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'COMPETITION BRINGS OUT THE BEST IN US'

India's per capita FMCG consumption is low and Sanjiv Mehta sees a 'massive' headroom to grow

Sanjiv Mehta, chief executive and MD of Hindustan Unilever.

SANJAY BORADE/MINT

When Sanjiv Mehta assumed the CEO and MD roles at Hindustan Unilever in late 2013, the Indian subsidiary of Unilever Plc was doing reasonably well. In the 10 years since, its market capitalization has quadrupled from ₹1.33 trillion to ₹5.98 trillion, as the company reaped the benefits of a growing economy, its own transformational efforts and the legacy of the stable of its brands that are household names across India—Lux, Pears, Dove, Liril, Horlicks, Lifebuoy, Knorr, Rin, Vim and several others across beauty and wellness, hygiene and homecare, and branded foods, some of which have been in India for more than a century.

Mehta's stint in India has had its share of challenges. He had to navigate demonetisation, the shift to GST and the Covid-19 crisis. But he's sanguine about it. His three-decades-long career, with stints in Asia and Africa, has steeled him.

In an in-depth interview with *Mint*, Mehta discussed a range of themes, including inflation, premiumization, competition, the evolution of marketing, royalty payments, digital transformation and succession.

"It's most satisfying to lead a company like HUL in your own country. It has a different flavour. I can certainly say that my stint at HUL has been the most satisfying. I wanted to come back and I'm glad I've come back. We are proud Indians and I am
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so happy to see the country progress," he said in an interview with **Gaurav Laghate, Satish John** and **Sruthijith KK**.

Edited excerpts from the interview:

India's response to the covid-induced economic slowdown has focussed more on supply-side interventions... Should we have done more to spur consumption?

There have been measures on the demand side also. If you look at the free food grains, or you look at MGNREGA (India's flagship rural employment programme). One of the reasons I believe rural consumption has proven to be resilient is the government interventions at the right time. Yes, some of them existed pre-covid, but the outlay went up. You had the subsidized food grains pre-covid, but not the free food that has helped immensely. Otherwise, say if farmhands had to spend their own money to buy food, there would have been no money for discretionary spends like soap or shampoo.

If you look at it from the lens of the government or from the lens of society, it's our job to protect the people who are most affected. Inflation bites the people at the bottom of the pyramid, much more than anyone else. So I have always been a strong believer that that's the job of the government and they should look after them, which they have done admirably. And I'm really pleased.

How should Indian investors look at HUL's increase in royalty payment (to its European parent)?

I'm glad you asked me this question. First, let me clarify what this royalty is. There are two parts to it—one is the service fees and the other is brand and technology royalty. Now, brand royalty allows us to access all the great Unilever brands like Tresemme, or Magnum, for instance. All these brands, which are owned by Unilever globally, we keep bringing them to India. The other important bit is technology. Many times, analysts see our financials and say you spend very little on R&D (research and development). We have got three big R&D centres in India. Our Bangalore R&D centre has over 700 scientists and we have over 100 PhDs working there. Today, what allows me to win is the fact that for a large part of my portfolio, I have product superiority. The cost of all these R&D centres doesn't come in my P&L; it goes to Unilever and comes to me as royalty. So, people don't understand how a multinational absorbs it. And we need to understand that before coming to a conclusion. The second is service fees. As a €60 billion corporation, Unilever has certain unique advantages and buying power. The capabilities that Unilever develops are massive and we get access to that.

Today's consumers don't just want the physical attributes a product delivers; they're looking at what a brand stands for when it comes to the planet and people.

Earlier, we had 2.65% (royalty and services fees), of which, royalty was about 1.65% and the balance was service fees. The royalty goes up to 1.95% and the balance in service fees, which is based on the value received (overall, the new arrangement envisages a staggered increase of 80 bps over a period of three years to 3.45%).

