

Business Growth through People Growth - Our Blueprint for the New Millennium

For nearly a hundred years now, Hindustan Lever has sustained profitable growth, year after year. This truly remarkable achievement is the result of eternally anticipating our consumers' needs and constantly renewing ourselves. Our ambition is to ensure that we continue our phenomenal growth well into the new millennium, and indeed strive to double our turnover every four years, as we have over the last decade.

While this may seem like an unrealistic ambition, we at Hindustan Lever see this as a stretching challenge that is well within our reach. Our confidence stems from our belief in our people. If Hindustan Lever has created a global reputation as a leader in its field, it is because of the men and women who have built our company with their formidable 'can do' spirit. It is this spirit, above all else, which has helped us sustain our track record. It is this spirit which has been passed down from generation to generation, almost like a genetic code. And it is the same spirit that will power our growth in the 21st century.

While we take pride in our achievements in both the business performance and people development dimensions, we are not content to rest on our laurels. Last year, I spoke to you about launching a project led by a group of bright young managers to develop the blueprint for a new paradigm of growth at Hindustan Lever. We had anticipated the need to recharge our growth engines in recognition of the tremendous opportunities being created by the new and evolving needs of our consumers, coupled with the widespread development of infrastructure and deployment of leading-edge technology in this country. Project Millennium, as the project was befittingly called, was also charged with reaffirming our commitment to our people in an environment of intense competition for high calibre talent in India.

Looking back, Project Millennium has been an exhilarating exercise for me, for my Board colleagues and our managers, as we have deliberated and debated an energising set of proposals with the best brains inside and outside the company. I was amazed by the many hundreds of ideas that were generated by our managers for helping Hindustan Lever strengthen its reputation as a high performing FMCG company. Creativity of this kind is a precious commodity; concern of this kind for the future of your company is, happily, not a rarity here. Today, we are delighted to report that Project Millennium has delivered a bold new vision for the Hindustan Lever of tomorrow - a blueprint for growth into the new millennium, the implementation of which has just begun. I want to share this vision with you today.

Let me start by saying that what you are going to witness over the next few years will change the face of this great company for ever - generating accelerated growth for our businesses, creating exciting and rewarding professional opportunities for our people, and continuing to create tremendous value for our shareholders. It is now even more obvious to us that the key to achieving our ambition of doubling the company's turnover every four years lies in harnessing the huge potential of our people. Winning the war for growth will require winning the 'war for talent'. Our vision is to create a self-sustaining virtuous cycle of business growth through people growth. The better we leverage the capabilities of our excellent people, the more certain we are that Hindustan Lever will grow. And the faster the company grows, the more opportunities we can create to attract and retain high calibre people.

In describing the Millennium blueprint, I will first set the context for our plans by explaining some major trends in consumer behaviour and socio-economic development that we see as

being critical to our success. Next, I will talk about our new engines for growth, followed by our initiatives on people growth. Finally, I would like to share with you, some key enablers that we are putting in place to support and sustain our vision of business growth through people growth.

MEGA-TRENDS IN INDIA

After exhaustive research, including extensive interactions with eminent economists, social scientists, civil servants and experts in technology, infrastructure and business regulation, we have identified three major consumer trends and three significant socio-economic trends. These may already be well known. But the true insight lies in our unique perspective on the manner in which these trends could affect our existing businesses, and the range of opportunities that they could generate for us in the future. Let me briefly share these mega-trends with you.

The first consumer trend is a distinct shift from **Self-denial to Affordable Indulgence**, which is a result of changing values and higher incomes. While the habit of living frugally and within one's means continues to be deeply ingrained in our culture, Indians no longer feel guilty about an occasional indulgence that may have previously seemed wasteful or beyond their means. The expression of this attitudinal shift may vary from the affluent urban population to the poorer sections but the trend is unmistakable. It is not difficult to see that this creates tremendous opportunities for us across all segments of our consumers.

The second trend is the desire for **Quality Time**, which translates into a need for convenience, given the increased stresses inherent to contemporary living. Very soon, working couples will be the norm in urban India. Constraints of time will lead urban consumers to look for solutions, such as direct-to-home services, which make it easy and convenient to manage the home. On the same dimension, the continuing migration of men from rural areas will increase the drudgery of rural women, creating demand for meaningful and engaging activities for them.

A third powerful trend that is rapidly gathering momentum is increased awareness about personal **Health and Vitality**. This is borne out by the rising number of health foods and fitness regimes available in urban India. Even in rural India, we are beginning to witness a greater consciousness of hygiene and health brought about by increased literacy and awareness.

