

HINDUSTAN LEVER : GROWING WITH INDIA

1997 was a milestone for India, being our 50th year of Independence. This was also around the time when Hindustan Lever undertook the consolidation of Unilever's operations into a single corporate entity. It is therefore an opportune time to review how the company has grown, in India and with India.

Hindustan Lever and its constituent companies have been in India since 1912. Over these decades, the company has benefitted greatly from the developments in the country; I believe that the company equally, in its own way, has contributed to these developments. This congruence of interests can best be exemplified by seeing the way in which the company has reflected national priorities over the years, through its strategy and operations. Looking ahead, it is clear that the country is now dedicated to growth with a renewed sense of purpose and that national interests will evolve. As a company, we remain committed to evolving national priorities and see a bright and promising future both for ourselves and for the country; indeed we believe that the future of Hindustan Lever depends on the future of India.

The relationship between the company and India is enduring and truly synergistic. It is the result of the company's history, but is more fundamentally shaped by our ethos and that of our parent company. Unilever, in its worldwide operations, strives to be a multilocal multinational. For Hindustan Lever this means that the seed with which the company began was foreign, but our roots are deeply planted in Indian soil. The growth of this plant depends on the soil and the benefits accrue directly and indirectly to many in India. Our ethos led us to Indianise management since 1942 and shareholding since 1956, the very first time that this was done by any foreign subsidiary.

The scale of Hindustan Lever's operations can be measured in many ways. They all show the deep linkages we have with India and the extent of the symbiotic relationship. We are an organisation of 36,000 employees and indirectly provide employment to a further 200,000; this is without considering the one million retailers who we service and who rely to a considerable extent on the sale of the company's products for their income. We have 7,000 redistribution stockists and source raw materials from over 2,000 suppliers and associates. We have 346,000 local shareholders who have benefitted from their investment in the company. Rs.1000 invested seven years ago, would have grown to over Rs.14,000 today. The score and scale of share value growth are not dissimilar over other time periods.

The beginnings of the company were small. In 1956 when Hindustan Lever was formed, by the merger of Hindustan Vanaspati Manufacturing Company, Lever Brothers India Ltd and United Traders Ltd, the company had sales of Rs.27 crores (about Rs.650 crores in current money). Guided throughout its history by men of vision, with the unstinting efforts of employees and the strong support and contribution of Unilever, sales of Hindustan Lever and its subsidiary companies have in 1997 grown to around Rs.9500 crores and in so doing developed the scale and linkages described earlier.

I would like to talk about the key areas where the company has consciously sought to grow in line with national interests, weaving the company's operations with the country's imperatives. The areas covered are:

- Developing and using relevant technology
- Generating productive employment

- Stimulating industrialisation and dispersing its benefits
- Adding value to agriculture
- Sustaining export performance

Developing and using Relevant Technology

We began our R&D initiative, setting up the Hindustan Lever Research Centre in 1958; it is currently the largest R&D centre in the Private Sector, focusing on applied research. There are over 80 highly qualified scientists working in the areas of physical sciences, bio-sciences, agriculture and chemical engineering. Apart from the best talent in India, we have been able to attract back Indian scientists from some of the leading universities in the USA and Europe, to work with us. There is a strong inter-dependence between Hindustan Lever and Unilever in research. We are an integral part of Unilever's global network of research laboratories, and benefit by adapting knowledge and ideas from Unilever research around the world to our local requirements. This complements the significant innovation and invention we do locally.

Clear trends are seen when looking back at how technology has been developed and used in the company. In the early years, our R&D efforts were centred on import substitution and we have many significant achievements that continue to be of great relevance even today. The use of unconventional oils, such as neem, karanja, castor and rice bran, for soap making was pioneered by the company and enabled the substitution of imported oils. Cumulatively, we estimate that this has resulted in a saving of around \$1.2 billion in foreign exchange since the 1970s. R&D was also used for substituting imported aroma chemicals and nickel catalysts.

The next phase of research has been to improve the functional delivery of our brands, ensuring that we are able to fully satisfy consumer needs and remain ahead of competition. This is done through the development of innovative products and new processes, applied across the entire spectrum of the company's business. It is this development and application of technology that makes us the market leader in areas as diverse as Fair & Lovely Cream and hybrid maize seeds. Research finds its application as much in Lifebuoy soap, which is the brand leader in rural India, as it does in the development of our functionalised biopolymers which improve quality and productivity in the paper industry. It is often believed that the role of technology in the fast moving consumer goods (FMCG) area is limited. Our experience has been exactly the opposite; we find that technology in FMCG is critical. Skillfully applied it can result in fundamentally lower cost structures and the ability to deliver new and more exciting benefits to meet the growing aspirations of consumers.