We must remember that even after incorporating the service fees costs, my overheads are the best in class. If I don't tap into Unilever, I will have to set up that organization here. So, it's not that I will not be incurring that cost without getting the benefit of scale. We have a symbiotic relationship with Unilever and our success in India is based on this relationship. That's the reason why I say these payments are fair, reasonable and in the interest of all shareholders. It gives me a competitive edge, it allows me to win, and it makes my products superior.

What is new and disruptive about marketing today? Is it more difficult for a large organization?

At the core, marketing is about getting insights, deciphering them, and converting them into products. Then you have a very clear distinctive brand proposition. Next, you make your consumers believe in it. Marketing has two aspects to it—one is the product, the physical part—the characteristics, the needs, the wants that you want to meet. The second important bit is traversing the mind and the emotions of the consumers. That's the reason why we also say that purpose is so important, because today's consumers do not just want the physical attributes which the product delivers; they're also looking at what a brand or a company stands for when it comes to the planet and people. And in an era where homogeneity is being lost, because everyone is becoming more individualistic, the marketing indicates that you need to be able to de-average to understand the cohorts at a smaller level and cater to those needs, which will allow you to win in the marketplace.

The benefit today is that the marketers of yore did not have access to the technology that you get now. But the core purpose of marketing never goes away. Many times, people say that the era of brands is over. No way. Today, I feel the relevance of a brand is even more because you can make your brand distinctive not just by the physical attributes but by what the brand stands for. Surf Excel has become our first billion-dollar brand. Its positioning—*daag achhe hain*. Look at how we brought it to life. Or Dove—stop the beauty test. See its campaigning. It's all about self-esteem.

What is the one aspect of digital that is giving you the most results or you're most excited about?

There is no one thing. There is an entire concept of how we reimagined HUL. The genesis was when we went for Winning in Many Indias (a model that classifies India into 15 consumer clusters). Our strategies are by each cluster and not pan-India. Now, for a brand manager or category manager, making 15 strategies and executing them is a different ballgame. So, we said that without data and analytics, it cannot happen. We started Livewire (a digital tool), where a brand manager can access all disparate data. This Livewire has now been rolled out to the rest of Unilever globally. It was developed in India.

Then we saw that in the FMCG industry, there are many variables at play—pricing, trade support, consumer support, media, traditional media, digital media. Technology allows you to optimize it and then you can put in variables like product superiority.

And today, we have algos which we use—they have become a very powerful medium of optimizing. That has brought in massive efficiencies. Today, it's not my gut feeling which tells me how much media to spend. It's all science. And the more data we have, the more powerful it becomes. Today, we have an AI hub, which our R&D head runs. Today, we can track trends in the world sitting in the AI hub and tell with a fair degree of confidence when those trends will reach India. And we don't need to go to factories to make prototypes; we can make them here (at the AI hub). Then, we used to do commercial runs in factories to test it, which is now all with simulated computers. That has crashed the lead time tremendously.

At the back end, first is innovations, trends, etc. Then you have the highly digitized factories and then, the highly digitized order capturing (systems) and distribution. And at the centre, you have all the variables in a powerful platform, which tells us how to optimize... that's the future of HUL.

Do you have plans to launch a super app?

A super app would help when you have disparate businesses and you want to bring them together. But each brand is unique and a brand can't be everything for everyone. We want to have distinct positioning of our brands.

Who do you count as your arch rival?

As a company, we respect all our competitors—big or small. In different categories, there are different players. If you take laundry, our competitors would be Ghadi and P&G. If you take tea, it is Tatas. In coffee, it is Nestle. In skin cleansing, it is Godrej, Wipro, Santoor, ITC, Reckitt, etc. So, we have a huge number of competitors, both globally and locally. But when you take the total portfolio, no one has the scale and size of HUL. The size, market shares, turnover, depth of talent and the capabilities that we have allow us a very unique position in the market.

How do you see competition from a retailer like Reliance Retail? They're buying brands and have launched their own as well.