Besides these major consumer trends, three powerful socio-economic drivers will influence our opportunity landscape in the next decade. It is our view that India will soon see an **Inflexion Point in Rural Consumption**. Rising literacy and improved connectivity are making people's aspirations increasingly homogeneous. Several years of good monsoons and harvests along with targeted government initiatives have led to an increase in purchasing power. All these factors point to rural consumption rising sharply over the next few years.

Another major driver is **Globalisation**. The changing regulatory landscape, along with the global media and Internet revolution will open up the Indian market. The impact of this change is that consumers will increasingly demand global standards of performance and quality, but often at local costs.

The final trend is the likelihood that India will witness a greater degree of **Social Disharmony**. The reason for this is that while aspirations will become uniform, disparities

in purchasing power will persist. This makes it essential for corporations to actively support government initiatives in socio-economic development aimed at reducing disparities. Hindustan Lever looks to play a leading role here, as it always has.

NEW ENGINES FOR BUSINESS GROWTH

These six mega-trends were critical in determining where we grow and how we grow. They formed part of the rigorous screening criteria that helped us home in on 9 new growth businesses for Hindustan Lever, from an initial shortlist of nearly 200. These new businesses are not only consistent with Hindustan Lever's Corporate Purpose but they will be our new engines of growth, becoming thriving businesses of significant size over the next 6 to 8 years.

We are extremely excited about the new growth engines identified. Some of them are forays into high-growth categories that are new to Hindustan Lever, while others pertain to building innovative and unique business systems addressing specific channel or segment opportunities. Our new growth engines will help us accelerate new demand at the lower end of the market spectrum and also capture value from shifts in the nature of demand at the upper end. In fact, they will aim to capture a significant share across all market segments by weaving state-of-the-art technology solutions into our existing infrastructure. Our objective is to have a faster and deeper rollout of all our products and services across all consumer groups. Significantly, Hindustan Lever will make rapid strides in the New Economy, by leveraging the power of Internet technologies in the web-enablement of its existing infrastructure and in launching several new e-businesses.

Our 9 growth engines are staffed and led by hand-picked teams of high-performing managers. These engines are being cocooned from our existing businesses and being incubated under the direct oversight of the company's Board and the recently appointed New Ventures Director. Never in the history of Hindustan Lever have we so purposefully launched concurrent new ventures with this kind of commitment of resources and people. While we continue to focus on growing our existing businesses, there is a palpable sense of excitement about these new forays and the leadership and entrepreneurial opportunities they have created for our managers. You will in the years ahead see the result of their efforts, which for now we must obviously keep confidential. To give you a sense of what we are up to, I will talk briefly about two of our new growth engines - one focussing on rural India, and the other leveraging the power of the Internet.

New Business Model for Rural India

Rural demand and consumption of consumer products is set to explode. The challenge for most companies is to be able to offer appropriate products in an affordable way in relatively remote locations. We are now convinced that the answer to this challenge lies in setting up a specific rural business system that leverages two fundamental building blocks that may not be immediately obvious.

First, we will deploy communications and information technology to establish connectivity within our distribution system on a scale that has never been attempted before. While it may seem counter-intuitive, the fact is that today the benefits of leveraging technology to connect far-flung stockists and wholesalers far outweigh the costs of deploying the technology. Our connectivity initiative will generate immense value for our channel members and strengthen the company's position as the preferred supplier, especially to rural wholesalers and distributors.

Second, we will join leading institutions in supporting rural self-help groups to alleviate poverty and reduce disparities in purchasing power. Following the pioneering work carried out by the Grameen Bank in Bangladesh, institutions like the NABARD are working closely with banks and NGOs to establish such groups in villages across India. Their experiments show clearly that micro-credit - when it is carefully targeted and well-administered - can alleviate poverty significantly. Importantly, success depends not only on the infusion of credit, but on investment opportunities.

Hindustan Lever can play a critical role in creating such profitable investment opportunities for thousands of villagers in our country. Armed with micro-credit, self-help groups will become our distributors in rural markets. For people in rural India, this translates into critically needed, sustainable jobs contributing to better living standards and prosperity; for us, it translates into access to hitherto unexplored territory.

What is powerful about this model is that it creates a win-win partnership between us and our consumers, some of whom will also draw on us for their livelihood, and builds a self-sustaining virtuous cycle of growth for all of us.

The Internet Opportunity

On the Internet opportunity, there has already been an explosion of extravagant hyperbole - it is the 'death' of geography, it is the 'end' of doing business the way it has been done for centuries, it is the 'revolution' that will transform the way we think and work - almost the end of civilisation as we know it. Our belief is that, if used with ingenuity, web technologies can dramatically improve efficiencies, drive down costs and add real consumer value. That is the way we intend to use it. Our aspirations for the Internet are big and bold, but we plan to follow a simple three-pronged strategy:

First, we are going to **Connect**. This will involve not just web-enablement of the company but also of the extended supply chain. We will connect our stockists, our banks, our suppliers and potentially even our top retailers to develop the most capital-efficient supply chain optimised for handling product, cash and information flow.

