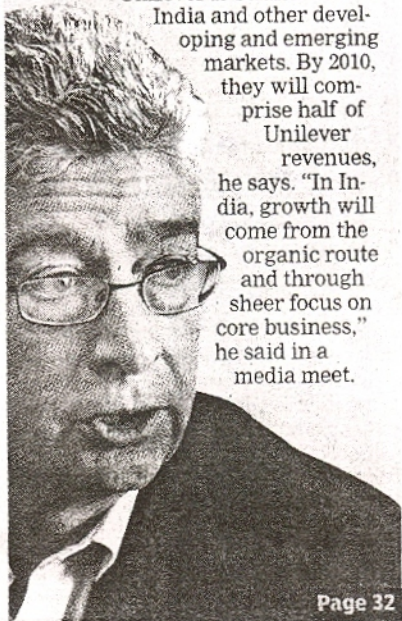


Unilever chief reveals hand

Patrick Cescau, the first group chief executive of the combined

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revenues, he says. "In India, growth will come from the organic route and through sheer focus on core business," he said in a media meet.



'We have no option but to keep raising prices'

Unilever chief executive unveils the roadmap for the FMCG giant

Patrick Cescau (pronounced *cess-cow*), the Frenchman who became the first group chief executive of the combined Unilever, is visiting India after a gap of 18 months. On Friday, he held strategy sessions with the top brass of Hindustan Unilever (HUL) and an interactive session with managers. He is bullish about India and other developing and emerging markets. By 2010, these markets will comprise half of Unilever revenues. It is an ambitious goal, but trends show that Unilever can pull it off. In 2006, revenues from these markets totted up to 36% and in 2007, the figure stood at 44%. In India, growth will come from the organic route and through sheer focus on core business, he said. **Satish John** excerpts Cescau's interaction with mediapersons on Saturday in Mumbai:

On the Unilever show and HUL's performance

We have an organisation which is simpler, leaner and fitter, and a culture that is more performance-oriented. We have a team which is more energised and we have achieved lower costs and are more focused on consistent topline growth.

The year 2007 has been good and it was not by accident. Our strategies have paid off despite a challenging economic environment. The transformation of Unilever is progressing well despite the slowdown in the US economy and rising oil prices.

We can battle because of the changes we made and also because of our focus and commitment to developing the emerging market. Now 44% of our turnover accrues from developing and emerging markets such as India. We believe we can continue to see good growth. Our growth is linked to domestic demand, economic strengths of these regions, trade patterns and trade flows that have changed. So we are less dependent on the US and the developed markets. We are cautious but positive about Unilever in 2008 and confirm the guidances on topline growth and margins.

On the challenging environment

and rising commodity prices?

Clearly we are facing unprecedented commodity cost increases. It is not only about supply and demand, it is also about bio-fuels and some speculation here and there. We are reacting to that by increased our productivity improvement, increased buying efficiencies, formulation adjustments and innovation that adds value and growth through technology. This allows us to claim higher prices and also push part of the portfolio where we have better margins or better growth prospects and finally also cost increases.

I will give you just one number. We saved one billion euros (Rs 6,242 crore) in costs last year. It came about due to productivity improvement. The money saved more than made up for the increased cost.

Q We'll selectively increase market share. What it means is that increasing market share where we hope to better our return on investment and where we are best placed in innovation and assets. I won't go where we can't win our battles.

We still posted a good volume growth supplemented by increased pricing and this is the underpinning our gross numbers. I am afraid we will have to keep increasing prices as there is no sign of a slowdown in material costs. Unilever has positioned itself to manage that level of costs. We expected increase in costs of 220 basis points in 2008 but now we believe it could be 300 basis points.

On Unilever growing emerging market share

It is currently 44%. By 2010 it will be 50%. India is growing by 15% and China at 20-30% growth plus. We see enormous opportunity as there is a low level of consumption and penetration in these markets. This is the essence of our strategy: to capitalise on our position in the developing and emerging markets.

We believe we are well-placed because



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of the way we compete in this markets.

On the Indian opportunity

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Isn't there a limit to cost-cutting and product-price increases?

There is a delicate balance between pricing, productivity and product mix. In 2007, we saved 1.5 billion euros. Of this, 700 million was buying-saving efficiency, 300 million accrued from a restructuring program and 200 million from productivity. It is not about price increases alone. We are also offering customers a different level of price and affordability and India is a perfect example of this.

In our portfolio we are going to see an opportunity to drive bigger part of our portfolio aggressively and continue to see higher volume growth. One has to be realistic that you cannot fall too much behind in term of your gross margins because who knows where the oil prices will be by the end of 2008.

After all, the consensus of the economists for 2008, was \$75-80 per barrel of oil. We are at 109 today, so you can't pledge your cost mountain to fall so much behind. You have to accept the difficult balance between costs and prices. You need to do that. In Unilever, the first thing to do is not to go for cost increases. We prefer to go for productivity, costs and innovation and then address prices.

The gap with arch rival P&G is not closing?

The reason why P&G has grown in size is because of major acquisitions it made — Gillette and Wella. We are very deep. Being even bigger doesn't mean being better. We have a size that allows us to be a player and especially in places where it matters, which is the developing and emerging markets.

On making big acquisitions to grow?

I am not tempted to make big acquisitions as history tells they are not very

impressive. Being big is important but being super big is not important.

We are more concerned about margins and market share. We can grow as fast as the market where we operate. The second thing is to protect the overall margins. Because in 2008, with raw material prices moving the way they have, this has to be a priority for the organisation. We'll selectively increase market share. What it means is that increasing market share where we hope to better our return on investment and where we are best placed in innovation and assets. I won't go where we can't win our battles.

On big acquisitions...

Q I am not tempted to make big acquisitions as history tells they are not very impressive. Being big is important but being super big is not important. We are more concerned about margins and market share. We can grow as fast as the market where we operate.

We have got such good potential. The markets are enormous. We have entered Japan and we have made a big move in Russia. This is opportunity we have to capture. This is for me an opportunity for me to keep focused on our core businesses. And this is the reason why Unilever worldwide has grown from zero to 5.5%.

Does that mean you will make small and medium acquisitions?

Absolutely. We bought an ice cream business in Russia. Believe me, they eat a lot of ice in Russia. And at the same time we sold a cheese business in France. We sold it at four times its turnover. It is good money. Cheese is a lovely business and lovely product, but it is not a global category business. I am a global player. By acquiring the ice-cream business, it will strengthen our position as the Number One globally, it will give me a position. In India, it should rightly be organic growth.