

‘We should drive people’s habits’

Paul Polman, the CEO of Unilever, speaks on growth and on how the company is managing costs.

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A little more than a month after he was announced the new Chief Executive Officer of Unilever in October 2008, Paul Polman had made his first visit to India. And that was a visit that he would remember for more than one reason.

For, that was on the infamous date of 26/11. On that very day, he was in Mumbai, more specifically at the Taj hotel, when it was under siege by armed terrorists. He, along with his colleagues in the Unilever family, was trapped inside a room in the hotel for several hours before he was rescued.

On his second visit to Mumbai last week, Polman was more relaxed as he recalled the first visit and had a word of praise for those who handled the rescue operation.

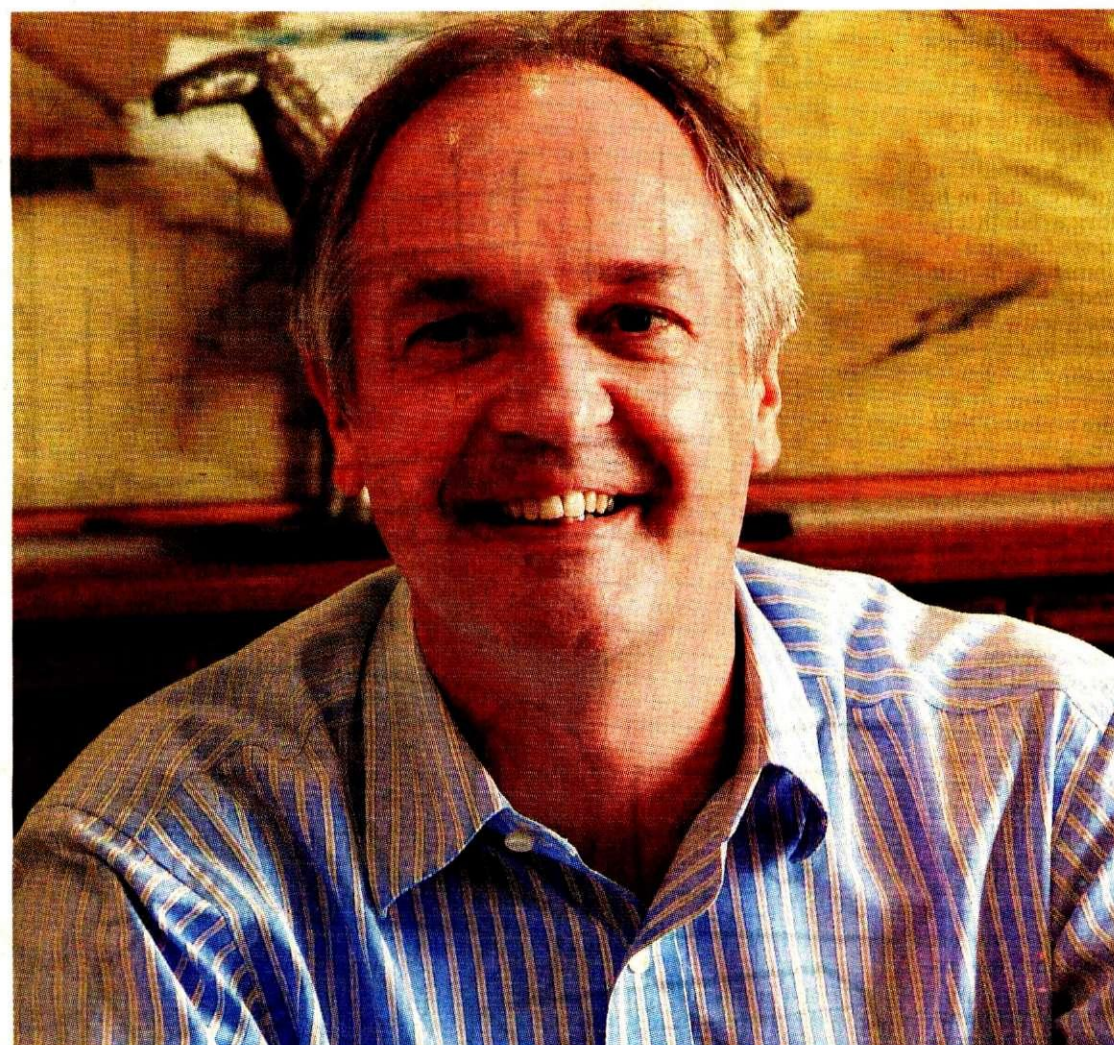
During a nearly two-hour interaction with the media, he dwelt on his plans for Unilever at a time when recessionary winds are blowing across the globe. He is not daunted by the recession and, instead, believes that the present economic environment provides the company a challenge and an opportunity to grow its business. Excerpts from the media interaction:

How do you feel on your second visit to India after taking over as Unilever's CEO?

Well, whenever I come to India, I feel energised. I always say that if our company worldwide did as well as Hindustan Unilever, we would be four times as big. On my way from the airport, I had the opportunity to visit some of our stores and a cancer hospital, where our hygiene products are being used. It was one more opportunity for me to see how important our products are and how these are improving people's lives. We will continue to improve our business here. India is a country of hope, opportunities and progress.

