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Harish Manwani is driving Unilever's overriding agenda: growth in Asia-Africa. That includes shuffling CEOs around

Manwani's Motives

INDIA'S LARGEST SELLING BUSINESS MAGAZINE

Harish Manwani, president (Asia & Africa), Unilever and chairman, HLL

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Manwani's Mandate

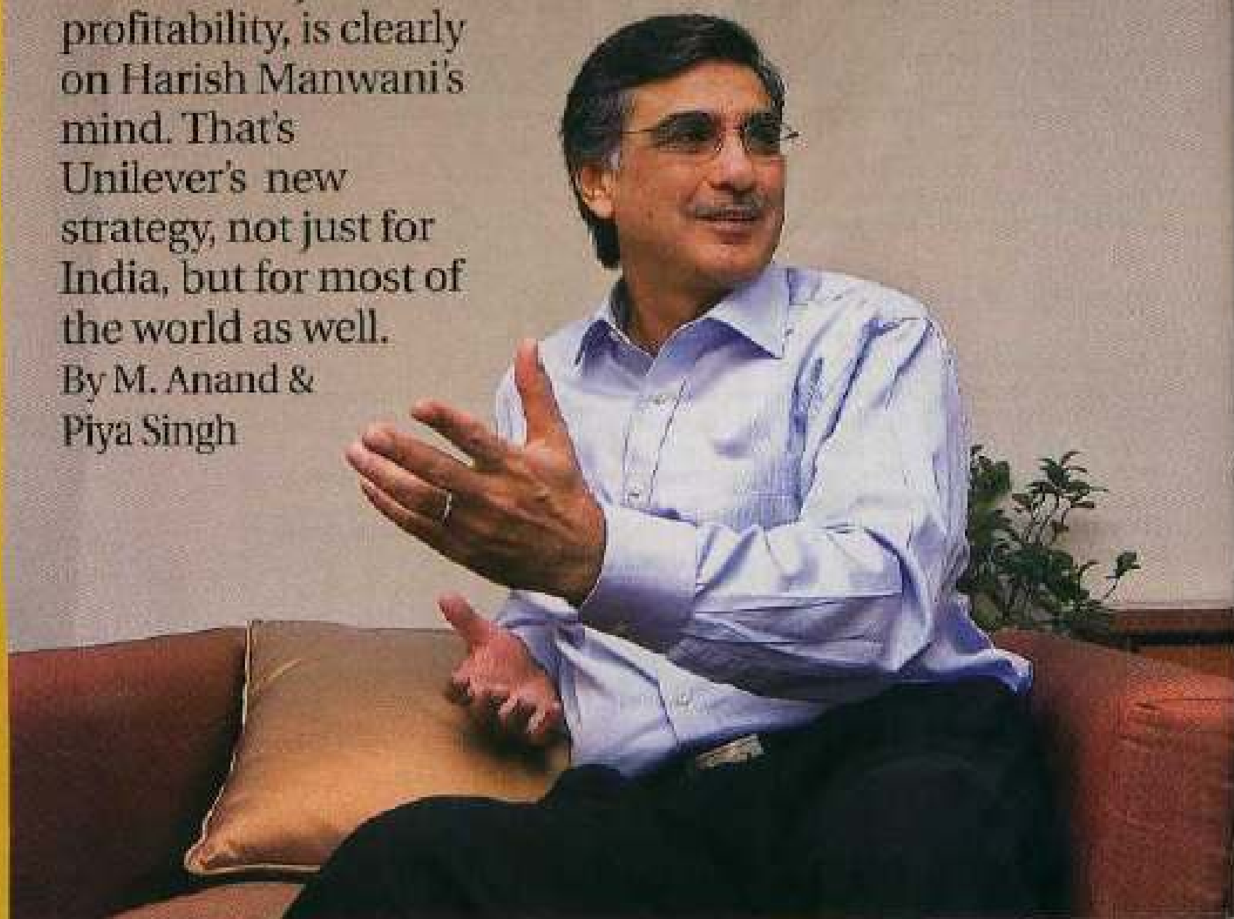
Doug Baillie may well head Hindustan Lever's operations soon, but Harish Manwani, chairman of HLL, is the one to watch out for. That's because he heads parent Unilever's fastest growing market: Asia & Africa. With the company's overriding agenda clearly being growth, not profits, Manwani is key to Unilever's future.

cover story

Manwani's MAND

Growth, not just profitability, is clearly on Harish Manwani's mind. That's Unilever's new strategy, not just for India, but for most of the world as well.