Recently, we have begun to use research to support our export initiatives, thus ensuring that our exports are both globally competitive and sustainable. For example, we have developed a cold water soluble instant tea powder which has become a major export product. We have been able to isolate and process a powerful ultraviolet ray absorbing sunscreen from an indigenous naturally occurring vegetable oil. This is being exported to Europe and has significant long-term potential.

Research and its application in Hindustan Lever has come full circle; it began with import substitution and is now being used to develop our export businesses.

For the country, there is need to apply R&D towards improving quality and lowering cost of domestic products and equally to ensure export competitiveness. India has a significant base of technological skills on which to build. This base has been developed over the years and has resulted in many R&D institutes with impressive abilities. The Council of Scientific and Industrial Research is an outstanding example. We now have the opportunity and challenge to use these scientific resources to improve the quality of life of all Indians and to make our industries globally competitive. However, we must clearly focus our research resources to well-defined national priorities.

At Hindustan Lever, we have been successful in the application of research because it is fully integrated with our business. A way forward for India could also be to ensure that strong linkages are forged between industry and the various research establishments.

Generating Productive Employment

Providing adequate employment opportunities has been a key objective of planners and continues to be of great importance. At Hindustan Lever we have always recognised the importance of this national objective and have integrated it in our business strategies. We not only generate employment but also ensure that this employment is productive and therefore sustainable. Since 1956 our direct employment has grown over six-fold. To ensure that employment in our units is productive and sustainable in the long term, we have restructured our manufacturing base over the years. Certain unviable units have been closed down and yet others scaled down; on the other hand, many units have been expanded and several new factories established. The restructurings were necessary to maintain local and global competitiveness and to overcome the cost disadvantages of such locations.

The company's efforts at ensuring sustainable productive employment is mirrored in the approach to turning around sick companies. Since 1983, we have acquired five sick industrial establishments and have restructured them all into highly productive assets, infusing new technology and building the skills of their employees. Two of these factories, at Mangalore and Mysore, have since received the ISO 9002 accreditation. Today these five factories have a capacity utilisation of over 85 per cent.

Consumer goods industries, like Hindustan Lever, generate both direct and indirect employment. The indirect employment reflects those employed in supplier industries, transport and logistics systems and the distributive trade. Often when considering the employment generating potential of the consumer goods industry, its capacity to create indirect employment does not get adequately considered. At a very conservative estimate, the company has created over 200,000 indirect jobs through the entire supply chain, over and above the 36,000 directly employed.

It is commonly, but mistakenly, believed that the consumer goods sector has limited potential to add to employment generation. Studies that we have done based on data from the Annual Survey of Industries show that consumer goods industries, such as foods, perfumes, cosmetics, plastic products and other consumer products, have an employment elasticity of around 0.9. This means that if output in these industries were to double, employment would increase by 90 per cent. In contrast, in basic and capital goods industries, such as cement, petroleum, iron and steel, the employment elasticities are about 0.2, indicating that if output were to double, employment would increase by 20 per cent. The consumer goods sector can therefore have a high impact on job creation. Given the importance of employment in the national agenda, this fact needs to be recognised.

Stimulating Industrialisation and Dispersing its Benefits

At Hindustan Lever our corporate purpose is to meet the everyday needs of people everywhere. Our wide range of brands are consumed by all sections of society, across urban and rural societies and in all parts of the country. A business with our scale and spread, operating in a country as vast as India, requires an efficient supply chain and logistics system; this necessitates a wide dispersion of manufacturing capacity. This business imperative is well matched with the national objective of spreading the benefits of industrialisation. Today we have over 54 manufacturing units of which only five are in the metro cities while 28 are in backward districts. In many cases, we have been among the first industries in these backward districts and have demonstrated that it is possible, through intensive training, to convert people from agrarian backgrounds into competent and skilled industrial workmen. We have thus been able to spread an industrial culture across many districts and help to sow the seeds for further development by attracting investments from others.