India is not a zero-sum game. If someone else grows, that doesn't mean I'll decline. We have enough space in India at $45 per capita FMCG consumption. Compare this with Indonesia, which is 2x; China, which is 3x; the Philippines, which is 4x. In India, the headroom to grow is massive. Of course, Reliance will be a formidable competitor. But we also have a great relationship with them. They are suppliers to us on the chemical side and customers to us on the modern trade side. But if you look at the channel space today, modern trade as a total market constitutes about 13-14%. E-commerce constitutes another 7-8%. And 3-4% is institutions like the canteen stores. 75% is still general trade and even if I were to map the evolution of general trade, its share will come down. But even after 10 years, it will be, by far, the biggest channel. The difference would be a highly digitized general trade. So, let me tell you how we are strengthening our position. Every player will have their own strategy. We started on a journey of digitizing HUL in 2015-2016, way ahead of the inflection point during covid. Our Shikhar app (HUL's online ordering platform) is the most adopted app by retailers. Around 1.1 million retailers have adopted the app. My digital demand capture today is over 25%. That's a big moat we have created. If you go and meet retailers today, they will tell you that it is just one of the most user-friendly apps—different languages where we can customize an assortment for each store. And importantly, we can also give credit on what they buy seamlessly from SBI without any paperwork. We want to help retailers grow their businesses. And I'll tell you, a good competitor has always been good for HUL. It brings out the best in us.

But won't it unsettle the traditional way of the FMCG business, in which distributors play a key role?

The distributor captures the demand, digitally, and sends it to our back office seamlessly. We are not removing the distributors from the game. In the Indian market, relationship matters. So, we have two philosophies—high tech and high touch. They go together. The distributor in the market knows the retailer's history. The distributor will not only give credit but will also be involved in market development. So, the guy who traditionally used to be the distributor, will be into financing and market development. It's a hybrid model and it will remain so. We have taken over the logistics part and we can tell a retailer in the neighbourhood in which you stay; what kind of products may sell. It also helps the distributor as he doesn't have to worry about buying in bulk or about logistics.

As a company, we respect all our competitors—big or small. But when you take the total portfolio, no one has the scale and size of HUL.

You have seen it all...Arab Spring; the financial crisis. In India, demonetization to GST to covid. Is the India stint your most challenging one?

When I began as the chairman (of Unilever's subsidiary) in Bangladesh, it was at the time of the second Gulf War; there was antagonism towards Western multinationals. When I was chairman of the Philippines, there was a major battle in the biggest category with our arch rival. When I went to North Africa, the Middle East, it was in the midst of the financial crisis and then, the Arab Spring—my entire region was engulfed. So, crises have shaped me as a professional. But the most satisfying thing is leading a company like HUL in your own country. It has a different flavour. I can certainly say that my stint at HUL has been the most satisfying. I wanted to come back and I'm glad I've come back. We are proud Indians and I am so happy to see the country progress. And I believe that HUL's journey, in many ways, is inextricably linked with the growth of the country. As the India consumption story unfolds, just think of which company other than HUL is better placed from a consumption point.

If you are tapped for a global role, what is the picture on succession?

As the CEO of the company, among the main things I do, first is performance management. It's very important to have granular, data-based rigour in the business. No shortcuts for that. The second is building distinctive capabilities, which are hard to replicate. The entire 'reimagining HUL' agenda I made, takes away a significant amount of my time. And the third is talent and leadership and succession planning. That's where I focus my attention. This is where a CEO, I believe, should be devoting a huge amount of time. At the end of the day, great brands and great companies are made by great people. And distinctive capabilities, which are hard to replicate, gives the competitive edge. And we have a series of distinctive capabilities. For us, at Unilever, succession planning is a very important activity. We devote a lot of time and we share it with the board every year. We also ensure that the board gets the visibility of our bench strength. When we have the strategy meet offsites, we have young managers come and present so that the board gets a feel of the talent we have. And by retaining the employer of choice tag, we've been able to attract the best possible talent.

Is succession imminent?

This is something which I am not in a position to allude to today. But let's look at it from this lens: I have loved every moment of working for this great institution.