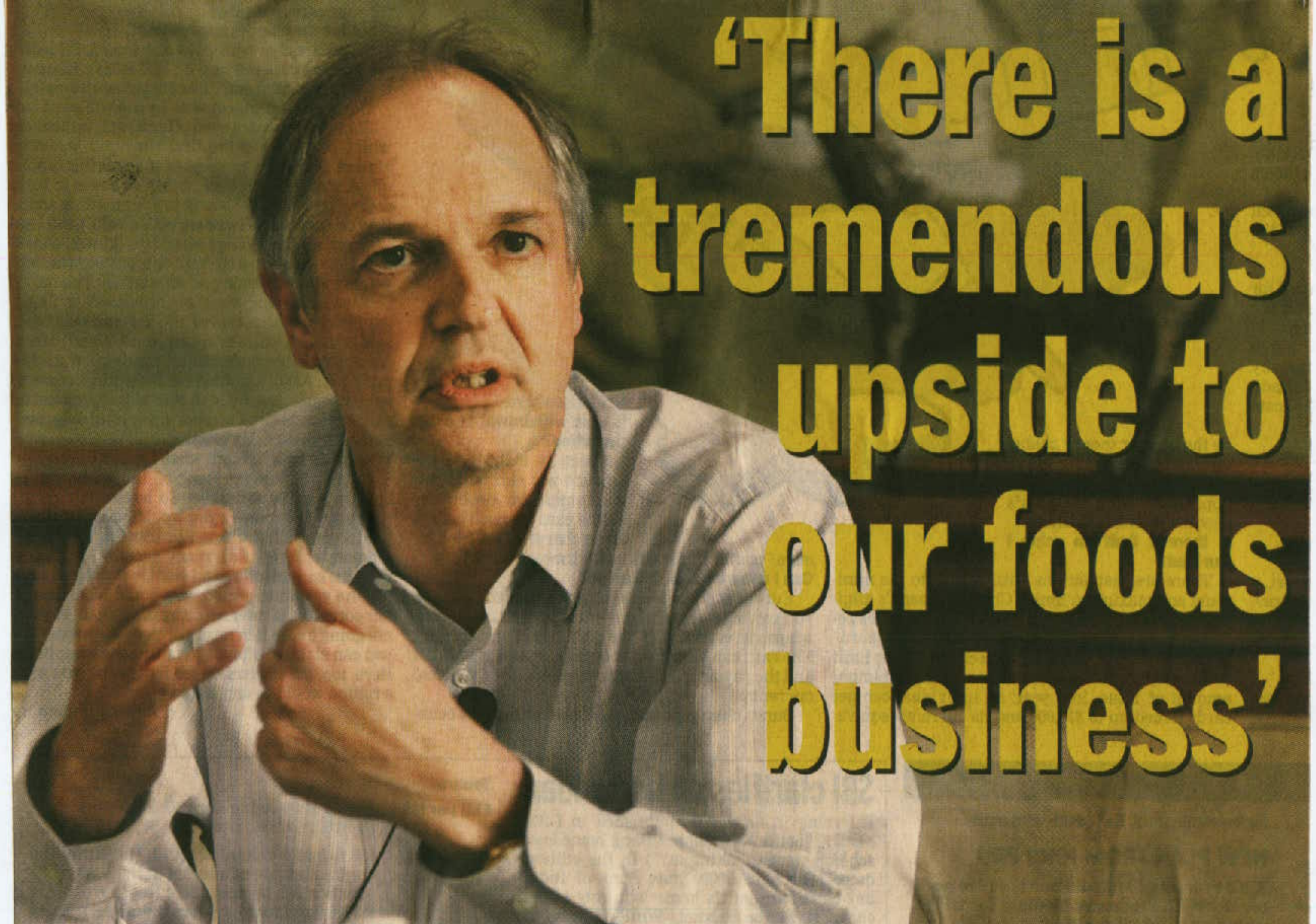
'There is a tremendous upside to our foods business'

