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HINDUSTAN DIGITAL LEVER

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HUL is using tech and data to drive all aspects of its operations — from production to distribution. Here's how the FMCG giant sidesteps marketplace disruptions

Sagar Malviya

Every year, Indians buy about 100 crore sachets of Clinic Plus shampoo, making it the largest selling consumer product, by units, in the country. However, the company, Hindustan Unilever (HUL), doesn't have a long-term plan for the product—not longer than tomorrow, anyway. The factory makes just about enough sachets to last a day. When warehouses send out the ₹1 packets to retail stores, they get replenished with exactly what has been sold. Even suppliers of raw materials deliver just what is required to make the tiny pouches on a daily basis.

HUL, India's largest fast-moving consumer goods company (FMCG), has stopped looking at the rear-view mirror to plan its operations. Instead, it is on a digital journey and wants data insights to predict tomorrow.

"Instead of 30 days, you get a lead time of one day to react to any changes happening in the marketplace," says Willem Uijen, chief procurement officer for Unilever globally. "For that one-day-cycle supply chain, your suppliers need to be integrated with your factories, your factories with your distribution centres, your distribution centres with your distributors and customers. All compressed from the typical 30-day cycle into one day is what really makes a big difference."

This is part of a digital initiative — Reimagine HUL — in which the company wants technology to drive all aspects of operations and avoid disruptions. Will this, however, be easy for HUL, which owns more than 50 brands across 15 categories, from soaps and detergents to tea and soups, selling about 6,000 crore units at 90 lakh outlets and making an annual turnover of over ₹50,300 crore?

"The vision for Reimagine HUL is to create a solution that is fit for the complexity of the business and the emerging needs of our consumer. We are building distinctive capabilities to make our core business smarter and more efficient," HUL Chairman Nitin Paranjpe said at its annual general meeting. "Today, we are on a journey to build an intelligent enterprise that is data-led, machine-augmented and is fit for the heterogeneous nature of the country."

HUL started relying on machine learning and artificial intelligence to predict consumer behaviour a few years ago. Then Covid-19 hit, testing the company's tenacity and agility, as consumer preferences changed during the pandemic. The ecommerce basket expanded. People moved online for grocery shopping. They also needed more health and hygiene products like sanitisers.

Data saved the day for HUL, which diligently followed the algorithm, created an audit trail of information and took decisions in a flash. This reflects in their performance. Today, HUL's market share in 90% of its portfolio is the highest in more than a decade. Except in ice cream, coffee and oral care, they are the market leaders in all categories they operate in. HUL's share is 61% in shampoo, about 75% in conditioners and more than 50% in soaps and skin creams. This is despite competition from Patanjali in the natural space, and newer brands such as Mamaearth in the direct-to-consumer space and SUGAR Cosmetics in the personal care segment.

To make this happen, HUL, the maker of Rin and Dove, had to pause its entire process of conventional product launch to do innovation, which historically took six to 15 months. "Earlier, design and prototyping took one to six months but today we do it in 5-30 days. Testing and validation, which took two-three months, are done in 10-15 days; while scaling up, which took us three-six months, can be done in 30-60 days," says Vibhav Sanzgiri, executive director, R&D, HUL.

At HUL's Agile Innovation Hub in Mumbai, they track consumer trends — what people are searching for on different ecommerce sites not just in India but in global markets as well. This ability to spot trends and opportunities ahead of rivals allows them to invest in making quick prototypes with the help of 3-D machines. It can have faster product launches by building virtual versions of its factories.

"We are certainly the thought leader when it comes to the whole digitisation of the value chain," says Sanjiv Mehta, MD, HUL. He says its digital tools such as Livewire, which is used for dashboards, and Jarvis, a software that uses AI to gauge demand, volume, sales and profit in simulated scenarios, have been adopted by other Unilever markets. He says Shikhar, an online ordering platform for HUL retailers, too, is being adopted in several developing countries.

This is adding to HUL's topline: innovations generated over ₹900 crore in the last fiscal year, nearly a fifth of its incremental sales in that period. HUL's digitised sales across platforms, including Shikhar and ecommerce channels, are more than 25% of its overall sales. Over 10 lakh kirana stores use Shikhar to order, up from about 300,000 two years ago.

Two months ago, Unilever CEO Alan Jope said India is a powerhouse and has grown despite a difficult environment. "An untold story is the amount of digital innovation that's happening in India...," he added.

