

Publication : Mint  
Date : Tuesday, December 14, 2010  
Edition : Mumbai  
Page : 13

**RISING VOLUMES**

# HUL: from survival to revival

BY SAPNA AGARWAL  
sapna.a@livemint.com

MUMBAI

**A**fter a dismal 2009, **Hindustan Unilever Ltd (HUL)**, India's largest consumer company by revenue, has seen volume growth return to double digits in three successive quarters this calendar year. This comes after volume either fell or grew marginally in the corresponding year-ago quarters. It also broke a run of 40 quarters during which volume didn't expand by more than single digits.

A year ago, the maker of Lux, Wheel, Dove and Knorr seemed to be floundering, caught in a spiral of price cuts and shrinking margins.

The comeback has taken place amid a pitched battle with **Procter and Gamble Home Products Ltd (P&G)**, which also spilled over from the retail shelves into the courts as they fought over claims made in advertisements.



**Keeping pace:** Consumer products on display at a supermarket in Delhi. Close to 90% of HUL's portfolio is fresh — either a new product or one that's been relaunched over the last 12 to 18 months.

That fight is reminiscent of its campaign in the 1980s to tackle Nirma, which was making inroads at the lower end of the market, by launching Wheel, now India's largest detergent brand with 18% market share. It also brings to mind the 2004-05 laundry war with P&G, during which both the companies took a hit on their margins, but eventually HUL emerged stronger.

The Indian arm of the Anglo-Dutch **Unilever Plc**, which has been present in the country since 1933, did several things that seem to be working for it. The company completely revamped the product range, cut prices to keep the competition on its toes, tweaked advertising to better position the offerings, reduced its inventory levels and reached even further into rural India, opening up new markets for branded goods.

What changed at HUL that allowed it to succeed this time around? Gopal Vittal, executive director of the company's home and personal care (HPC) division, which accounts for 70% of revenue, characterizes it as an internal transformation.

"The company has now become comfortable in a schizophrenic culture," he said. He was referring to the new attitude of the company—more aggressive, flexible and nimble enough to take up both large and small opportunities that are sharply different in scope.

The gain has not come without its share of pain. For instance, HUL was forced to reduce the price of Rin detergent and bars by close to 30% following the launch of Tide Naturals, a 30% cheaper variant of the P&G flagship brand Tide. Then came a round of increases in content and pack sizes.

The aggressive price cuts have resulted in a decrease of overall sector profit, meaning all companies need to work that much harder and sell that much more merely to stay in place, leave alone getting profit growth to hasten.

"HUL's soap and laundry margins took an especially large hit, shrinking more than 50 basis points. We estimate the category's profit pool as a whole lost as much as 20% in value due to these receding margins," said Ali Dibandj, senior analyst with New York-headquartered Bernstein Research also known as **Sanford C. Bernstein and Co.**, in a 31 August report on the India detergents market.

The volume improvement hasn't had much impact on the

## THE COMEBACK

### What was wrong with HUL

- Supply chain: products took three to four months to reach the market
- Focus only on large categories and products
- Rigid structure and processes: forecasting and product planning every four to five quarters
- Wasn't using advertising and marketing spends effectively

### What it did to fix things

- The company completely revamped the product range
- Cut prices to keep the competition on its toes
- Tweaked advertising to better position its offerings
- Reached even further into rural India, opening up new markets for branded goods
- Moved to flexible and dynamic planning

view of analysts covering the company. According to *Bloomberg*, of the 40 analysts covering the company, 55% have a sell recommendation. In the past 12 months, one has upgraded his recommendation, while two have downgraded theirs. The stock has gone up 11% in the year-to-date compared with the 13% increase in the benchmark Sensex in the same period.

Meanwhile, operating margins in the first half of this fiscal year have declined 1.8% over the corresponding period a year ago owing to higher advertising expenses. The company's advertising expenses rose 23.5% in the first half of this fiscal year over the corresponding period a year ago thanks to its aggressive marketing stance, said Anand Mour, analyst, **Indiabulls Securities Ltd.**

Still, the restoration of volume growth is critical to HUL's future as it allows the company to increase its consumer franchise in the high-growth India market. HUL contributes 6% of parent Unilever's revenue.

