

REINVENTING DISTRIBUTION
was the subject of the speech,
delivered by Mr. M.S. Banga,
Chairman, Hindustan Lever Limited,
at the Annual General Meeting
held on Tuesday, June 29, 2004

REINVENTING DISTRIBUTION

Hindustan Lever pioneered FMCG distribution in India in the 1940's. Over time we have benefited from a significantly wider reach than any other company. We are now reinventing distribution to strengthen our competitive advantage in the emerging consumer and market scenario. Our earlier focus was to drive wide availability, and enable easy access to our brands for consumers. We now seek to go well beyond this distribution paradigm. Our new approach is more holistic – touching consumers in multiple ways at the point-of-purchase and, more importantly, creating opportunities for consumers to receive brand messages and experience our brands. We are redefining our approach to the current channels, and are also creating new distribution channels with these features.

Consumer Trends and Challenges

The consumer landscape is changing very fast. Consumers today see an exciting explosion of choices – new categories, new brands, new shopping options – and have increasing disposable income to fulfil their aspirations. They are seeking more information to make these choices. A key challenge for consumers and our brands is the crowding of stores with multiple brands and SKUs. An average store stocks over 1,500 SKUs, an increase of over 50% in the last three years. With growing choice and availability, enabling consumers to make informed choices in the crowded retail environment is a major challenge. As consumers get more

discerning, there is also an opportunity to customise offerings and to tailor solutions to the varying needs of shoppers.

Consumers are increasingly seeking convenience in shopping. A typical housewife buys her monthly grocery requirements from four shops on an average, with multiple visits during a month for bulk and top-up purchases. With greater desire to spend time with children and on leisure, there is increasing pressure on time faced by many women. The growing proportion of working women further fuels the desire for convenience.

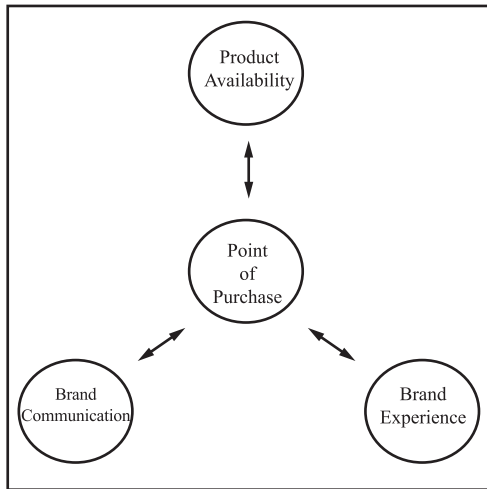
Consumers also increasingly want the shopping experience to be enjoyable. Shopping is no longer seen as a mundane chore, but is now a much more exciting and engaging prospect. Shopping malls, self-service stores, browsing and services are all emerging rapidly to fulfil this need for an enjoyable experience. The traditional retail stores are undergoing a dynamic churn as new formats and channels are emerging rapidly.

A key challenge for companies is communication with consumers. Many urban consumers are now exposed to multiple and fragmented media vehicles – television, newspapers, magazines, hoardings, Internet – all battling for their attention. On television alone, an average urban consumer is exposed to 350 to 400 advertisements in a week. In rural India, the challenge is different, as neither print nor television reaches over 40% of the rural population. Creating direct consumer contact and communication at point-of-purchase thus assumes added importance for delivering

brand messages and communication to both urban and rural consumers.

Reinventing Distribution

We are proactively addressing these emerging trends, by approaching distribution and channels in a much broader way. We are shifting emphasis from mere reach or availability expansion to touching consumers with a 3-way convergence – of product availability, brand communication, and higher levels of brand experience. We are thus going beyond delivering products and creating greater engagement and interaction around the purchasing experience.



Reinventing Distribution

Let me elaborate on how we are reinventing distribution and providing this 3-way convergence across multiple channels in rural and urban India.

General Trade

Traditionally, our approach in general trade has been to increase the reach of distribution and availability of our brands. Redistribution Stockists play a critical role in this and are our valuable partners in the distribution initiatives. There are several store formats in general trade, which have in the past been serviced with a uniform – one size fits all – approach as regards frequency of service, credit and other terms of trade. This is clearly not optimal in the new environment. We have thus segmented the general trade based on the channel characteristics, the relevant shopper behaviour and the channel dynamics. We now address each channel – grocery stores, chemists, wholesale, kiosks and general stores – with a differentiated mix of services. We are reorienting the stockists’ infrastructure and systems to meet this new challenge and to provide relevant and differentiated service to each of the general trade channels.

We are also emphasising on making our brands prominently visible in the crowded stores. Our outlet visibility programmes cover over 25,000 outlets in key cities, deploying a large number of third party merchandisers and agencies to ensure superior display of our products. Greater interaction is key to touching consumers and we are using the point-of-purchase for a much higher level of direct contact. For example, *Lakme Beauty Advisors* in key outlets promote sales and provide specific information and product testing, facilitating an informed choice to women seeking

beauty solutions. Encouraged by this, we are undertaking a similar initiative across many of our other brands where in-store facilitators offer promotions and provide product information. For many developing categories, such in-store sampling, education and experience will play a major role in building our brands.