By M. Anand & Piya Singh



RUMAR MISHRA

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Unilever's operating heads

Harish Manwani, 51

- **Responsibility** — PRESIDENT, ASIA-AFRICA
- **Revenue (growth)** — EURO 7.66 BILLION (7.1%)
- **Operating Profit** — EURO 1.02 BILLION
- **Challenges** — HAS TO DELIVER ABOVE AVERAGE GROWTH IN THIS IMPORTANT REGION; NEEDS TO GET INDIA BACK ON TRACK; ENSURE UNILEVER LEVERAGES ITS DEEP ROOTS INTO A COMPETITIVE ADVANTAGE

Kees Van Der Graaf, 54

- **Responsibility** — PRESIDENT, EUROPE
- **Revenue (growth)** — EURO 12.27 BILLION (-2%)
- **Operating Profit** — EURO 2.09 BILLION
- **Challenges** — ARREST SALES DECLINE AND PROFIT MARGINS, COMBAT POOR MARKET CONDITIONS, ESPECIALLY IN WESTERN EUROPE, RECOVER GROWTH MOMENTUM

John Rice, 53

- **Responsibility** — PRESIDENT, AMERICAS
- **Revenue (growth)** — EURO 9.66 BILLION (5.7%)
- **Operating Profit** — EURO 1.13 BILLION
- **Challenges** — WILL FEEL THE HEAT FROM THE P&G-GILLETTE COMBINE; RECOVERY IN GROWTH IS EVIDENT NOW, BUT NEEDS TO BE SUSTAINED

All figures for Jan.-Sept. 2005; growth figures are year-on-year

IN February this year, the euro 40-billion Unilever finally yielded to shareholders' demand and announced radical changes in its top management. The troubled Anglo-Dutch giant abandoned its unique dual-chairman structure in favour of a more conventional chairman and CEO model. Antony Burgmans became chairman and Patrick Cescau took charge as CEO. The objective of this exercise was simplicity of structure and clarity of leadership.

It took nearly 10 months for the full impact of these changes to percolate into Hindustan Lever (HLL). Last week, HLL announced that Douglas Baillie, group vice-president and head, Unilever (Africa, Middle East and Turkey), will take over as its new CEO and managing director with effect from March 2006. Reversing a split that happened in 2004, HLL's dual-business structure (the home and personal care or HPC division, and the foods division) will now have Baillie as the man in charge. Arun Adhikari, managing director, HPC, was deputed chairman, Unilever Japan (with responsibility for Korea). S. Ravindranath, managing director of the foods division, will retire soon.

The net effect of all these changes: Baillie (who, incidentally, is the first expatriate to head HLL since Prakash Tandon became chairman in 1961) will have a free hand in running the company. And since HLL heads generally have a tenure of four to five years, he is likely to have a fairly long India innings.

Expectedly, Unilever's choice of an expat to head the Indian business has triggered a fresh wave of interest in its Indian subsidiary. Sharp, even agitated opinions have been expressed. Some HLL old-timers have argued that their company is fast losing its Indian character — an image and a source of competitive advantage that it had carefully cultivated over decades. Others see this as fair game in the era of global managers.

But amid all this drama, the rapid ascent and increasingly significant global role being played by an Indian manager has been largely ignored. If Baillie is the man to watch out for in India, then Harish Manwani, non-executive chairman, HLL is one of the men to watch in Unilever's global scheme of things.