We have manufacturing locations at places such as Khamgaon and Kanhan in Maharashtra, Orai and Sumerpur in Uttar Pradesh, and Chhindwara in Madhya Pradesh. At many places, our factories have been the nucleus and the catalyst for further investment in such areas. For example, in the 1980s, we were the first to make a significant investment at Chhindwara, Orai and Sumerpur with soaps and detergents factories; today these three areas have a further five large scale and around 70 medium and small scale factories, backed by numerous transporters and other service industries. We have seen that our initiative in backward districts leads to further growth in two distinct ways. It brings a number of our suppliers and associates in the supply chain to the area; it also catalyses the establishment of non-related industries since they can benefit from the industrial and service infrastructure already set up in the district. This starts a virtuous cycle for continued growth and development.

The process of industrial development also brings about a change in the quality of life for the local community. For instance, when we entered Haldia (West Bengal) in 1979, the town had one hospital and six doctors; today it has five hospitals and nursing homes and 57 doctors. It had nine educational institutions including schools and colleges; today it has 32. We have witnessed similar changes in all our backward locations. As a responsible business, in the communities among whom we operate, we have done our best to support the development of such social infrastructure. This benefits the community and improves the quality of life of our employees.

Investment by the company also creates further investment by suppliers. We estimate that our operations have attracted an investment of over Rs.1,600 crores from a range of supplier industries: oil extraction, organic and inorganic chemicals, packaging, paper, plastics, glass and engineering.

The linkage with Hindustan Lever has in many cases given viability and economies of scale to these industries. Several suppliers have been supported to produce goods and equipment for the first time in India; this includes many chemicals, specially structured lamitubes, liquid sachet-filling machines and eutectic freezers. We have provided help in terms of technology, by underwriting investment during the initial development phase and by providing a secure market for what is produced. Particularly satisfying is the fact that our suppliers, specially in packaging materials and chemicals, now also export to Unilever

companies in other countries, thus forming international linkages for India's intermediate industries. As a large business, we provide an umbrella under which small businesses have grown and prospered, while providing us with the necessary goods and services.

The government has provided much encouragement and many incentives for stimulating industrialisation in backward areas and thus spreading development. We have found it possible to establish viable manufacturing units at such locations and have been a catalyst to their further development. As the country makes the transition to a more industrialised economy, continued emphasis needs to be given to spreading the benefits of industrialisation widely across the country, rather than creating small islands of affluence.

Adding Value to Agriculture

The importance of agriculture in the Indian economy cannot be overstated, and the need to improve productivity and add value to agricultural output through food processing is widely recognised. There is a clear need to better integrate industry and agriculture, to reduce wastage in the food chain, improve rural incomes and create employment opportunities.

The linkages between the company and the agricultural sector are many. The company is dependent on the agricultural sector for much of its raw material in its Foods & Beverages operations and also in its Home & Personal Care business. Our Fertiliser business caters to the needs of 30 million farmers with a total crop production of 140 million tonnes. Several of our major business categories, for example Fabric Washing, Personal Wash and Beverages, get over 50 per cent of their sales from rural areas and depend on improved rural prosperity for further market growth.

We have done much to help increase agricultural productivity and generate demand for increased production. We do this by introducing the latest technology, sharing and updating best practices, and investing in food processing. The average yield of tea at the company's plantations has grown from 900 kg per hectare in the 1960s to about 2,500 kg per hectare now. Our tomato extension programme in Punjab has increased the yield per acre from eight tonnes 10 years ago to 20 tonnes today. In Animal Feeding Stuffs we are the country's largest seller of branded animal feeds; our Innovation Centre in this business has developed poultry feeds which give a high conversion efficiency.

The country has achieved self-sufficiency in basic food grains through the Green Revolution. Much however remains to be done to improve productivity for other cash crops. It is in these areas that partnership between agriculture and the relevant user industries can be of great mutual benefit.

Our early experience with a dairy plant at Etah (Uttar Pradesh) demonstrated how important it was to recognise the need for mutual dependence between agri-business viability and agricultural development. When we first set up the dairy in 1964, milk availability in the area was very poor, leading to unviability of the investment. Through a series of focused initiatives in animal husbandry and in rural development, milk availability in the district has gone up in the last 20 years from 2500 tonnes per year to over 30,000 tonnes. This has improved the operations of the Etah dairy and has also improved the incomes of the rural community around the factory.