Then, we are going to **Attract** and own our consumers' 'eyeballs' and share of mind. We will use the Internet to further strengthen our relationship with consumers by building online communities and becoming the preferred provider of information, products and services catering to their health, beauty and nutritional needs.

And finally, we are going to use the Internet to **Transact**. It is becoming abundantly clear that the e-commerce business models that will eventually prevail are those supported by extensive physical infrastructure. Indeed, the Achilles heel of most e-tailers is precisely this lack of a reliable physical fulfilment capability. It is here that Hindustan Lever is uniquely positioned to create India's most widespread, robust and efficient 'click and brick' business model.

These three strategic thrusts will give rise to multiple initiatives over the next few years. Our aspiration is to leverage our existing infrastructure to build India's premier web-enabled supply chain that becomes the preferred fulfilment engine for e-commerce products and services in India. Concurrently, we will build several market-leading B2B and B2C businesses in high-potential areas. This will be done by leveraging our strong consumer and supplier relationships, our functional excellence in several relevant areas and the extensive capabilities of our talented managers.

RENEWED FOCUS ON PEOPLE GROWTH

The new engines are helping us win the war for growth and are also providing attractive entrepreneurial opportunities for our people. But our long-term success depends on winning the war for talent - attracting, developing and retaining the highest quality talent in this country.

I began by saying that Hindustan Lever's sustained growth over decades is a testimony to the capability of its people. Historically, we have been an employer of choice in India. Today, we face a real challenge in sustaining our position and to do this we need to fulfil the expectations of India's top talent. We must battle leading employers in India and globally, in addition to competing with the individual wealth-creation and entrepreneurial promise of the Internet, in continuing to attract the best-in-class talent to Hindustan Lever.

In this context, Project Millennium has developed an exciting and relevant new value proposition for attracting and retaining high calibre talent to the company. The proposition promises substantial improvements along the dimensions of velocity, meritocracy, flexibility, transparency, and equity in the professional careers of all current and future employees. Let me outline some of the more notable aspects of this new proposition.

In terms of attracting new talent, we have a compelling new offer on campus this year for compensation and career growth. In keeping with the global aspirations of today's young talent, we will accord our management trainees a 2 to 3 month stint working abroad during their training. In addition to inducting fresh new minds into this organisation, we are also stepping up our thrust on hiring high quality experienced and diverse talent directly into our ranks.

We are also making a significant commitment to recruiting women. Our vision is that in five years, 20% of our managers will be women. We understand the dilemma facing many talented women - how best to balance the needs of a professional career and the family. While we have not figured out all the answers, we will now support flexible timings and careers, and be sensitive to the constraints of dual career families, among several other things that we are committed to doing.

To develop and retain top talent, we have also put in place a process which will help identify potential business leaders much earlier in their careers than we did before. They will be placed on a fast track of personal growth. We will also create substantially more opportunities for entrepreneurial leadership for our managers. Already, a number of them are taking charge of the multiple growth engines Project Millennium has spawned. Furthermore, we are making far-reaching changes to our organisation structure, disaggregating into smaller yet independent business units to bring about a greater focus on growth. This will provide further business leadership opportunities for our managers as and when they are ready, as opposed to when they reach a certain seniority.

In anticipation of our employees' expectations, we are this year introducing a stock grant scheme. Companies have successfully used such schemes to align employee aspirations with their long-term business goals. We see it as a powerful motivator for our people and a fundamental driver for institutionalising a growth-seeking culture.

My personal vision for Hindustan Lever is that of a company where people are given unparalleled power to generate new ideas that have high impact; a climate which encourages them to be passionate about those ideas; and then the support they need to

make those ideas a reality. In fact, today, we are planning to go a step further by giving them a stake in the wealth that they create through their ideas.

For example, our people no longer need to choose between being an employee or being an entrepreneur. If anyone in the company has an idea that is exciting and has business potential, we have established a mechanism - rather like a venture capital fund - which can make that idea a reality. They have to put together a business proposal and present it to the Board. If it sounds promising, the company will be happy to play the midwife by deploying its resources. And the person who conceived the idea will participate in building it and share in its wealth creation. We have already begun to fund projects in this way.