Why? Manwani, also Unilever's

president for Asia and Africa, controls roughly one-fourth of Unilever's revenues and operating profit (2004). More importantly, his region brings in over 50 per cent of Unilever's global growth. In fact, Baillie's India appointment and Adhikari's move to Japan (the two countries together account for roughly 28 per cent of Unilever's Asia-Africa turnover) were both orchestrated by Manwani. Both will report directly to him, and increasingly, they will be key players in his regional gameplan.

Unilever is going after 3.2 billion low-income consumers, 1.2 billion middle-income and 300 million affluent consumers in Asia and Africa. In over 100 years of operations here, it has built 44 operating companies, 6,000 core distributors and six million retail outlets in the region. Manwani's job is to leverage all this and deliver above-average growth.

It's easy to see why Asia and Africa are so crucial to Unilever's plans. Between 2000 and 2010, the world's consumer spending is expected to increase by $14.4 trillion, of which Asia-Africa is expected to bring in $8.6 trillion. Says Manwani: "GDP growth in this part of the world is significantly higher. You have powerhouses like India, China, South-east Asia, even Turkey and South Africa. This will be the economic centre of gravity of the world."

Unilever isn't alone; other FMCG multinationals are also betting on areas outside North America and Europe. Colgate-Palmolive gets 43 per cent of its revenues from the rest of the world, and Nestle 30 per cent. Unilever's other rival Procter & Gamble (P&G) is, of course, a different case altogether.

Its acquisition of Gillette, which grew its revenues from $51.4 billion to over $62 billion, has queered the competitive pitch. Though Unilever retains its strengths in Europe, the P&G-Gillette combine now dwarfs Unilever in North America (see 'How Unilever Measures Up').

Unilever has two ways to counter the P&G-Gillette combine. One, it can make a big bang acquisition of its own. Analysts have speculated that Unilever will do this at some point. But the company's low valuations (from a historical perspective) have made such deals difficult. Two, it can counter P&G-Gillette's America advantage with its own Asia-Africa strengths. Both P&G and Gillette are relatively weaker in the two emerging continents. P&G earns only 21 per cent of its revenues outside North America and Europe, and Gillette 23 per cent.

Indeed, this region is Unilever's best bet for growth. Its Europe sales dropped 2 per cent in the first three quarters, while North America grew 5.7 per cent. Asia-Africa, with 7.1 per cent growth, could well determine if Unilever retains its status as a pre-eminent multinational this century. And it is Manwani's responsibility to make Asia-Africa count.

There is another way to look at Manwani's growing stature. The Unilever Executive, set up in February and headed by CEO Cescau, has eight members. Besides Manwani, there is Kees Van Der Graaf, president (Europe), and John Rice, president (Americas). Then there is M.S. (Vindi) Banga, president (foods) and Ralph Kugler, president (HPC). CFO Rudy Markham and HR chief Sandy Ogg complete the line-up.

It is extremely likely that Unilever's next CEO will rise from within this group. It is much too early to think about succession as Cescau, 56, took charge only nine months ago and has a long run ahead. But a strong performance in Asia-Africa over the next 3-5 years will improve Manwani's chances, though others like Kugler are also strong contenders.