QUICK DISTRIBUTION

HUL has a new distribution model in place. At Periyapalayam, about an hour's drive from Chennai, it has put in place a massive, automated, quick dispatch centre called Samadhan. The 1.5 lakh sq ft warehouse is an amalgamation of 13 fulfilment centres and covers demand worth about ₹60 crore from 23,000 kirana stores every month. The centre has shrunk the company's distribution time in the city from 72 hours to less than 24 hours.

Distributors in Chennai only have to collect orders and take care of payments and credits while HUL steers the backend logistics. "What we see is backend technology that controls the orders coming in, how the orders are allocated, how they are processed, how they are loaded into trucks for delivery. This has gone to the next level," says Uijen, who was earlier executive director, supply chain, HUL.

While this was triggered by Covid restrictions, it has now come in handy to compete with organised wholesalers and online B2B players such as Udaan and Reliance.

Competition is, indeed, heating up. "Reliance is building its new commerce business as it targets 15-20 million kirana stores. Reliance Retail offers lower pricing compared to other distributors, better service level to onboard kiranas on the B2B platform, credit for working capital. Kirana digitization strategy offers brands reach to merchants, better analytics. Consumers can order from kiranas directly through JioMart," said a recent report by brokerage house Bernstien.

Online B2B players have the advantage of serving multiple companies at the same time as well as offering next-day delivery. Samadhan is trying to offer delivery within the same duration but more importantly retain its relationship with kirana stores where its schemes and promotions can be pushed. After two years of trial and error in Chennai, HUL says it would roll out a similar distribution model in over half a dozen key cities.

"This is definitely something other FMCG companies should explore, given that eliminating the backend part of distributors will help earn higher margins and operations will become simpler and more seamless. However, it will require a certain scale and play across categories which only a company like HUL possesses," says Krishnarao Buddha, senior category head at Parle Products, India's biggest food company. "The only flipside could be losing the relationship with distributors if they treat the initiative as a threat."

Over the past few years, HUL has innovated across value chains to enable greater agility, flexibility and efficiency. HUL has saved nearly 8% of its annual turnover, or roughly $1 billion, over the past two years after it tightened supply chain operations and tweaked manufacturing lines. At HUL's factory in Dapada near Silvassa, the innovation time has come down by 50% and productivity has improved by 800 basis points over the past two years, becoming India's first FMCG factory to be recognised by the World Economic Forum (WEF) as an 'Advanced Fourth Industrial Revolution Lighthouse'.

Workers at the factory track product quality with handheld devices, customising solutions to problems and even sharing data with colleagues in other locations.

At the headquarters, the information from connected devices is analysed for efficient and flexible production.

Having global supply chain systems is no longer good enough to provide agility and resilience to a business at a time when geopolitical tensions can spin out of hand — be it Russia's invasion of Ukraine or tensions between India and China. The number of HUL facilities that make multiple products across personal, home and food segments has gone up by a quarter over the past two years. For instance, HUL can combine a small-scale factory for homecare with a small-scale factory for beauty and personal care. It has set up five nanofactories that allow it to produce in small batches — in kilograms rather than in tonnes — and have faster product rollouts.

Analysts are optimistic. A Motilal Oswal report says: "The company continues to strengthen the key drivers of its success in India over the last decade, including: a) pioneering the use of technology to generate data and facilitate decision-making; b) focusing on decentralization and localized strategies based on its WiMi [Winning in Many Indias] framework; c) recognizing trends and investing in them early on; d) funnelling cost savings back into the business; and e) its strong execution ability, which has led to a positive momentum in earnings."

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SANJIV MEHTA,
MD, HUL

HUL: THE EMPIRE

- Owns more than 50 brands across 15 categories
- Sells about 6,000 crore units at 90 lakh outlets
- Annual turnover: Over ₹50,300 crore

PRODUCTION DEVELOPMENT: THEN AND NOW

- Old model took 6-15 months
- New model takes less than 100 days
- HUL uses advanced tools to analyse early trends. R&D teams translate these into prototypes through digital simulation. These are then validated by consumers

PROJECT CONNECT

- HUL's Project Namati uses cloud services to create a platform for distributors
- It produces closer to demand at lower cost. Has set up nano factories for smaller batches of products.
- It has piloted automated warehouse Samadhan in Chennai for faster delivery to retail outlets

RESULT

- HUL saved nearly 8% of its annual turnover, roughly $1 billion, over the past two years after it tightened supply chain operations, tweaked manufacturing lines and shed dependence on imported raw materials.
- HUL's digitised sales across platforms, including Shikhar app, are more than 25% of its overall sales
- Over 10 lakh kirana stores use Shikhar to order, up from about 300,000 two years ago

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