

NITIN PARANJPE/HUL

# We are not seeing any slowdown

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MUMBAI

India's largest consumer packaged goods company by sales, **Hindustan Unilever Ltd (HUL)** surprised the street with its performance in the second quarter of fiscal 2011—a 21.7% growth in net profit, riding on a 18% sales growth. This was the company's best performance in the past 11 quarters, and driven in equal parts by price hikes and volume growth.

However, the company's cost of raw material rose at 26%, a much higher pace than its revenues, and it is looking at the lessons learnt in the past to deal with the present uncertainties.

"Be alert, be agile and keep the lessons of the past in mind and act quickly and decisively if things move in whichever way," said Nitin Paranjpe, managing director and chief executive officer, HUL, in an interview. Edited excerpts:

**You have recorded a stellar performance in the September quarter. Where is the slowdown?**

I think, at this moment we are not seeing any slowdown. Having said that, we must watch the future carefully. There are many headwinds that are there in the economy—global uncertainties that we must deal with, inflation in the country, and (rising) interest rates. All of these dampen sentiments and put pressure on the discretionary spends of the consumer. We must watch this space carefully.

On the other hand, there are some positive factors as well—such as the monsoon. The (government's) initiatives in the rural belt which mean that the rural consumer has more money are good for us. The level of consumption from where we are starting is so low and the aspirations of consumers are rising in such a manner that they augur well for us.

We see the future as a combination of some headwinds and tailwinds and we need to watch the next six to 12 months carefully.

**Has your outlook from a quarter ago changed for the better?**

If anything, at the macro level the sentiment has weakened a little more in the last three to four months, based on events taking place globally and rising interest rates despite which inflation has not been controlled. From our point of view, we are not seeing any slowdown. We are feeling good about many of the things we have done... many of the initiatives we have put in place.

We don't run the business from a quarter to quarter basis. There are certain business strategies that we have talked about. For the last three years, I have consistently been saying the same thing—we have a strategy.

Our strategy is designed to try and make sure that our growth meets three criteria; growth which is competitive, profitable and sustainable. We have been following this strategy and our performance is consistent for the last six, seven or eight quarters. As we start getting this sort of volume growth, it is virtuous and it gives us the ability to reinvest into better products, and improving the consumer's value proposition.

As this becomes better, it helps us grow even better vol-



Weather ahead: Paranjpe says he sees the future as a combination of headwinds and tailwinds.

## mint INTERVIEW

umes and that's the cycle we want to get into. Over the last several quarters, we are getting there and we would like it to continue.

**What happens if, driven by high inflation, consumers start cutting consumption and begin downtrading (opting for a less expensive product in the same category)?**

We have a strategy to straddle the pyramid in terms of price points and consumer segments. We have the opportunity to benefit from the uptrading which takes place or cushion from any potential downtrading that takes place. We are relatively well placed... Straddling the pyramid is at the heart of winning in a country like India.

**Are you creating new markets or taking away consumers from competition? Where is the growth coming from?**

All I can say is that we are getting growth ahead of the market—that is, we are gaining market share. To that extent, it is a combination of intrinsic market growth which is the overall consumption growth in the market and some improvement in our competitive position, that is, market share. But a large part of it is market growth and we have a role in market development—creating new markets, segments and (consumer) categories.

**If we look at the September quarter earnings—is the volume coming largely from new markets?**

A large part of it, 70-80% easily, is from new markets. Market growth, driving pene-

tration and consumption will account for the largest part of growth and market share gain from competition will account for a smaller part of it.

**Will this continue despite the high inflation and interest rates?**

That is difficult for me to say. We need to watch the next six to 12 months carefully. We are living in very volatile times and one of the things we need to do is make sure that our cycles of planning, decision-making are shorter to respond to changes that take place in the environment that we are in.

**Like...**

In the good old days, when life was a little more stable, you could form a view in terms of how inflation is likely to be, what are the implications of pricing, what sort of pricing decisions we need to make; and we could get into a rhythm of saying we take a price increase in this quarter and again six months later... That is no longer possible.

We now have a process to shorten these cycles and be on top of changes taking place. Every Monday we get all the relevant people together; our buyers, those who track global markets, commodity markets, and so on. We look at what is happening in the global markets, in India and see what our forecast is. We discuss what is our prognosis and whether we need to change.