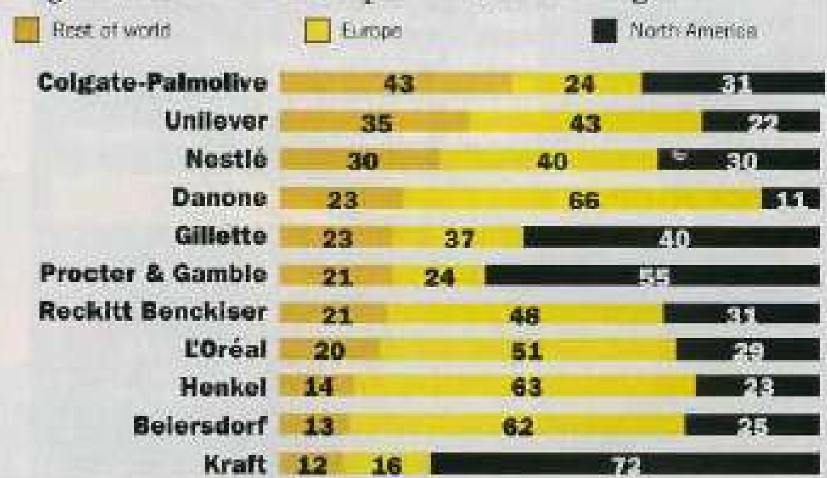
Manwani, though, has to first set the Indian operations in order. With revenues of about Rs 8,074 crore (first three-quarters of 2005), India accounts for roughly 20 per cent of Asia-Africa revenues and is Unilever's largest business outside Europe and America, including Japan.

Manwani's experience in HLL has been fairly widespread. During Keki Dadiseth's tenure as HLL chairman (1996-2000), he was HLL's director for personal products. After Banga became chairman in 2000, he moved on to the UK and then to Latin America. His performance there, where he is credited with steering Unilever through Argentina's full-blown economic crisis, propelled him into the Asia-Africa responsibility. And after Banga's tenure, he took over as the India chairman.

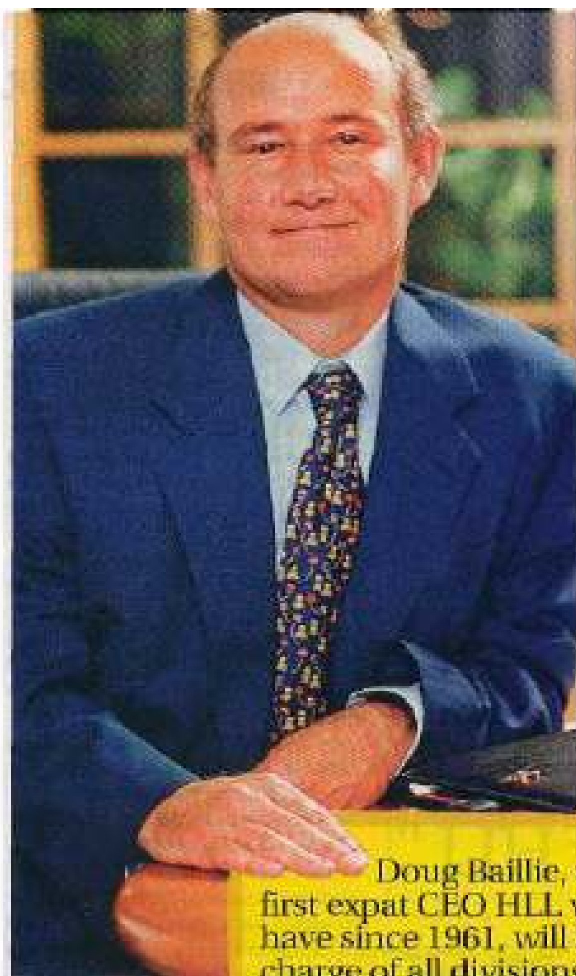
MANWANI'S approach in India will be significantly different from what HLL did during 1999-2004. The difference can be summed up in one phrase — former chairman Banga went after margin-driven profitability, whereas Manwani is concerned about volume-driven growth. "Improving profitability cannot happen at the cost of growth," says Manwani. That is different from Banga's line. In a 2001 meeting with analysts, Banga listed 'profitable growth' in personal care and 'improving profitability of foods' as key objectives.

Banga, under a clear mandate from Unilever, had focused on power brands — cutting 110 brands to around 30 — to boost profitability. Globally, Unilever, in its search for profits, also pruned its global portfolio of brands from 1,600 to 400.

Initially, this 'Path to Growth' strategy worked quite well.