This battle between the two global consumer giants was inevitable, given that growth is tapering in the developed markets. Cincinnati-based P&G, which made a serious push into India only in 2009, although it has been present in the country since 1989, wants to expand as fast as possible in emerging markets. HUL has a year-to-date market share of 34.5% in detergents and 45.9% in shampoo versus P&G's 9.6% and 23%, respectively.

While the rivalry has exacted its toll, it has seen both companies benefiting from the expan-

sion in the market. "Despite risks associated with the tactics in laundry, P&G seems confident in its strategy and has expressed a desire to continue competing with Unilever and other companies in contested areas," Dibandj said in his report.

While P&G has been seeking to make up for lost time, HUL, on the other hand, has single-mindedly sought to "unblinkingly defend (its) market leadership," as Harish Manwani, president, Asia Africa, Unilever executive and non-executive chairman of HUL, put it at a press briefing on 28 July.

That has meant a vigorous churning of the product range with as many as 41 launches during the year. Close to 90% of HUL's portfolio is fresh—either a new product or one that's been relaunched over the last 12 to 18 months.

The relaunches include the companies so-called local jewels—Breeze, Liril, Moti, Pears and Hamam—aimed at taking on homegrown rivals such as **Godrej Consumer Products Ltd (GCPL)**, which makes Godrej No. 1 and Cinthol, and **Wipro Ltd's Wipro Consumer Care and Lighting division**, which has brands such as Santoor. HUL also reintroduced what it calls power brands—Lifebuoy and Clinic Plus. It also launched premium products such as anti-ageing formulas and hair conditioners under existing brands such as Ponds, Dove and Lakme.

Earlier strategies had centred around big categories and big brands. In 2000, it sought to focus on 30 power brands. In 2005-06, the Masstige strategy sought to make premium brands available to the masses through appropriate pricing.

That focus on size has widened to accommodate smaller segments.

"We are as passionate, as determined about doing a ₹10 crore opportunity as we are about ₹2,000 crore," says Vittal.

Size, therefore, doesn't really matter.

"It would not be appropriate for a large player like HUL to focus on only select segments as this will keep wedges for competitive entry. Even a small gap in the product market portfolio can create breaches that will be costly to bridge," said Abraham Koshy, professor of marketing, Indian Institute of Management, Ahmedabad. "HUL cannot afford this risk at this point where new market opportunities are emerging and the competition is much

more active."

HUL also needed to fix its supply chain, which came apart amid the uncertainty during the slump of 2008. Products took three to four months to reach the market, allowing smaller, quicker rivals a gap they could exploit. The company lost a 5% market share in laundry and soaps as a result.

The company increased its retail rural network for the first time in 10 years, tripling it to 750,000 retail outlets from 250,000, while urban coverage rose 15%. That has brought the total to 6.3 million retail outlets across India, of which it has direct coverage of one million shops.

The need to straddle markets has led to distinct advertising and marketing initiatives aimed at not just India, but the emerging "Bharat". At one end, HUL has launched the *Khushiyon Ki Doli* campaign for so-called "media-dark" villages, which have little access to print, radio or television. The *doli* is a van that features products from the HPC portfolio—Wheel, Clinic Plus, Pepsodent, Fair and Lovely.

HUL plans to continue with this push into Bharat.

"Our ambition is to go to 70,000 more villages in 2011," from 30,000 now, Vittal said. Out of India's 650,000 villages, the company wants to cover 100,000, which account for 50% of the total rural economy.

At the other end of the spectrum, it has launched a Web and mobile digital platform called *Be Beautiful*, covering brands such as Dove, Vaseline, Sunsilk, Lakme and Ponds, that gives expert tips, makeover advice, customized solutions and discounts to registered members.

Rivals recognize the efforts made by the company.

"Over the past couple of years, HUL has reorganized itself internally to integrate its products portfolio and use its scale. This is showing results," said C.K. Ranganathan, chairman and managing director, **CavinKare Group**, maker of Chik and Meera shampoos, and credited with pioneering the sachets that captured markets at the base of the pyramid.

HUL wants to increase *Be Beautiful's* membership to one million from the current 400,000. The scale will give the company a medium to bypass traditional, and more expensive, avenues such as print and television advertising, for niche launches and trials through direct marketing

and the digital platform.

On average, launching a new variant of an established brand costs up to ₹20 crore, while a new brand launch can cost anywhere around ₹100-200 crore. Close to 70% of the launch cost is accounted for by advertising and marketing.