Raj Nambisan. Mumbai

Paul Polman *was the first external candidate to be chosen as chief executive officer of Anglo-Dutch fast-moving consumer goods giant Unilever Plc in October 2008. An FMCG veteran of more than a quarter century, Polman started his career with Procter & Gamble, where he stayed on for 26 years for before jumping ship to Nestle SA as its chief financial officer in January 2006. He was named CFO Of The Year by the Investor magazine in 2007. Currently on a visit to India, Polman, along with Harish Manwani, head of Unilever's emerging markets business, and Nitin Paranjpe, CEO of Hindustan Unilever, fielded questions on Friday evening from the press at the company's headquarters in Mumbai. Excerpts from the media interaction:*

On Unilever's global performance during the slowdown

We are fortunate that in some of the markets where we are strong, like Indonesia, India, Brazil and South Africa, we are doing nicely, showing nice growth. In markets where we have a relatively weaker position, such as in Russia and China where we are not the No. 1 yet, we are looking to see if we can accelerate the presence of our brand.

We look at this crisis as an opportunity for growth and not for de-prioritising. It's also true that Europe and the US are facing the consequences of economic crisis. Despite the recession there, we think with our products we can grow our business. The crisis in the financial sector means our industry will be one of the few that will revive economies. This is back-to-ethics, value-creation time. As a business what do we do? We just put powder in a box and liquid in a bottle, and we try to improve people's lives. In a recession, people may postpone buying a car or a television, which is what we see now, but they spend money on everyday needs. We don't see the food market going down, the personal care market going down. We think this is an opportunity for us.

On innovation synergies across conglomerate

One of the first things we did was to open three big R&D centres including in Bangalore and Shanghai. We are increasingly putting emphasis on research in this part of the world — in Bangalore for obvious reasons and now Shanghai — - reflecting where the future is. I haven't seen anything here that's missing in terms of people quality.

What we are trying to do now is to see if we can have a better structure, a better organisation; try to see if we make bigger and better innovations and export them. We are getting better at it already. When we launched Clear (the anti-dandruff shampoo) in many countries, and we had a significantly better product than some of our competitors, we launched in 30 countries at the same time. And when we launched the Axe deodorant chocolate version, we lauched it in 52 countries at the same time. Obviously, we need to do more of that.

On the opportunity in the foods business

There is a tremendous opportunity in India to develop our foods business. In fact, we just had a meeting today (Friday) for two hours on this.

We talked about how to accelerate our brands. We have wonderful brands like Kissan and Knorr here, and Lipton. The brands that we have in foods segment are tremendously strong. As we help develop consumer habits in these categories, there will be a tremendous upside to grow our food business. You take Knorr as an example. Now soup drinking is a new habit in India, but people understand that this is a healthier alternative for those in-between snacks, for children returning from school; it's a better alternative than deep-fried stuff. So we have to create the habits. There is no doubt about that.

Nitin Paranjape, HUL CEO, interjects: For a variety of reasons we have mentioned earlier, this market will grow. We want to make sure that of the various opportunities that are there, we are very disciplined in the manner in which we address them, because this is not about tactical play in the short term, it's about making sure when we reach the endgame, it's our brands that will win. Therefore, we will be disciplined; we'll make the efforts and we are determined to make this segment grow. Foods is half of Unilever's business everywhere else. I see no reason why it can't be large in a market like India. We are absolutely determined to make this big.

Our water brand Pure It is going to be a bigger platform. We are looking at India with a lot of passion and enthusiasm to develop the Pure It brand, which is giving clean drinking water to 5 million Indians already. We now want to see if we can create a long-term viable economic model that we can expand to many other places in the world. That would be an example of our innovation.

On bringing in more global brands to India and the water business

The brands in India are very good brands, as Nitin said. Kissan is a very good brand. In tea we have a very good brand. It's not that we need more brands, but we need to ensure that brands that we have grow and become stronger.