Unilever estimates based on publicly available information



Doug Baillie, the first expat CEO HLL will have since 1961, will be in charge of all divisions of HLL in the country

HLL's operating profit margins increased from 15.91 per cent in 2000 to 21.69 per cent in 2003 net profit grew from Rs 1,310.09 crore to Rs 1,772 crore, though sales dropped marginally from Rs 11,373 crore to Rs 11,062 crore.

But after a three-year run, it backfired. First, the higher margins created opportunities for competitors to tap value conscious consumers. "HLL basically priced itself out of the market," says a former employee.

Second, the brands that were dropped exposed HLL's flanks to regional players. What happened with its tea business is a good example. "The moment HLL cut these brands, they just gave the entire tea industry an open field," says Unni Krishnan, managing director, Brand Finance, a consultancy. HLL's share of the tea market fell from 45 per cent in 1999 to about 31 per cent now, though it has begun to recover in the last few quarters.

Third, it also gave MNC rivals like P&G a chance to declare an all out price war in the HPC business. This led to loss of volumes and market share. HLL was forced to respond with price cuts of its own. As a result, HLL faced a solid drop of 550 basis points in its profit margin in 2004. In effect, the margin gains of the preceding four years were wiped out. Its profit dropped steeply from Rs 1,772 crore in 2003 to Rs 1,197 crore in 2004.

Moreover, now that it had fewer brands to play with, there was pressure on volumes. Several promising brands were nipped in the bud under the power brand strategy. "HLL was not willing to show the patience that Nestle showed with Maggi in the 1980s," says SSKI vice-president (research) Nikhil Vora. By end 2004, HLL was facing a severe crisis of growth.

Towards the end of the power brand plan, the over-emphasis on profits also made HLL managers reluctant about new product launches, especially in foods. "A new product, especially in a new category, is almost like a new company and has to be managed with entrepreneurial zeal. The yardstick of success should not be profits, but the consumer acceptance of a product for a reason other than mere price," says Vora.

BUT all that may change under the Manwani-Baillie combine. To begin with, a few brands that were discarded earlier may be revived now. "We are looking at our portfolio in each category. We need a cornerstone brand and flanking brands. In some cases where a slot is unoccupied, we need to be present. But this is not a major restructuring, it is just due diligence," says Manwani. Brand trackers expect some developments soon. "I expect HLL to bring back a lot of brands that were killed earlier," says Brand Finance's Krishnan. That could help restore volume growth.

Second, the new regime is taking a far more realistic view of profitability. "Given the volume growth that we are seeing now (HLL's topline grew by 10 per cent during the first three quarters this year), the margins will come. It may not be realistic to expect margins to be restored fully to the earlier levels. We may get back 80 per cent... we don't know," says M.K. Sharma, vice-chairman, HLL.

Since Manwani's entry, the focus has been on sustainable volume- and growth-driven profits. "It is our responsibility to bring back profitability, but we are talking about absolute profits (that will come with volumes), not merely margins," says Adhikari.

Manwani is not averse to slightly lower margins as long as the volume and revenue growth happens. That is exactly what we have seen in the first three quarters of the year. Sales have grown 10.2 per cent to Rs 8,074 crore, but margins are lower.

That's also his strategy for the rest of the region. Asia-Africa's operating profit margin (13.4 per cent) is marginally lower than Unilever's global average (15.7 per cent.) "These are regions where we are trying to build markets through penetration, through investments. But if you look at the value creation that comes from the developing and emerging markets, which is a combination of turnover growth, margin and capital efficiency — the business has grown enormously in value creation terms," asserts Manwani.

His new perspective on profitability mirrors that of Unilever globally. In the Americas, president John Rice has brought about a revenue growth recovery. The American business grew by 5.7 per cent in the first three quarters of this year, though margins declined from 15.9 per cent to 11.7 per cent. In an October interview with an international newspaper, Cescau emphasised the new 'market share rather than margin' approach. "We have forgotten how to fight to the death for market share," he was quoted as saying.