"It is imperative to create alternative mediums to reach the market as the product launch cycles are becoming shorter and shorter," said Ranganathan.

The company wants to tap growth at both ends of the pyramid. The large categories at the bottom, such as detergents and soaps, are growing well, while at the top, growth is explosive, Vittal said.

As the economy continues to boom—India boasts of the second fastest pace of growth globally—greater prosperity will put more disposable income in the hands of a larger number of consumers, all with newly awakened aspirations. Or so the argument runs.

This is already happening in the rural areas, helped along by some of the government's social welfare programmes such as the Mahatma Gandhi National Rural Employment Guarantee Scheme, better infrastructure and increased job opportunities. Meanwhile, in urban India, consumers are looking for more choice and better products.

"There is disproportionate up-trading in urban India, which is lifting up the company and with increased penetration in rural (areas), volumes are also growing," said Nikhil Vora, managing director of brokerage **IDFC-SSKI Ltd**. Vora has maintained a neutral rating on the stock since May 2009.

Despite the higher share in larger market segments, HUL still lags behind peers in operating metrics.

HUL ended the September quarter with an operating profit margin of 16.32%, compared with 30.91% and 39.50% for GCPL and **ITC Ltd**, respectively. ITC sells personal care products such as soaps and shampoos under the Fiama Di Wills, Vivel and Superia brands.

Operating profit margin is the profit before interest, taxes, depreciation and amortization expressed as a proportion of total revenue. It is a measure of a company's operating efficiency.

Meanwhile, costs are rising. For instance, palm fatty acid prices have risen 66% in the last nine weeks.

Although there were marginal increases in September, prices are still depressed compared with 2008 levels.

"In the next few weeks, we will begin to move prices of soaps given the enormous commodity cost pressures," said Vittal, while emphasizing that robust volume growth and a judicious price mix would be essential to protect margins and grow.

"Companies have to decide between high volumes and high-value growth. This is a tactical decision," said Sunil Duggal, chief executive officer of Dabur **India Ltd**, which makes personal and Ayurvedic products such as Vatika and Uveda.

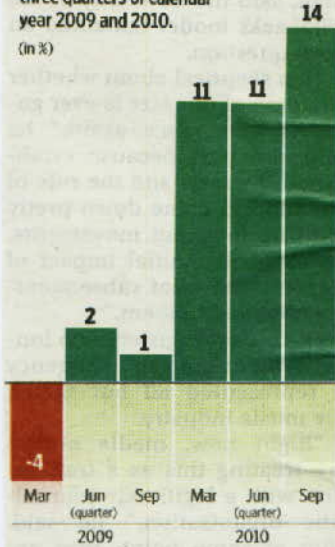
That won't be an easy call to make considering HUL's size and reach and the scope of its ambition.

"In the next five years, the market is going to be 2-2.5 times its present size," Vittal said. Right now, his key concern is to ensure that HUL will be nimble enough to keep pace with the rapid evolution of the market.

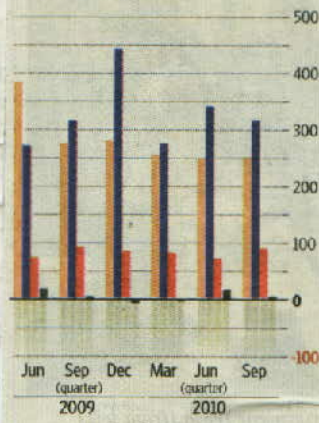
**A year ago, India's largest consumer firm by revenue seemed to be floundering. Here's how the company achieved a turnaround**

## THE GROWTH IN NUMBERS

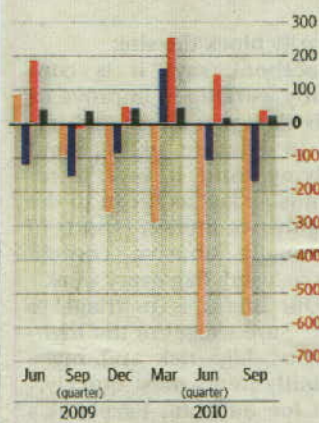
Volume growth for the first three quarters of calendar year 2009 and 2010. (in %)



## Profit/loss before interest and tax



## Capital employed



Source: Capitaline

## Quarterly indexing

- Revenue from operations (in ₹ crore)
- Soaps and detergents
- Personal products
- Beverages
- Ice creams

## Revenue