Self-service Stores

As the country develops, the organised trade will develop rapidly, as experienced in other countries. Self-service stores and supermarkets, though small as a channel today, are fast emerging in metros and large towns. In a city like Hyderabad, for example, self-service stores already account for about 20% of the branded FMCG market. Importantly, this channel provides us with a great opportunity for brand interaction with consumers. Consumers are able to touch and feel the products, and thus make informed choices. Further, this shopping environment triggers greater impulse purchases for brands that are presented in an attractive manner.

Hindustan Lever has proactively developed new capabilities in customer management and supply chain for partnering this emerging channel. We now have a business system in place that delivers excellence in customer service, while driving growth for us and our customers. In-store merchandising is a key enabler for our brands to stand out prominently and attract the attention of consumers. Customised activation to drive trial and preference

for our brands is another key thrust. We are interacting with and providing experience to consumers in a number of innovative ways. For example, recently Sunsilk mobile salons at stores provided consumers an opportunity to have a great hair wash and try the new relaunched product. Similarly, the Dove Litmus test in stores demonstrates the brand's compelling benefit of mildness compared to other soaps. We also undertake in-store sampling for our range of Beverages and Food products like tea, coffee and soups. The self-service format is a great enabler for such increased interaction with consumers and we are fully leveraging this opportunity to drive trial and preference for our brands.

Pioneering New Channels

All these initiatives build convergence of product availability, brand communication and brand experience in the current channels. But these current channels are somewhat constrained by the existing formats and business models. We therefore need to go further in creating touch points for our brands relevant to the scale and nature of the Indian consumer opportunity. We are thus creating a whole set of new channels that are designed on the principles of holistic contact with consumers. These are across all consumer segments in both urban and rural India.

Project Shakti

Over two-thirds of India's 600,000 villages are very small and remote. These are not accessible easily, either due to inadequate

infrastructure or the non-viability of servicing. The large population in these small villages presents a significant opportunity for Hindustan Lever. *Project Shakti* is our initiative that creates a win-win partnership for consumers, rural women and Hindustan Lever. Already operational in 11 states across the country, our vision is to reach over 100,000 small villages, touching over 100 million rural Indians through this unique initiative.

Project Shakti provides micro-enterprise opportunities for women from Self-help Groups, making them direct-to-home distributors of Hindustan Lever. The ‘*Shaktiammas*’ work as brand ambassadors for Hindustan Lever, selling our products directly to village consumers at their homes. The awareness level of our brands in these villages is low as conventional media does not reach these villages. *Project Shakti* is a highly interactive form of selling and engagement, which leverages a unique opportunity to communicate, demonstrate and provide experience of our brand benefits. *Shakti Pracharini* is a health, hygiene and wellness campaign for the rural community. Rural women are trained to spread awareness of good health and hygiene practices within the community. Similarly, our programme *Lifebuoy Swasthya Chetna* communicates the importance of handwash and personal hygiene. The experience is brought to life using an innovative glow-germ demonstration, which highlights that visible clean is not germ-free clean. This is one of our largest interactive programmes and has already covered over 20 million rural children across seven states.

Project Shakti dramatically shifts the paradigm in rural distribution and communication, touching very large number of rural Indians in a compelling manner. It enables us access to untapped markets and addresses a huge opportunity.

Hindustan Lever Network

Direct Selling, one of the fastest emerging channels, is already over Rs 2,300 crores as an industry and is growing at over 20% per annum. *Hindustan Lever Network*, our Direct Selling initiative, now gives us the unique benefit of direct engagement with consumers in urban India. *Hindustan Lever Network* presents a range of customised offerings, covering 11 categories across Home & Personal Care and Foods. The *Aviance* range, for example, has tailor-made solutions and regimes for different types of hair. Depending on the consumer's hair type and characteristics, the *Hindustan Lever Network* consultant recommends the best-suited combination of shampoo and conditioner. Similarly, for new products in colour cosmetics, the consultant has the opportunity to demonstrate and teach consumers the best use of the new product.

Through *Hindustan Lever Network* we now have presence in over 1,500 towns covering 80% of the urban population. *Hindustan Lever Network* has already built a base of over 250,000 consultants. The key driver for consultants in the direct selling business is the enterprise opportunity, an avenue for personal development and substantial income generation. Direct Selling

enables personalised communication and customised solutions, through demonstrations and product trials, and this convergence provides a complete brand experience.

Out-of-Home Opportunity

Increasingly individuals and families in urban India are spending more time out of home – shopping, visiting malls, restaurants, fast food outlets, cinemas and travelling. This trend presents new opportunities of consumption. Growing out-of-home consumption is a global trend. In Europe, for example, food sales in out-of-home channels are growing three times faster than in grocery outlets.

We are already the largest player in the hot beverages out-of-home segment, with a national presence of over 15,000 tea and coffee vending points. We are expanding this aggressively, leveraging the increasing number of offices and a burgeoning services sector. We are also creating new touch points, through specially designed kiosks, to impact brand preference. We are setting up these in the education, entertainment, leisure and travel segments to catch consumers on the go. Our alliance with Pepsi will significantly strengthen our presence in the out-of-home channel. We recognise the vast potential and are exploiting the myriad opportunities that the out-of-home channel offers, presenting our Food and Beverages brands in a delightful manner to consumers everywhere, anytime.