"We will leverage the might of HLL"

Soon after Unilever president (Asia and Africa) and HLL chairman Harish Manwani announced the appointment of Douglas Baillie as CEO, HLL, he spoke to *BW* about the change in the company's management structure. Excerpts:

■ This new arrangement of having a non-executive Chairman and a CEO; how will it change things at HLL?

First, having a Chairman and a CEO is good governance. Second, it is not unusual. The difference is that I am not only chairman of HLL. I am also head of the region. So, it also allows me to get into the operations aspect from a regional perspective.

But the only way you can make this work is by ensuring that the CEO of the business and the management committee are fully empowered to deliver on the agenda that we agree upon. It is not my job to run HLL, or Japan or Indonesia, on a day-to-day basis; Having a CEO in India will ensure that we have one person who can make all the calls on HLL.

Besides empowerment, the second benefit is that we will have one HLL and not two businesses or divisions. We will use our scale across the board, so that we can leverage the might of HLL, whether we sell Annapurna Salt or Dove soap.

■ What makes you so confident about Asia-Africa?

I believe we will win because we recognise that our consumers are diverse in Asia and Africa. For example in the bottom-end, the job is penetration, in the middle-end it's consumption and upgrading, and in the top-end it's to bring global mixes and absolutely superior features.

Each of this requires technology. We have more than 900 people in R&D in Asia and Africa dedicated to ensuring that we are able to provide the support behind this. Our local competitors are focused on the bottom end, and international competitors on the top end of the pyramid. But we will work the entire pyramid.

■ This growing importance of Asia and Africa — how is this being reflected inside the organisation?

It is reflected in the priority that their markets get from Unilever. So, in terms of resource allocation and investments, the importance of Asia and Africa shows up.

For the full text of the interview

Former Unilever executives say that the global management's growth mantra is not radically new, nor is it such a simple solution to its global problems. The fact is that Unilever has been unable to meet the City's expectations. It issued a profit warning in September 2004 and has faced profitability drops since then. "The City was tired of the cost savings by disposal of brands that Unilever would talk of, and has been demanding growth for a while now," says London-based David Haigh, CEO of Brand Finance. Adds a former Unilever executive: "The point is that growth has been difficult to achieve so far. And the jury is still out on whether this new scramble for market share will pay off."

In India too, analysts have been critical of HLL, and haven't changed their outlook after the announcement of the new CEO. Seven years ago, HLL was a Rs 10,000-crore company; in 2004, it was still at Rs 10,000 crore. Though HLL has reported a 13.6 per cent growth in topline and a 3.2 per cent growth in operating profits during the third quarter, the stock is yet to undergo a major re-rating. Most prefer to watch for a few quarters to see if HLL does indeed return to the growth path.

However, it must be emphasised that Manwani is not ignoring profits. In many ways, the changes mirror the mandates the two chairmen had from Unilever. In Banga's time, Unilever wanted to prune brands and grow profitability. But that has changed now. Unilever is now desperate for growth. Manwani's mandate, therefore, is clearly to go for growth.

Over the past seven years, Unilever has largely dictated HLL's business plans, be it the power brand strategy that placed a premium on margins, the reorganisation of the businesses, or the three leadership changes in two years. Manwani's tenure appears no different. He continues to drive Unilever's agenda in India. It remains to be seen if Unilever's new growth mantra bails out HLL.

FOR Unilever's, and Manwani's, strategy to work, Douglas Baillie will be key. Though Manwani has set the broad direction for HLL (he comes to India once in two months or so), it is up to Baillie to draw up specific business plans. Baillie's African experience — he has worked in developed markets (South Africa) and also countries less-developed than India — will come in handy. He has delivered a 12 per cent growth across a diversified portfolio of 400 brands in Africa. He will move to India at a time when the FMCG industry is on the path to recovery. The challenge, however, will be that HLL will be entering a critical phase of growth.

Baillie will have to immediately attend to two pressing issues. One, employee morale - it had taken a beating in the

earlier years — which has recovered somewhat after Manwani's return. But Baillie has to inspire HLL managers and take the momentum forward. On his arrival, HLL will complete a second round of management restructuring. "Doug is capable of leading a team as well as be part of a broader team," says Manwani, who has worked with him for many years. "He is a growth leader." On that count, the two seem to be on the same wavelength.

