

Growth Horizons for the New Millennium

At Hindustan Lever we believe that the management of the day is the custodian of the company's legacy, and also a trustee for tomorrow. The measure of its achievement is not just sustaining present performance, but equally assuring future prospects. To secure the future, the main task of management is to realise sustainable growth. To achieve this, we believe that we must spare no effort. We therefore stretch our growth ambitions to set aspirations that many others might consider unrealistic.

Our quest for growth is underpinned by a strong belief that the next millennium will be the millennium of knowledge. This inevitably means that people, as carriers of knowledge, will be an organisation's most important asset. In fact, physical assets will lose much of their importance to business success. For India, this is indeed good news because this is the country's big chance to leverage its key strength: its vast pool of highly talented people. The pharmaceuticals and software industries are already doing this and reaping the gains of their foresight. Very soon, many other industries will also begin to capitalise on India's well-educated and highly skilled people.

The millennium of knowledge calls for a new paradigm - business growth through people growth. Growth is the lifeblood of Hindustan Lever. It is at the root of sustained shareholder value creation. Growth is created not by that amorphous entity, the organisation, but by its talented and knowledgeable people. Which is why we make sure every employee has an exciting career and every opportunity for personal development. We know that the better we harness the potential of our excellent people, the faster Hindustan Lever will grow. Equally, the faster Hindustan Lever grows, the more opportunities we can create to excite and retain our talent.

Three pillars support this paradigm of business growth through people growth.

Firstly, the key to creating and sustaining business growth is to combine distinctive insight and foresight into developing our markets and meeting the evolving needs of our consumers. We do this by creatively applying technology and knowledge that push the boundaries of the possible. In doing so, we proactively drive the development of new opportunities and markets. In this way, Hindustan Lever will emerge as a shaper of its own destiny to the benefit of its shareholders, its employees, its consumers, and India at large. The key question therefore is – how do we increase food consumption?

Secondly, knowledge development must be the focus of our efforts. The secret of growth is to convert mere information into distinctive knowledge and capabilities that will give us an advantage over competition. We must complement this quest for knowledge with an outward-looking perspective that will allow us to identify, evaluate, and apply ideas and best practices from around the world. We will compound this learning with the distinctive insights and skills of our own employees to build an unbeatable competitive edge.

Finally, to win in the millennium of knowledge, we must continue to attract and excite the best talent in India. Today, talented people have more options available than ever before. The challenge for us is to create an environment in which employees can work with freedom, within a framework of empowerment and accountability, vested with unparalleled powers to imagine, create, and implement their ideas -- fully supported by investments in knowledge and technology.

These three pillars will hold together the future edifice of Hindustan Lever.

Shaping Our Destiny

To build the first pillar, Hindustan Lever must develop distinctive insights by understanding how ongoing economic and social change is affecting the business environment. We know that the difference between successful and unsuccessful companies is the ability to foresee the future and prepare for it, so that when opportunities arise they can be fully captured. Given the changes we expect over the next decade, the challenge for Hindustan Lever will be to respond effectively to the new markets that these changes will create.

It is important to recognise that change is already upon us, leading to new opportunities for growth. Some companies are already benefiting from these opportunities by creating new products and services or by redesigning their business systems. Hindustan Lever itself is a case in point. We have always responded effectively to new challenges. When our industries were deregulated, we set up new capacity at little cost because we were ready with local adaptations of technology we had received from Unilever. Within a few years of deregulation, we were able to consolidate Unilever's operations in India because we already had a blueprint for internal realignment. We will continue to devise such creative responses to the challenges that the next millennium will bring.

As usual, we are already preparing to do so. To identify future trends at the global level, Unilever has conducted a worldwide effort to single out the consumer megatrends of the new millennium. The study has identified product and service opportunities that Unilever can create and shape in the future. These opportunities can be grouped into three themes: health and vitality, convenience and leisure. They broadly hold true for the Indian consumer too.

In India as well, we have already discerned some megatrends. The early years of the next millennium will be marked by major social and economic shifts that will change the way consumers behave. Stimulated by increased knowledge, information and buying power, these shifts will create aspirations for better lifestyles. If companies can respond creatively, demand will escalate.