In times of recession, how does Unilever see the market growth in developing and emerging markets?

We are fortunate that in markets where we are relatively strong, there has been encouraging growth. For example, in India, Indonesia, Brazil and South Africa, where we are strong, there has been a good growth — the Indian market is growing at 5.3 per cent and in Brazil the growth rate is between 5 and 6 per cent. So in these markets, we will continue to build and extend our brands. In markets where we have a relatively weaker



Paul Polman,
CEO, Unilever

position, such as Russia or China, where we are not in the number one position yet, we are looking at ways to accelerate growth. So I see the current economic environment as an opportunity to grow. Despite the recession in the US and Europe, I think we can still see growth in our business. Our industry is one which actually drives the economy.

What would be the share of developing and emerging (D&E) markets to your total business?

D & E markets continue to play a key role in Unilever's global operations. About 48 per cent of Unilever's global sales are from these markets. As part of our growth strategy for these markets, we aim to add one billion new

consumers in the next ten years.

How does Unilever see its Indian operations?

Well, I think that the Indian model is a cushion against recession. It will continue to grow. The first thing we did was to strengthen our three R&D centres, including the ones in Bangalore and Shanghai. We are emphasising on research in this part of the world. Research plays a key role, as our company is driven by innovation. I do not see anything missing in terms of quality or innovation (in its Indian operations). What we are now trying to do is to have a better organisation and structure so that we can make bigger innovations here for faster ex-

pansion around the world. For example, we launched the Axe Chocolate deo in 52 countries simultaneously.

But your food business in India has not had the kind of growth other brands had in India ...

I think there is a tremendous opportunity to expand our food business in India. In fact, just a little while ago, we had a two-hour meeting to talk about how to accelerate our brands in the foods category, such as Knorr soups and Brooke Bond tea. The brands we have in this segment are tremendously strong. It is not that we need more brands in this category — all we have to do is consolidate our existing brands.

But consumer habits in India are still not fully tuned to packaged foods. Will you wait for consumers to change their habits or will you ...

No, no. We should drive people's habits — there is no doubt in that. Knorr is a good example. It is changing people's habits for a healthier diet. People are realising that the product is a healthier way of eating — so we have to create these habits. Take our Pureit water purifier brand. We are using India to develop the Pureit brand worldwide. We are looking at a long-term viable economic model with Pureit that can be extended to other places in the world. I expect to see more of this in the future. I would expect us to create tea brands of the future in India for our worldwide markets.

Do you think the recession has affected consumer spending?

It is like this. Even in times of recession, people may postpone buying a car or TV, as we are now seeing, but they will not stop shopping for their everyday needs. So I do not think we will see any significant drop in sales. We also have a strong portfolio of brands to retain our customers in the current financial environment. Take our laundry business, for example. We have brands such as Wheel, Rin and Surf that cover different price points. Where we have such broad portfolios of brands, we tend to do better, as we can keep our customers in franchise — the consumer can choose from any of our brands. And that is what we are trying to create in most countries. That is what I tell everybody: Do not use the recession as an excuse to tell me that business goes down.

How are you battling recession?

I am not a pessimist, I am a realistic optimist. I think this recession is going to be a

deep one — it is going to be with us for 24 months or more. We have not seen the bottom of it yet. I hope I am wrong, but even if I'm wrong it is better to be prepared. We are going to focus on protecting our cash flows and operating margins, with emphasis on growing our volumes. We also are better managing the supply chain — it is important that even if there is a pressure of credit to supply chain, we do not suffer. Likewise, we need to watch the retail side — there was the recent example of an Indian retailer which had to file for bankruptcy. So we have to be careful that the supply chain works and we spend time on that.

Internally we use the opportunity to get some cost out of the system quicker than we otherwise would have done. So we took some measures earlier, which we believe are the right steps to make us more cost competitive. And we used the money to reinvest in our brands to give the consumer a better value.

Could you give us some examples of the cost-cutting measures?

For example, we have frozen the fixed portion of our salaries, but we are giving our people opportunities to earn more on the variable side if we grow our business. So we share the upside and protect the downside.

Similarly, we are negotiating with our suppliers on prices. We are now looking at global buying of some of our ingredients to get better economy of scale. We are also cutting travel by 30 per cent and using video conferencing a lot. We are hiring selectively, but not as much as before to protect the people who are there. We are making these small adjustments to be ready for the storm that is coming.

Could you shed more light on your global buying initiative?

Yes. We have looked at some of our products and we discovered that we can go through more harmonised formulas and harmonised material to get more benefits of scale. A simple example will be display containers you see even in stores. Now instead of every country doing its own (buying) we have decided to buy at the European level. We have appointed a global procurement officer. These are simple examples of how we can become more efficient. We have always been doing these, but now we have just accelerated (these measures). At the same time, let me tell you what we are not doing — we do not dilute our formulas; and we do not cut corners on our packaging.