

Publication : Hindustan Times
Date : Saturday, February 12, 2011
Edition : Mumbai
Page : 16+17(Business)

HUL's bounce-back

RECIPE FOR REBOUND After a bad hit, consumer goods giant bets on power stores, rural areas and new categories to boost market shares and margins

corporatecall

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MUMBAI: For Hindustan Unilever, the leading sponsor of popular television serials that promote its detergent brands, 2009 was like an awakening episode in a soap opera. A larger number of local rivals had entered its dominant laundry business, hitting both market share and profit margins.

Shaken but stirred to positive action, the 75-year-old consumer goods giant, which sells everything from shampoos and fairness creams to jam and tea, picked up its pieces and reworked its strategy.

HUL added 500,000 stores in 2010 — that's almost 50% of what it did in 75 years. It plans to add an equal number over the next two years, and turn its shops into what it calls "perfect stores" that display products to pull in more demand in their locations.

The result: volumes are up 12% in the last quarter, in line with the 70 product launches or re-launches that it did last year.

"The company's salespeople come and arrange all products in an order," Mukesh P Patel, of Mehul Medico, a retailer in Mumbai's Santacruz area told an HT reporter on a random visit. "This catches the consumer's attention."

But HUL's challenges are far from over: Its net profit margins shrunk to 11.9% from 16.5% in 2002-03. And net

profit plunged 11.8% in 2009-10. The company blames it on rising input costs and a cut-throat price war by 600-odd laundry rivals who ramped up capacities even as HUL was sitting on inventories amid an oil price surge.

HUL's first step is to hold on to its market, while taking a hit

on laundry product margins.

"There has been an irrational response in the market by people wanting to build the business quickly and therefore the prices are being brought down to unsustainable levels," said Harish Manwani, president Asia, Africa, Central and Eastern Europe, Unilever. "We are quite clear that we are not here to lose market share in categories where we took 100 years to build share."

In a sign of renewed vigour, the company is reaching directly to villages that have a population of less than 2,000 through its project 'Shaktiman'. While the focus is on rural market, the company has also increased its market share in the modern retail channels, where its market share has risen by 5-6 percentage points compared with the general trade over the past three years.

"We have to be winning with the consumers of tomorrow, in the channels of tomorrow, in the segments of tomorrow and in the geographies of tomorrow," said Nitin Paranjpe CEO and managing director, HUL, explaining the fan-out. "If we are winning in them then even if they are small today, we would be leading in those areas when they grow big tomorrow."

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WE HAVE TO BE WINNING WITH THE CONSUMERS OF TOMORROW, IN THE CHANNELS OF TOMORROW, IN THE GEOGRAPHIES OF TOMORROW

HUL's bounce-back

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As modern retail and rural areas steady the ship, HUL has been talking big in foods, where it faces aggressive rivals. While parent Unilever gets 50% of business from foods worldwide, for HUL, it is a humble 20%, though it is strong in coffee and tea.

"It's the state of market development that has not yet taken off in foods," Manwani said, underlining the significance of nascent segments.

Paranjpe reasons that only 5% of India's overall food business is packaged and the game is wide open and its brands strong.

HUL, happy with Knorr's soupy noodles success, will soon launch Nutrismart, a health food drink under umbrella Kissan. More products are due this year.

In personal care, in which HUL has power brands such as Fair & Lovely and Pepsodent, it is betting on growing affluence. Paranjpe said HUL must "premiumise and turbocharge" its products in personal care and beauty. And that is the reason why Gopal Vittal, executive director (home and personal care), has diverted his focus to smaller segments with growth

potential, such as hair conditioners, skin lightening, face cleansing and liquid handwash. "I spend a lot of my personal time on the things that are smaller and have a larger opportunity for growth in the future," Vittal said.

HUL, also focusing on health and eco-friendly lifestyles, is trying to build long-term competitive advantage by sourcing its raw material from sustainable sources.

"If you are close to the consumer you can lead the change of market development," said Hemant Bakshi, executive director (sales and customer development).

The knock of 2009 is still fresh in memory, but the company that has turned out many leaders is hoping its bright minds and emerging winds to lead a bounceback.

"We lost share and it was an important milestone in our history because of the lesson we learnt," said Vittal. "That has galvanised the organisation and made us more determined and consumer-centric. And more humble."