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Talking on the food side, there are some tastes from India, what we call meal makers, that we are taking to other countries. Then take tea. This country invented tea. I would expect many tea brands of the future for the globe to come from here.

Then Fair & Lovely and skin lightening — the market here is growing tremendously — it's leading to a lot of innovation for other places in the world. That's the beauty of a global company's interdependency. It is this mutual interdependence that drives companies like ours to a higher level.

Concerns over protectionism

I firmly believe that the world has benefited broadly from globalisation. But the institutions did not adapt to globalisation with the same speed as companies did. Broadly, the world has benefited and globalisation has been good. This is a good opportunity to strengthen laws internationally, be it global warming, poverty alleviation or financial markets. There is no doubt that there is a risk — we will see increased protectionism, especially in countries where there has been heavy state intervention to bail out some industries. But I think free enterprise is the best way to create wealth. Protectionism brings about a negative spiral.

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paul polman

Using the Indian strategies for markets abroad in these recessionary times

We are fortunate to some extent in that we know the Indian market well. It's a bit cynical to me to talk about people in the US or Europe who have to give 5% or 10% of what they have — and we all worry about them. Then we come to this part of the world where probably three-fourths of the people do not know what's going on beyond their little village, and are trying to just make a living. And we are able to cater to those people, put products out there to improve their life. So there is a lot of knowledge that we have here that we can take to consumers in other places to offer better value and choices in a recession. So we are doing that. In places such as Europe and the US, where we are doing wellis where we have a whole portfolio of brands. The laundry business in India is a good example of this strategy, where we have a brand at the bottom in Wheel, then Rin in the middle, Sunlight, and the premium brand Surf at the top. That covers the whole spectrum of options and performance. If a consumer is pressed for money, we still keep the consumer in our franchise because of this. Likewise, Dove, Clear, Sunsilk, in shampoos. Wherever we have a portfolio of brands, we tend to do better because we keep the consumer in our franchise. That's what we are trying to do in various countries. So I am telling my people to not use recession as an excuse (to not performing well).

Nitin Paranjape: We should start seeing volumes in the second half. The FMCG market in India is not in a recession. Only in laundry and skin care are the volumes low.

Harish Manwani, head of Unilever's emerging markets business, pitches in: The phenomenon is very different for different classes of consumers. Developing markets and emerging markets are not homogenous markets. There is migration at every given point in time, sometimes up and sometimes down. At this time, our kinds of products are being bought by the same number of consumers but some want to buy less at a time. So the opportunities that we are finding is how you position pack sizes and price points that are suitable. A lot of our business is also competing for what is called non-consumption, which is converting people from being non-users of a category to becoming users. Here, the critical part is the entry price. Since we have a portfolio of brands, as Nitin pointed out, we are able to do the right-pricing without having to say we have to make the same margin at every price point. In some cases, people want to buy bigger to get value, like in Turkey. There we are launching bigger packs. In India, in the starter packs, the entry price is good. But we continue to see people moving up. In developing and emerging markets, we have 2.5 billion people at the bottom of the pyramid, another 2.5 billion in the middle and 0.5 billion at the top. And there are people still moving up. For example, our Pond's anti-ageing and skin lightening range, this category across south-east Asia is continuing to grow.

Polman: I believe in an adverse economic environment, stronger brands will do better because the more insecurity there is out there the more we look for security. I am as much a consumer as you are, and we tend to take fewer risks, we are averse to change (even in products).

On the challenge of private labels in a recession

If you look at our business in developing markets, there is really a low percentage of private labels because there is no organised trade. And that's over 50% of our business. Even in developed markets like Europe and the US, where you have more private labels, in our categories of products, it's not more than 15-20% of the market. So that's the other 80% as well. What is clear is that the consumer is looking at some markets that offer better value proposition. And if we, as a branded goods manufacturer, don't provide those, then the private labels become more exciting. If we do our homework and provide the opportunities, then we can compete.

