

'HUL's rural reach is up three times in a year'

Hindustan Unilever Managing Director Nitin Paranjpe says the company is looking at every possible lever in its control to meet the challenges of severe commodity price pressures. In this interview with Shyamal Majumdar and Viveat Susan Pinto, he also talks about why downtrading, if any, will be temporary as the secular trend will continue to be premiumisation.

Q&A

NITIN PARANJPE
MD, Hindustan Unilever

You put in an aggressive go-to-market strategy in place last year. How has it performed?

Early last year, I had said we would reach over 500,000 rural outlets in two years. We have achieved it in a year. We have taken our rural reach to three times the number we had when we started out in early 2010. Let me also add that rural reach per se was never an issue with us. We wanted to create a clear source of advantage by widening the gap between us and others.

How did you do it?

It started by conceptualising a model, which helped us find the right places to go. We then leveraged our scale and technology in a manner which was never done before. We digitized the whole thing. All the villages were put on an IT map: the name of the village, its total strength, the nearest distributors available, whether it has a school, a hospital, a primary health centre, all of this was mapped. The presence of a school or primary health centre told us of the level of social development that the place could see, and hence our need to be present there. We also took into account how to access the place. What models of reach and access could make that drive viable? Despite being the largest FMCG company, we have to constantly innovate to stay ahead of the curve.

What kind of innovations?

Simple things. What is the size of the vehicle? What is the frequency of travel? What all will I carry in the vehicle? By using mass route planning, can I reduce the distance of travel? The point is how do I achieve my objective of reaching the villages I want to without having to travel over 30 kms in a day? We found that in some pockets of the country, there were gaps. We didn't have a distributor to reach within 30 kms of the place we had targeted. The next question was: Does it make sense for me to appoint a distributor there? We looked at the Shakti amma channel, and then Shaktiman. The male members of the family in rural areas are not occupied on the fields for 30 days in a row. They were given bicycles to improve their radius of coverage. The next part was to build a supervisory mechanism. The focus is growth, which is competitive, profitable and sustainable.

What is sustainable growth?

This has been articulated in the Unilever Sustainable Living Plan that was launched globally. The goal is to double the business while reducing our environmental impact. By 2020, we aim to halve the environmental footprint of our products, help one billion people improve their health and wellbeing and finally source 100 per cent of its agricultural raw materials sustainably. The other aspect is that from production, that, from the time we source to the time the product is finally consumed, we will meet sustainable standards. So the commitment is for the total process.

Commodity inflation has begun pinching FMCG firms hard.

How does it look going forward?

Like most other industries, the FMCG industry is also currently facing headwinds as a result of severe commodity cost pressures. In an inflationary context there can be pressure on consumers and we have to address it appropriately. Thankfully for HUL, our portfolio straddles the pyramid. We haven't seen any significant downtrading so far. The larger point is that downtrading, if any, will be temporary, the secular trend will continue to be premiumisation.

Which is why you are focusing on newer, emerging categories?

Yes, but we are not ignoring the core. There is still growth within the core categories. But as affluence grows, people will want to upgrade. Combine this with changing habits, and what you are seeing is newer areas of growth within the existing areas. For example, fabric conditioners, in skincare, it is anti-age-

ing, among others. Even packaged foods will take off.

Foods in general has not made much headway for you.

We want to participate in those segments where Unilever will be able to establish leadership over a longer period of time. We don't want to be tactical in foods. But the tipping point in foods will come soon. Most think that the foods game has been played out. The reality is that less than five per cent of the foods opportunity has got converted. So the game will be played out. Take ice creams, for instance. It has been growing at 20 per cent over the last few years.

Will you spin off foods into a subsidiary?

I see no purpose of doing this. There is nothing that is coming in the way of dedicated focus towards the business because it is run by a separate person with a separate team. Let me tell you that there are benefits of being attached to the overall business because it provides you the reach, the size and scale that you wouldn't have if you were spun off into a subsidiary. We don't see the need for a subsidiary in foods at this stage.

Unilever global CEO Paul Polman described the Indian subsidiary as an underperformer last year. Have you managed to change his perception in the last one year?

Unilever and Paul Polman see India as a significant contributor to Unilever, and hence are deeply committed to it. The Unilever strategy of doubling business is predicated on a greater share and role that the developing and emerging (D&E) markets will play. They already contribute 50 per cent to Unilever's turnover. Within that India has an important role to play.

Will volumes continue to drive your business?

We will continue to focus on growth which is competitive and has a strong volume component. On margins and profitability, I think these are challenging times for the industry in the context of commodity inflation. We have to look at every possible lever in our control. We will have to be tight on cost. We will have to drive efficiencies in everything that we do. Every year we pull out a large amount of money by just rigorously scrutinising the value chain and asking questions. What element of this cost the consumer may not want to pay or which is not adding enough value to the consumer? How could I do it differently? Last but not the least is pricing. Without doubt these levels of cost inflation will mean that there will be pricing action.

Is HUL too shifty in its strategy? First, power brands; now regional jewels. Then you talked about profitable margins, now you are focusing on volumes.

Our goal has always been to find a model which delivers growth that is competitive, profitable and sustainable. Over the last few years we have been doing exactly that. I don't think that at any stage we have walked away from that or said that it is not our approach.

(For full version of the interview, log on to www.business-standard.com)