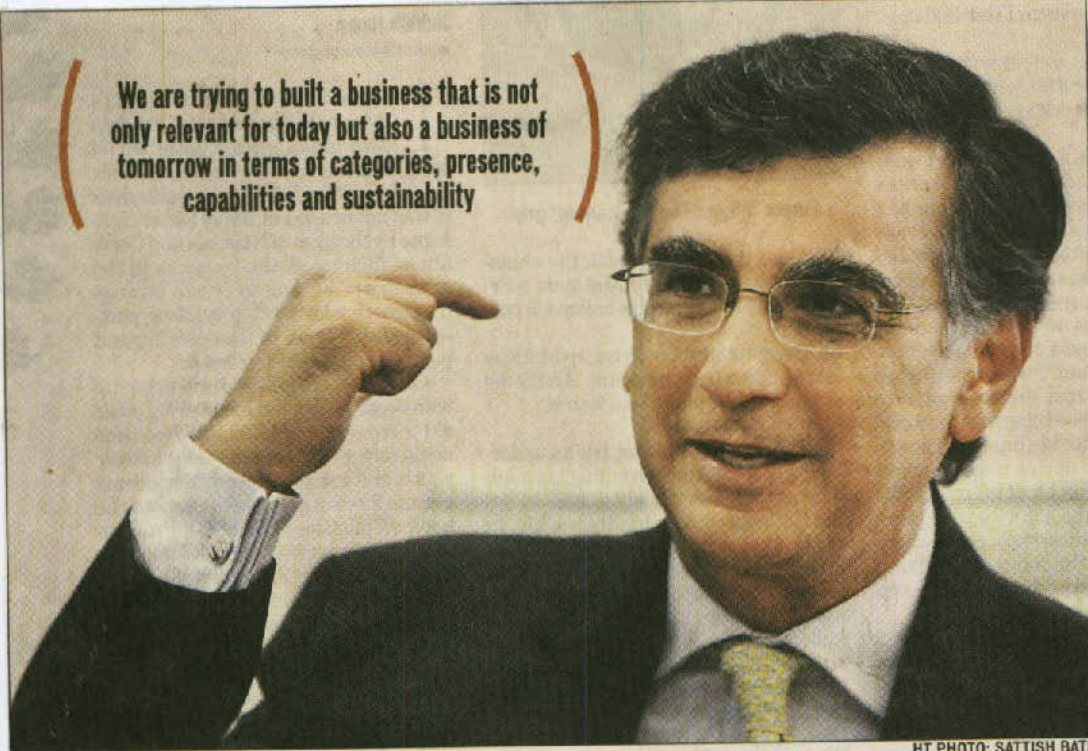
For a company that has nurtured the careers of 400 CEOs in India's corporate sector, that could be a new lesson.

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HT PHOTO: SATTISH BATE

We are trying to build a business that is not only relevant for today but also a business of tomorrow in terms of categories, presence, capabilities and sustainability

INTERVIEW HARISH MANWANI

'We want our brands to live for another 100 years'

Gautam Chikermane and Sandeep Singh
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Minutes after declaring Hindustan Unilever's third quarter results, Unilever President Asia, Africa, Central and Eastern Europe Harish Manwani spoke to Hindustan Times about the company's strategy, how inflation is hurting its bottomline and the opportunities that the Indian market offers.

Your third quarter results have been weak on profits. What's up?
 For the fourth quarter running we have delivered an underlying volume growth of double digit. As far as margins are concerned, in laundry we have an ongoing competitive battle which we are determined to fight. And the sudden escalation in commodity prices particularly palm oil and crude oil has hit us.

Those prices are not going to fall. Globally, inflation is rising. So, how do you plan to manage these costs?
 The question is that going forward we have to be aware of is that the headwinds that we are now beginning to see of commodity costs are getting more intensive in terms of crude oil and palm oil. We have to do two things. One, step up our cost effectiveness and two, wherever the need we have to judiciously increase prices but without losing our competitiveness in the market.

Is the mushrooming of private labels by retailers hurting your sales?
 While modern trade is a fast-growing channel, its contribution is still small. We get a lot of efficiencies when we deal with the modern retailer and there is a lot of professional engagement with the mod-

ern retail. We have a higher share in the modern trade than we have in the general trade because we have built the core competency. The business model is commercially viable for both partners.

You have been talking about food becoming a major contributor to the company for quite some time but it has not picked yet. It is only 20% of your business in India as compared to 50% in Unilever's. Anything going wrong there?