I think this recession is going to be with us for 24 months or more. This is going to be fairly deep, and we haven't seen the bottom of it yet. I hope I am wrong.

On value-for-money deals for these times

Take our toothpaste in Europe. We introduced a toothpaste under the Signal brand, which is called White Now. It does the cleaning and also provides a whitener. That's an innovation, and every other brand can't do it easily because it requires R&D and everything. We actually sell it for more, but in this economic environment, the consumer thinks it's a much better deal because it's better than going to the dentist for a whitening treatment. So an economic crisis doesn't mean the consumer is automatically going for cheaper products; he's going for more value. One of our fastest-growing brands in the US is the Bertolli frozen meal. It costs \$8-9 for a meal for two. Not exactly cheap. But our message is, it's restaurant-quality meal at home. If you go to a restaurant, it costs you \$20-\$30. So it's a good deal. It doesn't have to be cheap and private label. The trick is to understand the consumer and provide the value equation more than the price.

On downtrading by consumers

I am not a pessimist as you probably can hear. I am a realistic optimist. I think this recession is going to be with us for 24 months or more. This is going to be fairly deep, and we haven't seen the bottom of it yet. I hope I am wrong. But if I am wrong, it's better to be prepared on this side than neglect it. So as an organisation, we are going to focus on protecting our cash flows and operating margins and putting the emphasis on growing our volumes. We are changing our financial parameters so that we do the right thing. More emphasis on cash flows is important. Then there is the supply chain. There are a lot of people that provide us goods. If there is pressure of credit in the supply chain, we have to ensure we don't suffer. We have a very good credit rating. We need to work on the retailer side as well — recently, an Indian retailer filed for bankruptcy. Internally, we are using this opportunity to take some costs out of the system quicker than we would have otherwise. Because the consumer now is unlikely to pay for costs that don't add value, we decided to get cost-competitive. We are using the money so gained to reinvest in the brand and give the consumer better value.

On freezing salaries, global procurement

The fixed portion of our salaries is frozen, but we are giving the opportunity to our people to earn more on the variable side if we grow our business. So we share the upside and protect the downside. We also renegotiated prices with our suppliers. We are now looking at global procuement. We are cutting travel by 30% and using video-conferencing more. Broadly, as a company, we are in a good shape because we have done some right things over the past few years. For example, we are looking at a lot of products using harmonised formula and materials to get more benefits of scale. Take display containers in stores. Now instead of every company buying their own, we are now buying containers at the European level. We just appointed a global procurement officer to harmonise buying. We don't dilute the formula, don't cut corners on packaging. It's about the consumer, who's our boss. We don't disappoint her.

No quarterly outlooks!

There was a criticism of Unilever about 2-3 years ago that the brands are not strong enough. Last year, due to the input costs, we had to raise prices in developed markets by 7-8%, and in this part of the world, unfortunately by more. But despite this, we didn't lose volumes. It shows you how strong the brands are. So we will make these misconceptions disappear as we deliver the numbers. That's why we told the markets we don't give the outlook anymore. Part of the problem the world is facing now is because we were chasing numbers. We were living in a *'foo foo'* world. We were chasing quarterly numbers the financial community was forcing on us. Asking us, 'Why don't you grow faster, take more debt on your balance sheet, why don't you do more share buybacks, and produce more?' We were in this rat race of quarterly reporting. Every quarter had to be better. And that created a lot of the problems that we now see. People started to chase ghosts. So we don't give any outlook now, we are focusing on our business, focusing harder because of the economic environment and building the confidence with the numbers that we put on paper. In his book, *The Seven Habits of Highly Successful People*, Stephen Covey says, "You can't talk yourself out of the space you behaved yourself into." This is true. We try to do that. I don't care what the people say, but we are going to behave ourselves into being a good company and a great company, into a 'Unilever Hindustan' globally. And I'll be proud to work for that.