**Compared to two years ago, have you shortened the time to take decisions?**

Two years ago, when we were tracking a promotional activity or pricing, the time taken between spotting it, tak-

ing a decision and execution, it probably took 90 days. We set a goal to ourselves that we would halve it and we pretty much are in a position now where we have halved it. Some of that is simply by tightening the decision times and some of it is being smart about deploying better technology.

In the good old days, we would have wrappers procured from the supplier with the price and packaging date on it. There is little that we could do. Now, we no longer have the luxury. In a large number of categories, we have come to a stage where we do online printing. So, in theory we can take a decision to revise the price now and in the next few hours have the new pricing printed in the factory.

**One of your strategies to add to the bottom line was cost cutting. Are you through with that?**

There is always scope to improve. One of the lines I have heard from a former leader in the company is that as long as costs are incurred, there is an opportunity to save.

In every single area of structural costs of running a company—indirect costs such as people costs, travel costs, etc—we can save. At all points in time, we have to question ourselves: what leverage are we getting on these costs? How can we become more efficient and more effective? How many people do we need to do this?

As we grow our business, we need to decide on the number of people needed to grow at the same rate or at a lower rate. There are other costs—operations, supply chain, logistics, distribution,

technical efficiencies. There is a third area, where we think we can save a lot of money is the marketing and marketing investments.

**What percentage of your sales do you spend on advertising?**

In last quarter we spent just under 12% of sales. In the year-ago period it was 13.8%. We should not get fixated whether it is 11% or 12% or 13%. Everyone asks me whether it will go up or go down. What you should know is that we have a principle and that principle will remain unchanged but the absolute value and percentage will change.

What is the principle? We are in a consumer brands business and the brand is important and we have to invest behind our brands at an appropriate level. We have an understanding what these appropriate levels are. Which means that there is a minimum threshold to make sure the brand is heard and it is visible.

There is a relative measure which is our share of voice over the market. Over time, we have developed models as to what that share of voice should be if we have an ambition to grow our market share. We commit that our brands are well-funded and well-invested. We will always spend at competitive levels. If, however, competitive spends come down, our spends will also come down; if they go up, they will also go up.

In some quarters we may have more innovations and the spends will go up. All of these factors have to be taken into account and that will determine the absolute amount.

**Do you have any plan to keep the spends in single digits as a percentage of sales?**

No, none whatsoever. If we are so excited about India and the Indian opportunity, so are others. We are blessed to be in the wonderful position that we are in—leadership in most categories, strong brands, etc. Many other companies may not be in such positions and they are quite keen to establish a presence in a large market like India and are willing to invest. So, if anything, the competitive intensities will increase.

**What is India's contribution to Unilever's overall global revenue?**

It's about 5.5% to 6%. It's among the largest operating companies for Unilever Plc.

**Can you tell us where you see the highest competitive intensity?**

Competitive intensity is high across the board. Sometimes, from the outside when you see competitive intensity, you see it in situations where the pricing is coming down—a price war. Price is only one dimension of competitive intensity. In some categories, it is advertising investment and in some other categories it is promotional intensity.

The second thing is that most people think of competitive intensities in terms of multinational companies (MNCs) coming here. But India has a situation where we are competing with MNCs at one end and local regional players at the other end. Each one has its own approach and each one is fighting hard, competing hard, using its own way to win, in what is a large and growing market.

**Unilever made an acquisition in the foods space in Russia. Would you look at a similar approach to grow the foods category in India. Is there an acquisitive growth strategy for India?**

The first criterion is that there should be a strategic fit. It must make a sound commercial case and there must be a willing seller. This is something on our radar; we keep looking for opportunities. We have a team which looks into it to form a view and if required we would take help from relevant external people.

**Close to 10% of your top-line growth was from price hikes. Are there concerns of the price hike killing the volumes growth? This happened in 2009.**

I can't predict the future. I really can't. I can't tell what happens to commodity costs. What can we do at this stage? Be alert, be agile and keep the lessons of the past in mind and act quickly and decisively if things move in whichever way.

In all of this the only—and I keep repeating—the only insurance for future success is relentless focus on the consumer and we are deeply determined to make sure that the consumer value we offer is never compromised and we leverage our scale and technology to continuously provide winning innovations, products to consumers.

We have a cost structure that allows us the ability to invest and leave a surplus for our products. There is nothing more complicated than that. If we succeed in doing so, we will deliver growth, which is competitive, profitable and sustainable.

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VIDEO

HUL managing director Nitin Paranjpe talks about the company's growth amid high inflation and interest rates

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