It's the state of market development that has not yet taken off in foods. And so, the penetration levels and the state of market is more developed with the home and personal care segment and less in food.

Is your growth tapering off?

Our interest lies in a long-term value creation. We will make sure that our brands remain relevant, our organisational capabilities remain competent in the context we operate.

We have done a lot of investment in our brands. In 2010 we had 70 launches and relaunches. We are constantly building our brands to make them better and relevant.

You must also remember that we operate on a very high base. Despite that, our growth is ahead of market growth.

Compared to other countries you are responsible for, how does the Indian market look?

Take any category in India. There is no mature category and that's an excellent business to be in. The per capita expenditure of shampoo in India is 1/7th of China's. Face care expenditure of Thais is 25 times that of Indians. We have 55% share in the market, so we have to grow

the market. In the foods business, while we are market leaders in soups, what excites me is that soup is only 2-3% of India's (consumption). We want to make soups relevant to 10% of the Indians.

Why has your profit growth rate squeezed in the past few years?

We have a category where there has been an irrational response in the market by people wanting to build the business quickly and therefore the prices are being brought down to a level that is unsustainable. We are quite clear that we are not here to lose market share in categories where we have taken 100 years to build share. So we are competing and that is hitting us in the short term.

What are you doing to come out of it?

In some of the bigger categories we are strengthening our leadership position. We will also manage within our product portfolio and categories. I personally think that it is not good business sense longer term for anybody to destroy value in an industry if you happen to have pricing that is not sustainable.

What does HUL look like in the next few years?

We are trying to build a business that is not only relevant for today but also a business of tomorrow in terms of categories, presence, capabilities and sustainability. I want to see consumers wanting to use our brands because they are the best offering they can get. Our vision is to have consumers who are delighted by our brands and we want our brands that have lived 100 years, to live for another 100 years.

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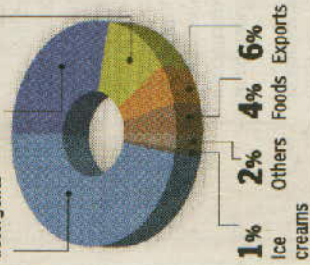
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SALES DISSECTED

Contribution of various segments as of March '10

47% Soaps & detergents
28% Personal Products
12% Beverages

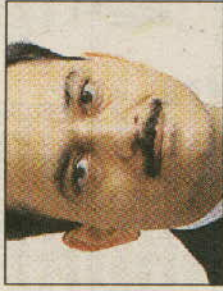


Profits under pressure

(Figures in ₹ crore)



THE MEN BEHIND THE MISSION: HUL'S LEADING HONCHOS



NITIN PARANJPE
CEO & MD

₹18,462 CR

■ Net sales for HUL in 2009-10

To stay ahead, we have to identify and create new capabilities that are unique and sustainable... and widen the gap in terms of our reach. Even in the most concentrated modern trade markets, the profitability of big FMCG players has increased. Modern needs the top 2-3 brands, while they don't care for the rest. The best insulation from a margin point is to have leading positions. Private labels will grow but only replace small players.



GOPAL VITTAL
ED (home & personal care)

₹13,846 CR

■ Home & pers. products sales

In 2009, we lost market share largely led by the underperformance of the Wheel brand... when the commodity cycle hit down-trend and 600-odd local players ramped up capacities. In 2010 we have grown share in laundry and restored competitive-ness. Inflation is forcing us to be more prudent in the way we are able to strip costs. We are following the reverse process and will set the price and margin and reach the target cost. We are very much on way.



SHREEJIT MISHRA
ED (foods)

₹3,507 CR

■ Sales of foods

We will look at new categories but we will not go everywhere. Our market is focussed around where Kissan, Knorr and Annapurna can go and our big bets will be Knorr and Kissan. We will not get into areas we don't understand well and where Unilever does not have technology. Biscuits, for instance. The packaged foods business is growing well but is just 5-6% of the total foods market. My sense is that over 10 years it will get to 15-20% of the total food market.



HEMANT BAKSHI
ED (sales & customer development)

1,500,000

■ Number of HUL outlets in India

Our agenda is to create more stores, better stores. We had 1 million stores till 2009 and have added 500,000 in 2010. We will another 500,000 in the next two years. It is a continuous process and our challenge is to create a gap with our competitors. Most of these stores are in rural India... We have mapped every village of the country. We are now getting into villages that have populations of less than 20,000 through our 'Project Shaktiman'.