By 2005, more than two-thirds of the country's 1.1 billion people will be literate. Close to half the people will be very young, under the age of 20. Higher education will also have expanded due to the increasing international linkages that the Internet and other interactive media will provide. Television will cover practically all of urban India and over 60 per cent of rural India. The number of households earning over \$10,000 a year, in terms of purchasing power parity, will double from 16 million to 31 million. A further 165 million homes will provide a vast pool of consumers for the mass market.

Modern telecommunications will be widespread. It was inconceivable a decade ago that about 3.4 lakh villages would be connected by telephone; today this has become a reality. Information Technology (IT) will pervade many homes. Promoting IT use is a key element of the Government's agenda now. Steps will be taken to increase personal computer penetration from 1 in every 500 persons to 1 in every 50 by 2008. The 600,000 existing public call offices are to be converted into public tele-information centres with electronic mail and Internet connections. Large investments will be required to meet these goals. But it is reasonable to assume that by 2005 much progress will be made.

These developments will give rise to two major opportunities: new demand at the lower end of the market spectrum, and a dramatic shift in the nature of demand at the upper end. The key to capturing these opportunities will be technology. The implications for our business will be profound.

As millions of people move from earning subsistence livelihoods to being able to satisfy basic desires, a burgeoning mass market will emerge. In our market seeding initiatives, we have already seen this latent potential. We think that applying state-of-the-art technology to create and deliver value-for-money products to consumers, will be the key to unlocking this market potential. For example, research in biochemistry, cereal science and process engineering can help develop low-cost but nutritious food products for low-income consumers whose demand for protein-rich foods will increase. Delivering value for money will also require a cost-effective supply chain. Satellite-based communication, which we already use to link up our factories, depots and offices, can be extended to distribution stockists by making it easier to service the demand and also to monitor our expanding network.

As disposable incomes rise, the aspirations of the newly prosperous will also rise. They will demand adequate choice, functionality and other brand benefits. Today's proliferation of products bears this out. Before 1991, there were only five manufacturers in the personal care industry. Today, there are over 20, catering to the 9 per cent of homes that form the upper income group. When by 2005, the number of such households doubles, demand for value-added products will flourish. Technology will play an important role in serving these high-end consumer segments as well. For example, developments in combinatorial chemistry can help identify ingredients that will deliver consumer-desired performance in personal care products. The advent of electronic commerce will also allow companies to tailor value propositions to the needs of individual consumers. In this new world of continuous relationship marketing, Hindustan Lever will be able to establish very deep and direct linkages with consumers to build an unassailable market position.

We have done a lot in the past to respond to changes in our environment. But we need to do even more. Leveraging our insight into the consumer's needs and our technological strengths, we will develop distinctive knowledge, our second pillar of growth.

Developing Distinctive Knowledge

Knowledge must be distinguished from mere information. For example, it is well known that the Indian housewife seeks convenience products. But she does not want them to completely substitute her own home management skills. We must develop distinctive knowledge to understand what exactly would offer her convenience and yet allow her to be creative. This will enable the company to develop products that do not just meet her expectations but exceed them.

To realise growth, knowledge must be converted into products or services that actually offer value to the consumer. In an environment of abundant choice, growth will come from being the best providers of the best value. This means that the company has to develop distinctive knowledge in the entire chain of activities from the acquisition and conversion of materials to the delivery of finished products to customers.

Today, much of this knowledge resides in individual businesses and functions of the organisation but can be applied in different divisions of the company. For example, our knowledge on health can equally be applied in personal care offerings and in food products.

This knowledge must be put to the vital task of creating new opportunities through extensive sharing of knowledge among our businesses. We are putting in place mechanisms and systems to enable knowledge sharing, that rapidly extend insights and competencies developed in different divisions across the company. By internally realigning the organisation, we have been able to identify such knowledge synergies. We are also using IT to bring more focus to this process. We have already made extensive investments in integrating different functions through IT and will continue to do so.

