

‘Competition is an opportunity to expand the market’

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Burgeoning input costs and stiffening competition in the Indian consumer goods market have had an impact on the recent performance of Hindustan Unilever Ltd. But the FMCG behemoth is unfazed and continues to be upbeat about the future, as it conjures new growth strategies and scouts for new geographies for its arsenal of brands. The 75-year old company, which many regard more as an institution than a mere business entity, is battling out the material cost inflation with cost-saving measures.

As for competition, it is nothing new for HUL, which is confident that its professional, market-linked business approach will sustain and improve its market share across all categories. The confidence is backed by the fact that FMCG demand continues to be strong in both the urban and rural markets.

Mr D. Sundaram, HUL's Director (Finance), spoke at length to Business Line on the occasion of the company turning 75, dwelling on its growth strategies and brand campaigns.

Excerpts from the interview:

There is a feeling that HUL's new brands have not made as much impact in the market as the old ones, such as Lifebuoy or Lux.

Does this mean HUL

continues to lean on its old brands?

I do not think this is true. Take Dove shampoo – it has already reached over one per cent market share in less than six months. It is now a leading brand in modern trade. Then there are brands up and coming. For example, Sunsilk is not a very old brand. All Clear shampoo is another good example. A well-entrenched company like ours must have the strengths of these brands.

Does it mean that the marketing efforts that went into the launch of new brands could not capture public imagination as the old ones?

No, that is not correct. We continue to re-invent the old brands through our strong innovation programme. We are not letting the brand get dated, but renewing the brands. It also speaks of how strong the brands are to have survived. Take Lifebuoy – five years ago we renewed the brand. It is not a men's carbolic soap anymore. The brand may be old, but the brand personality is new. It is like staying in the same house, which is renovated every time a new occupant enters. By the same token, you will see ten years down the line what a powerful brand Axe deodorant will become.

Your personal care products business does not seem to be maintaining the same growth rate as other categories....

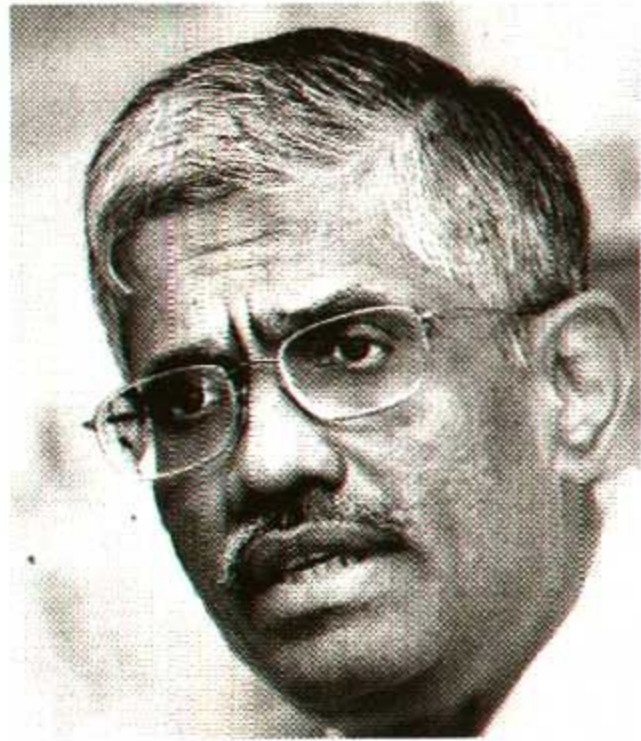
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Personal care is an important category that drives growth for HUL. It has tremendous potential, as our per capita consumption of such products is not anywhere near that of most comparable countries.

**MR D. SUNDARAM,
DIRECTOR
(FINANCE),
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UNILEVER**

drives growth for HUL. And there is tremendous potential in this category, as our per capita consumption of such products is not anywhere near that of most comparable countries. We do have a basket of powerful brands in this segment, such as the new Ponds range, Fair & Lovely and Vaseline, apart from the Lakme range. Yes, entry of new brands is creating competition. But I see the entry of, say, the Olay brand as an opportunity to expand the market.

But, then, some of your competitors have registered a higher growth



rate in this segment than HUL....

You have to understand that size is our issue. A 10.8 per cent growth can generate additional turnover of Rs 300 crore. (Laughs) Twenty-five percent of, let's say, Rs 30 crore is not the same as 10 per cent of Rs 3,000 crore. Growth is a percentage number and it is certainly statistics. I am not running away from it, but it should be given a context.

The seven-week closure of your Assam factory did make an impact on your September 2007 earnings. Will you be

thinking of setting up units in new places in the light of the Assam incident?

No. Assam is definitely a good location and we stand committed to Assam as a location. The Assam incident (outcome of an industrial relations issue) could have happened at any location.

What are your plans in the processed food segment?

This segment continues to be our key driver, inclusive of Modern. Yes, we are at present offering a limited number of categories in this segment, but going ahead we

will be present in more categories. Our parent, Unilever, has developed a strong technology base for the processed food segment, which we can utilise. But the technology has to be fitted to the taste and aspiration of India. Our present offerings in this segment include the Kissan and Knorr brands – in fact we have made an entry into the cooking aids space through Knorr. We also have the Annapurna brand of atta, though in limited geographies, mostly in the South and the West. We recently took out this brand from the Delhi market, as it was not profitable. Branded atta finds an easier market in rice-consuming geographies.

Are you planning to launch new categories in this segment?

Yes, we have plans to launch some new categories, with Unilever technology, maybe in the next six months. The processed food concept has not yet fully taken root in India. But there are clear signals that it is set to take off and organised retail will play a major role in this process.

An update on your Shakti network. Will it become an alternative distribution channel?

Yes, it is steadily growing. After its launch four years ago, about three to four per cent of our FMCG revenue now comes through this network. This is more an instrument to empower women in the rural markets and take branded products to the rural areas. But it can never be-

come an alternative distribution channel. The Shakti network is a supplementary distribution system.

What is your strategy on the export front?

We are currently engaged in two categories of export – FMCG and speciality products. Our strategy is to gradually shift our focus to FMCG exports, like those of home-care and personal care products, apart from tea and coffee. In fact, we manage our Pears brand globally from here. In the speciality segment, we plan to dispose of our leather export business eventually and we are contracting for marine business. Similarly, our castor business is neither making money nor losing – we intend to slowly wind it down.

Can you give us an update on your share buy-back programme?

We are permitted to buy back shares worth 25 per cent of our net worth from the market, which means about Rs 630 crore. We started the buy back from October 6 and so far we have bought back 10 per cent of our limit (or Rs 63 crore worth shares). We are using our surplus cash of about Rs 2,200 crore to fund this buy back. Buying back 10 per cent of our limit in just about 25 days speaks how serious we are on the buyback programme. We have one year's time to complete the buy-back. The primary objective is to use our surplus and improve our EPS, which the buyback will achieve.