And two, Unilever is internationally known as a food company (with 56 per cent of total revenues from foods) while in HLL, the business is led by HPC (82 per cent revenue) share. Though beverages (tea under the Brooke Bond and Lipton brands and Bru Coffee) within HLL's foods business have fared well this year, processed foods need a major push. Some existing brands like Kissan and Annapurna salt have to increase penetration and usage while others from Unilever's global portfolio like Knorr have to expand into new product categories like pasta.

Competitors like ITC that launched the packaged foods business nearly four years ago have been growing rapidly in this space. In the year ended 31 March 2005, ITC's revenues from packaged foods were Rs 357 crore compared to Rs 137 crore the previous year. With five brands and 75 products in its basket, ITC chairman Yogi Deveshwar expects the foods business to clock Rs 800 crore this year. In comparison, HLL's processed foods revenue fell from Rs 384 core in 2003 to Rs 284 crore in 2004, though it's up by 15 per cent this year.

Arun Adhikari, MD of HPC, HLL, will now become chairman, Unilever Japan

In the marketplace, HLL is developing a reputation as a company that is missing opportunities in processed foods (see 'What HLL Missed...'). Others like ITC are being seen as more nimble. This and problem areas like the Modern acquisition need to be addressed. "The task has been difficult as far as Modern is concerned. After setting the house in order, we can now look at Modern in conjunction with Kissan for opportunities in bread-related products," says Ravindranath, chief of HLL's foods division.

Adapting to the new environment will be another challenge. Now, Baillie is selling 'Dark & Lovely' in South Africa. In a few months, he could be driving Fair & Lovely's consolidation here. But Unilever is betting on a 'fresh mind' to overhaul the sub-continent. "If you come in with a fresh perspective and are supported by a local team with good understanding, it is possible to take decisions in a different way," says Adhikari.

But for Manwani, India is not the only challenge. Unilever is admittedly under weight in China – its share of the wallet of the Chinese consumer is well below other developing and emerging markets. After a couple of false starts, Unilever's China revenues are still in the euro 500-million range (roughly one-fourth India's revenues). Unilever hopes to take this to at least euro 2 billion over the next few years. If Unilever is to make substantial gains in the Asia-Africa region, China cannot be ignored. Further, he has to consolidate operations in other large markets like Japan, South Africa and Indonesia.

Manwani is also trying to knit Unilever's Asia-Africa operations better. This, again, is in line with Unilever's attempts to gain global scale. In the past, Unilever was working as a federation of operating companies around the world. But Cescau has been trying to transform it into a more global organisation under the One Unilever programme. The idea is to ensure that Unilever is able to leverage its scale fully — something that it is not doing yet. That, Manwani will have to implement.

His performance in Asia-Africa will be closely followed in Unilever circles. Among them will be CEO Cescau, who is personally quite 'passionate' about emerging markets, having worked in them himself. He is also reportedly quite keen to exploit opportunities for Unilever to source materials and manufacturing out of this region. That could give Manwani another big chance to prove his mettle. ■

What HLL missed and what it messed

Analysts want HLL to be more agressive in the following areas:

- **Eatables** — Snacks like chips could be a big opportunity
- **Biscuits** — A very large mass market; HLL did not even try to achieve a fraction of what ITC did; doing 'Bistix' and so on is seen a mistake. It has not yet leveraged the Modern acquisition. HLL is not a niche player, it should take Glucose, Milk Bikis, Marie and Orange Cream, which constitute 75 per cent of the market, head on
- **Health beverages** — A big market in India, again HLL should play for share; main player GSK is vulnerable
- **Pasta** — Noodles, vermicelli, macaroni will do well in the growing supermarket format
- **Water** — Bottled water though Pureit is an interesting experiment
- **Drinks** — Fruit juices and soft drinks