It is critical for the organisation to continuously build upon and refresh the knowledge it develops within. This happens in the organisation's continuous interface with consumers. It also occurs through our linkage with Unilever. We have complete and direct access to Unilever's international R&D and technology, which has enabled us to introduce best-of-class international products and processes. Significant enrichment also takes place indirectly through the exchange of managers between Unilever and Hindustan Lever.

We will complement these sources of learning with special efforts to identify and tap external sources of knowledge; the time is now ripe for us to systematically tap the wealth of global experience and ideas, even outside the Unilever system. We will build a knowledge web that includes external groups who can contribute to our idea generation or technology development. As India globalises, we will lead the field to power our own globalisation of knowledge and technology.

This will also help us to strengthen the third pillar of growth: recruiting, exciting and retaining the best talent.

The Best Employer

Brands, technology and capital are considered the fundamental assets of a business. Indeed they are. But they are created and leveraged by people. The imagination and innovation of our employees has allowed us to create brands and leverage technology and capital, to meet the needs of new and evolving consumers. Many of our brands are more than a hundred years old and yet as young as if they had been launched yesterday. We have extended them to meet the niche needs of different segments. We have also invented technologies that convert apparently simple substances into high-value ingredients. In some of our businesses, we derive a very high yield on gross capital employed, while absolute margins on the products remain pegged at reasonable levels.

The stretch in brands reflects the stretch in our people's minds. The technological feats we have accomplished reflect our people's ingenuity in deriving innovations from science. The value we have extracted from capital corresponds to the value our people have added to business processes. To achieve our full potential, we must continue to empower our people to stretch their minds, ingenuity and abilities.

In the ultimate analysis, the company is nothing but a collective intellect. Its success is determined by the state of mind, and therefore centres around people's attitudes. We believe that to win in the market, we first need to win in the mind; and to win in the mind we must 'will' things to happen. Therefore, the dynamism we wish to inculcate in our organisation is proportional to the dynamism we unlock in the minds of our employees. Businesses are ultimately built by the spirit of the women and the men behind them, fired with the capability and desire to succeed. We must transform our people into sustained winners, accentuating their strengths and bridging their gaps. This in turn will influence the

company's collective entrepreneurial ability and competitiveness, enabling us to adopt new approaches and an abiding ability to take risks, the rewards of which are going to be huge in the pursuit of growth.

In our model of business growth through people growth, therefore, people will be vested with unparalleled power to imagine, innovate and implement new ideas, fully supported by investments in technology, marketing, research and people development. As our people increasingly acquire more capabilities, our businesses will develop and retain their competitive edge. This will, in turn, attract more and more talented people, completing the virtuous cycle.

To grow, we must continue to imagine and innovate. Doing new things and doing things differently must become a corporate capability. The organisation will create the conditions that foster this capability. We recognise that this will mean providing operational autonomy and encouraging risk-taking. People must have the freedom to implement their business ideas in a manner most relevant to their consumers. But they must also be accountable to the strategic framework of the organisation.

This approach of freedom within a framework of accountability will require us to review our organisation structures and people management systems. The aim will be to drive decision-making to empowered teams as close as possible to the frontline. This empowerment will breed entrepreneurship. We will also fine-tune our people management systems to enhance employees' strengths and bridge their skill gaps. Each individual will receive the attention required to upgrade corporate capability and eliminate any collective drawbacks.

We firmly believe that our new paradigm will create a powerful value proposition for current and future talent. As we pursue this paradigm, we will make concerted efforts to attract, excite, and retain India's top talent, while pursuing our time-tested policy of meritocracy which rewards performance and productivity. Our focus will be to fully empower our people to increase their speed and enhance their creativity in deriving growth from all opportunities over time. Our business model will make Hindustan Lever not just a great company in India but also a great employer.

The over-riding theme, however, is always growth. To this end, we have already appointed a dedicated team of young yet experienced managers to analyse future trends and suggest ways to further strengthen growth. At the end of this exercise, we will have a growth blueprint for the company, comprising our current businesses and future options.

Managing Growth Horizons

Achieving rapid, sustainable growth requires that we manage three horizons simultaneously: growing current businesses, expanding into related businesses, and seeding options for future growth.