Health and Beauty Services

Consumers have a universal need to look beautiful and feel good. They are increasingly seeking both products and services that fulfil this need. We have pioneered two initiatives, *Lakme Salons* and *Ayush Therapy Centres*, that address this opportunity.

Lakme Salons

Lakme, our beauty brand, enjoys the trust of women across India. *Lakme Salons* provide beauty services and solutions, addressing the universal desire to look good. This is a unique service offering, which provides high quality and specialised beauty services under the recognised authority of the *Lakme* brand. We currently have 64 salons, operated through our franchisees across 26 cities. These salons service over 4 lakh consumers a year and have established credibility as providers of exceptional beauty and grooming services. The *Lakme Salons*, with the expertise of trained beauticians and stylists and well designed interiors, offer a wide range of services and an unmatched experience of the *Lakme* brand. The experience is transforming the way consumers see the *Lakme* brand and its products, and is further strengthening credentials for *Lakme* as the expert in beauty.

Ayush Therapy Centres

The desire for good health is growing in urban India with a strong preference for natural, herbal and Ayurvedic products. *Ayush* helps consumers rediscover the age-old tradition of Ayurveda. The *Ayush*

Therapy Centre provides easy access to authentic Ayurvedic treatments and products, addressing the ever-growing concern for health among consumers. These centres have been established in association with the renowned Arya Vaidya Pharmacy, Coimbatore, and provide a unique branded experience.

Delivering Through People

We are reinventing distribution and creating new touch points through all these initiatives. These new channels have been seeded with the clear objective of widening our consumer base and providing a new platform for consumers to interact with our brands.

People and their skills are critical to the success of all these channel initiatives. We are therefore investing in building capability for training the large number of people involved in these initiatives. The training involves employees of Hindustan Lever and many others who are our channel partners. Over 300,000 people, most of whom are our channel partners or franchisee employees, across the several channel initiatives require training to acquire relevant skills. We are training these large numbers across many locations – over 1,500 towns and thousands of villages.

For the traditional channels, we are improving capabilities at the front end by developing skills for our stockist sales force. *Project Dronacharya* is our large-scale programme that continually imparts training to over 10,000 stockist salesmen. This is a

programme of unparalleled scale and aims to significantly improve the skills and capability at our front end.

Lakme Salons depend on well-trained resources for the sustained delivery of service quality. Our approach here is to “hire for attitude and train for aptitude”. We are setting up *Lakme Training Academies* across metros, bringing in international alliances and expertise. We are providing high quality technical inputs in beauty care, hair-styling and skin care to the beauticians and stylists. We are also providing developmental inputs in salon management and customer service to our franchisees.

Training is also critical in *Hindustan Lever Network*. We are training over 250,000 people across 1,500 cities through dedicated infrastructure and expert trainers. The training covers functional skills and product knowledge. We are also providing holistic development inputs as personal enrichment is a key motivator for these entrepreneurs.

In *Project Shakti*, we are training underprivileged women from small villages to become direct-to-home distributors. Women with very basic education are being trained to become entrepreneurs, to manage business, to communicate the benefits of our brands and to effectively engage with consumers. This is not an easy task given the low literacy levels, several languages and the sheer scale and diversity of rural India. Our partnerships with NGOs and support from state governments facilitate these efforts. Significant on-ground infrastructure and committed resources

position us well to meet the diverse and large training needs of this initiative.

Training capability is a key building block for the company as the people across all our channel initiatives are critical towards delivering the convergence of product availability, brand communication and brand experience.

CONCLUSION

Our new approach to distribution is holistic and seeks a 3-way convergence of product availability, brand communication and brand experience. We are reinventing distribution – creating new channels and redefining the way current channels are serviced. We are building key capabilities in training the large number of people involved in these initiatives. Through all these initiatives we are getting our brands closer to the consumer.

Our distribution initiatives create significant employment and vocational opportunities. Our countrywide network of 7,000 stockists and 6,000 sub-stockists employs over 60,000 people. In our current channels, we work with the local retail trade which has dispersed ownership and already involves a large number of people. Our new initiatives by themselves create large vocational opportunities for people. *Hindustan Lever Network* aims to create over a million self-employed entrepreneurs. *Project Shakti* aims to engage 25,000 underprivileged rural women as ‘*Shaktiammas*’, giving them economic independence. Services, by their very

nature, are employment intensive and will also provide significant employment. All our channel initiatives are thus completely aligned with the national interest and priority of employment generation.

Hindustan Lever has over time reinvented itself to stay at the forefront of the FMCG industry. Our reinvention of distribution is built on an understanding of emerging consumer trends, the changing retail environment and the growth drivers for our brands. The distribution initiatives will deliver significant benefits to our consumers, our customers and to us. In the future, these will provide us an unbeatable competitive advantage. Our new approach to distribution will play a pivotal role in our growth and in realising the large potential of the Indian market.