For us at Hindustan Lever the rural sector represents an immense source of future demand growth for our products and a vital source of raw material supply. The importance of both

for the ongoing success of our operations is well understood and has led to a genuine commitment to improving the rural economy, wherever we can make an impact.

Sustaining Export Performance

For India, exports have consistently been an area of priority. In 1947, the country had a positive Balance of Trade. However, in the last 50 years we have had a negative Balance of Trade, in all but two years.

Our export efforts began in 1962, and in 1997 they accounted for Rs.1,150 crores, thus making the company one of India's top five exporters. The policy framework under the 1973 Foreign Exchange Regulations Act, required the company to ensure 10 per cent of its turnover from exports. This obligation was removed in 1991. However, we have continued our exports thrust because it is a viable business opportunity and because we recognise the need to earn foreign exchange. Indeed, since 1991, exports have on an average accounted for about 14 per cent of the company's net turnover - a higher percentage than when it was an obligation.

Hindustan Lever is India's largest tea exporter by value, accounting for about 22 per cent of the country's exports; we are also the largest exporter of castor oil, supplying about 23 per cent of total world demand. We are India's largest FMCG exporter with a 75 per cent share of such exports from the country, including brands developed by us in India. And today the company is increasingly becoming a global sourcing base for Unilever, with internationally competitive quality and pricing.

Our exports focus is best articulated by the fact that between 1991 and 1997, while exports grew by a compounded rate of 35 per cent, our domestic business grew by 31 per cent. I have already spoken about the scale of our activities in India; much of this is already known and recognised. However, to put this in a different perspective, the value added in our domestic activities accounts for 0.2 per cent of India's Gross Domestic Product, while our export sales account for one per cent of the country's export turnover. Thus seen, we are even more significant in India's export economy than we are in the domestic economy.

Much of the success of our exports business has been through working with foreign alliance partners through whom we access brands, markets, technology and skills. In return, we invest capital, management and manpower in a local manufacturing base which is run to international standards. Through this alliance model, we are, for example, manufacturing Pears soap, branded tea and several other products for Unilever companies, Surimi fish products for Shinto Corporation of Japan, and Hush Puppies Shoes for Hush Puppies UK. One of the key learnings from our exports business that may be of wider relevance, is that in industry sectors where India has a global competitive advantage, building alliances with foreign partners can lead to a strong, growing and sustainable exports business.

Looking Ahead

The country has achieved much in the last 50 years; we are self-sufficient in food and the world's fifth largest industrial economy. However, despite the country's considerable achievements in the past, much remains to be done. In the foreseeable future, the five areas that I have highlighted will continue to be of great importance not only to us but also to other businesses and, I believe, to the national agenda.

We have found that research can be applied with enormous benefit across every one of our businesses, ranging from seemingly simple consumer products to industrial chemicals and machinery. It is a mistaken belief that research is only relevant to what seem to be 'high tech' areas; there are always opportunities to use research to reduce costs, improve performance and provide new products and benefits. Critical in the successful application of R&D is the ability to get business and research working together in real partnership.

Our business has many external interfaces; in these we find that there is no alternative to carefully building the appropriate linkages so that benefits are mutual and equitably shared. This is demonstrated in the symbiotic relationship between us and our many small suppliers and business associates; we provide an umbrella under which they grow and prosper, providing us, in turn, with the necessary goods and services. Our relationships with the farm sector benefit us through improved availability of agricultural produce and equally benefit the farmer. In exports, our success is based on building foreign alliances through which we get market access and leverage our strengths and the country's natural competitive advantages.

Employment generation is ultimately a consequence of industrial development, improved agricultural value and growing export businesses. Consumer goods industries have a high employment elasticity - growth in their output can create greater employment. When evaluating the employment generating potential of an industry sector, both direct and indirect employment should be fully considered. Finally, it is productive and sustainable employment and the income this generates that will help build a better quality of life for all Indians.

Hindustan Lever has a breadth of operations across Home and Personal Care, Food and Beverages, Agri-inputs, Chemicals and Exports, and a history of successful experience in India across all these areas. There is, in all that we do, something unique about our approach that is at the heart of our success. I firmly believe that an integral part of this approach has always been the recognition that business interest and national interest must be interwoven. In this, we have always received the fullest encouragement and support of Unilever. We remain committed to continue to keep national objectives central in our business strategies and operations. It is this that gives us the confidence that we will grow in India, just as we will grow with India.