In our current categories, growth will come from increasing consumption and reach. The opportunities for increasing consumption in India are large because its per capita consumption is much lower than international levels. We have many categories, such as toothpaste, shampoo and skin care, with very low penetration; only 4 out of 10 Indians use toothpaste, about 2 out of 10 shampoo their hair and only 1 out of 10 uses face cream. Clearly, these categories offer tremendous growth potential. Even in a near-saturated category like personal wash, India's per capita consumption is just 460 gms compared to 1,100 gms in Brazil.

The scope to increase reach is also large. At least 50 per cent of India's population is not directly covered since market reach is restricted to urban areas and those villages connected by motorable roads. The challenge for us is to develop appropriate channels to extend reach. For instance, a critical task for us is to create a network that directly reaches the mass market in rural areas. We already have a significant direct distribution network. But most of the new demand will be generated in areas we do not yet cover. We are therefore putting in place a supply chain to directly cover these areas, parts of which are not even accessible by motorable roads. By the time infrastructure develops, we will have established our brands and will be able to realise their full potential.

To grow our current businesses, we will also need to develop innovative business systems. For most of our consumers, product choices hinge on affordability. Our approach therefore is to find out what the consumer can pay and then tailor the supply chain to offer the product or service within that price. For example, we have introduced systems like replenishment-based supplies and vendor-managed inventory to offer affordable prices to consumers. We are also using IT to redesign our business systems in pursuing better quality, better service and lower cost.

All these steps - increasing consumption, expanding infrastructure to reach new geographies, and developing cost-effective business systems - will maximise the potential of today's core businesses. But they will also open up altogether new business opportunities. The extensive interface we are building with consumers is adding to our understanding of emerging needs. This understanding will help us manage our other horizons of growth.

In expanding into related businesses and seeding options for future growth businesses, the objective for Hindustan Lever is to better serve the needs and lifestyles of both our existing and potential consumers. We must develop products that fulfil new aspirations but still meet old needs. We have already proved our ability to do this. For example, urban consumers continue to oil their hair, and yet seek value additions like dandruff control. So we have produced a dandruff-control hair oil, the only such product in its category. Low-income consumers in rural India drink tea to assuage hunger, not as a social custom. So we have introduced a tea-based beverage that contains other appropriate edible ingredients.

We are also developing direct-selling mechanisms to serve the customised needs of urban India. We have just launched a full range of customised personal care regimens through a network of trained consultants. In the future, emerging interactive technology tools will help provide even better service. When a consumer uses interactive media, she leaves behind a trail of advertising seen, information sought and transactions conducted. It enables better market segmentation, targeted promotions and customised products. By making buying decisions over the television, computer or telephone, consumers will continuously tell companies about their usage patterns, leading to more focused targeting at lower costs. We have already developed interactive tools such as websites, telephone helplines and touch screen kiosks for some of our brands. As technology spreads, we will also explore direct-to-consumer transactions for relevant products.

Delivering high quality products, given the state of India's infrastructure, its fragmented retail trade and extreme weather conditions is often viewed as a challenge. But we see this as an opportunity to expand and seed new businesses. For example, frozen products are the most difficult to deliver in our weather conditions. For our cold chain we have therefore developed a technology based on eutectics, which helps overcome these difficulties. This cold chain is now used for our ice cream business, but can eventually be a channel for other categories as well. Thus, today's core activities are the foundation for new businesses,

which in course of time, will create further businesses, in a virtuous cycle. What is critical is to be proactive and farsighted in creating this cycle. Our entry into ventures like branded staples, customised personal care products and vending are examples of our vision. More such ventures must and will follow.

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Conclusion

In the next millennium, we will continue to grow fast through our axiom of creating a virtuous cycle of business growth through people growth. We will unleash the full creative potential of our people to develop distinctive insight and foresight. We will combine the insights we gain with creative technology applications to shape our markets and realise accelerated growth. We will build an enabling, empowering and entrepreneurial organisation. Going into the new millennium, we believe it is far better to embrace change at a time of our choosing than have change thrust upon us. As Mahatma Gandhi said, "You must be the change you wish to see around you." Indeed, that is our intention.