We believe this new scheme is both radical and important. Fundamentally, it creates the best of both worlds for our employees. It allows them to enjoy the security of a large organisation and yet be able to pursue their individual dreams. This new policy signals a deep commitment on our part to act on our belief that when an organisation harnesses the imagination of its talent and unleashes entrepreneurship, new doors inevitably open and horizons invariably expand.

I trust these few ideas will give you a sense of the far reaching changes we are implementing in order to win the war for talent. Our managers are energised and invigorated by these and all the other initiatives we are implementing in our talent management processes, moving forward as boldly on people growth as we are on business growth.

ENABLERS FOR OUR NEW BLUEPRINT

Building and sustaining the virtuous cycle of business growth through people growth demands certain critical enablers. I would like to highlight three critical enablers for the success of our blueprint for the new millennium. These are our creation of new disaggregated business structures, our significant initiatives on knowledge management, and our continuing focus on better management of our costs to fund our growth aspirations.

Disaggregating our Business Structures

Growth in our current businesses and the creation of altogether new businesses will further increase Hindustan Lever's size. While size has its obvious benefits, it also brings with it some drawbacks. What we need to master is the art of creating and preserving the entrepreneurial agility and connectedness of a small company within a large company, as we continue to grow.

With this in mind, Hindustan Lever will disaggregate its large profit centres into smaller consumer focussed categories which will be managed as independent businesses. Activities where focus adds value will be exclusive to each category. Those that provide economies of scale will continue to be common across the profit centres.

We believe that this realignment will combine the strengths of being a small company with the advantages of being a large corporate. Most importantly, disaggregation into smaller units will also create more leadership positions, and give our managers an early chance to demonstrate entrepreneurship.

Managing our Knowledge

In a large yet highly disaggregated organisation such as the one we aspire to become, organisational knowledge is absolutely critical to building, preserving and leveraging institutional excellence. It is like the air you breathe - you cannot measure it, touch it, or see it but no organisation can survive without it.

Much of the knowledge that matters resides with individuals, but is actually applicable across the entire organisation.

The Project Millennium team has come up with the idea of creating 'knowledge communities', consisting of people from different parts of the organisation who share a common interest that potentially has significant business impact. We are currently running pilot communities focused on understanding the youth consumer and making improvements in packaging. Not only are these communities developing good business ideas, they are also giving us new insights on how to better manage our knowledge. We have already pinpointed several more areas in which such communities can support business growth and functional excellence.

Knowledge sharing is very much a cultural issue. It is therefore being built into the competency development of every individual, with appropriate rewards and recognition. We have appointed a senior manager as the Head of Knowledge Management, to lead all these initiatives.

Managing our Costs

At a fundamental level, cost efficiency is the necessary pre-requisite to fuel growth, affording us the 'right to grow'. Hindustan Lever has always been a cost-conscious company but such is the criticality of ensuring the leanest cost structure that we decided to review the matter further.

The Project Millennium team found scope for saving substantial costs over the next 2 to 3 years. Our approach was to rigorously examine all costs along the entire delivery chain. We also identified how we could further improve productivity and reduce complexity by speeding up decision-making and slimming bureaucracy. What is more, we have institutionalised a methodology to examine and reduce costs on an ongoing basis. As a result, Hindustan Lever will be able to adequately fund all new business growth ventures and people growth initiatives.

CONCLUSION

From what you have heard thus far, you will have realised that we are indeed walking our talk: we are fundamentally renewing ourselves to implement a new blueprint for growth into the millennium. This ability to continuously reinvent ourselves, keeping constant our values and beliefs of integrity and ethics, as articulated in our 'Code of Business Principles', is our hallmark. A year ago, we only had a vision about this; today we are confident that it can indeed become reality.

Project Millennium will unleash a tidal wave of entrepreneurial energy at Hindustan Lever. The 9 new growth engines are only a beginning. With the growth enablers in place, many

others will come to the fore. As our managers get a taste of the various independent leadership opportunities Hindustan Lever can provide, their commitment to the company's growth will only increase. We, in turn, will demand from them entrepreneurial behaviour, an obsession with consumers and a commitment to contribute to each other's success. Our people will have the opportunity to work with the best, in a stimulating growth environment. They will shape their own future and grow as far as their potential takes them. Indeed the best of them will become business leaders in their fields.

This is my vision for the Hindustan Lever of the new millennium as I hand over the baton at the end of this month. I have enjoyed every day that I have spent in Hindustan Lever, particularly the last few years as your Chairman. Thank you for your warmth and support at all times. I will depart with the knowledge that the new blueprint for business growth through people growth is well established. I am confident that Hindustan Lever, with its high calibre people under the able Chairmanship of Vindi Banga, the Board and the Management Committee, is on the threshold of a future that is even more glorious than its past.