

# Reimagining FMCG in a changing India



Sanjiv Mehta - 2019

## **Reimagining FMCG in a changing India**

was the subject of the speech, delivered by Mr Sanjiv Mehta, Chairman & Managing Director, Hindustan Unilever Limited, at the Annual General Meeting held on 29 June 2019.

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## Section I: INTRODUCTION

The story of growth is in many ways also the story of change. From the humble telegraph, to the intelligent smartphone, human ingenuity has offered the opportunity to improve lives, foster prosperity and push us all forward.

In India, we followed socialist-inspired economic policies for many decades post-independence and during this period, the per capita income increased at just about 1-2% annual rate. Around 30 years ago, India embarked upon a journey of economic liberalisation, opening its doors to globalisation and market forces. With fundamental reforms since 1991, India started progressing towards a free market economy. This augured well for the economy and for businesses such as ours. From 1991, India's GDP has grown ten-fold to reach US \$2.7 trillion in 2017. During this period, the turnover of Hindustan Unilever Limited has increased over 20 times from Rs 1,775 crores to Rs 37,660 crores.

## Section II: INDIA RISING - PROSPECTS & POTENTIAL

### II. i: A Growing Economy

A momentum growth rate of 7% will take India to a US \$7 trillion economy by 2032. If we can bend the growth curve and deliver a consistent growth rate of 9% and above, then India could transform itself to a US \$10 trillion economy during this period and catapult itself into the upper echelons of middle-income countries.

However, to realise our US \$10 trillion vision, substantive changes will have to take place especially in a few key areas like:

- 1) Transformation of rural India:** The equation of over 60% of India living in rural areas, with majority of them being dependent on farm-based livelihoods, but agriculture and allied sectors contributing a

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meagre 16% to the GDP of the country, is clearly unsustainable. Harnessing of technology, dis-intermediation of value chain and better water management to reduce the over-dependence on rainfall, have huge potential to increase agricultural productivity, boost exports of high value agricultural products and increase farmers' income. If a small country like Netherlands could be one of the top three exporters of farming produce in the world, India has the potential to become the granary to the world.

**2) Acceleration in growth of Micro, Small and Medium Enterprises (MSMEs):** Large companies alone will no longer be able to contribute to the economic development of the country. Key to inclusive development will have to be the growth of MSMEs. This will be vital for creating jobs and accelerating the economy. India needs both good managers and a large pool of successful entrepreneurs.

**3) Strengthening of infrastructure:** Infrastructure is the catalyst for a booming economy. This is also vital if we have to create space for migration of rural workers to urban areas. While the state will have to play a leading role in the development of infrastructure, we should not shy away from facilitating private investments or public-private partnerships despite the challenges and experiences of the recent past.

**4) Prospecting of natural resources:** India is rich in natural resources be it coal, iron ore, manganese ore, bauxite, chromite etc, of which only a small part has been tapped so far. We will have to harness natural resources for growth, but in a sustainable fashion and with minimal adverse impact on the ecology.

**5) Creation of competitive edge in manufacturing:** Manufacturing plays a pivotal role in creating livelihoods. To accelerate the growth of manufacturing in the country, India will have to identify sectors where we can create competitive edge in terms of best-in-class quality, cost, productivity and innovation.

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**6) Culture of real innovations:** As a nation, we have to move away from a culture of quick fixes and move to fundamental innovations. We have to move away from 'less from less' and move to 'more from less' mindset. Academia, research institutes and corporates have to come together to create an environment, culture and ecosystem of real innovations in the country.

**7) Next generation of reforms:** Reforms like the Goods and Services Tax and Insolvency and Bankruptcy Code have been game changers. Backed by a decisive mandate and with a reformist outlook, the government should press the pedal on next generation reforms especially those involving the factors of production like land, labour and capital.

**8) Removal of trust deficit:** It is important that the trust deficit that exists with business is removed. It is incumbent on the part of business to practice the highest standards of ethics and governance, and on the other hand, we must recognise that private enterprises will be the engines of growth and creators of livelihoods in the country. All impediments to their growth should be removed. The Government should promote self-regulation, but at the same time have strong punitive action against non-compliance.

**9) Women's participation in workforce:** The economic potential of the country will not be achieved unless the gender gaps in society are addressed. A McKinsey study estimates that India has the highest relative potential for additional GDP growth from advancing women's equality. They estimate that India could add an incremental 1.4 percentage points each year to its GDP growth rate, if we match the momentum of the fastest gender gap improving country in our region.

**10) Deft management of environment:** India will have to decouple its growth from the environmental impact. We cannot live with a tag that 22 out of the 30 most polluted cities in the world are in India. We also have to put a cohesive strategy to resolve our exacerbating water

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problem, which if left untouched, could significantly stem our growth and create serious societal problems.

## **II. ii: Harnessing Technology for a Frontier Economy:**

Central to India's next growth trajectory is the surge in the digital ecosystem. Today the country has 1.2 billion mobile phone subscribers, over 560 million internet subscribers and is one of the fastest digital adopters globally. A mammoth 8.3 GB monthly average data consumption per user is making it one of the highest data consuming markets. Today around 40% of Indians are online, a number that is estimated to grow to nearly 60% in the next five years.

As a nation, we are increasingly deploying technology to cater to the diverse segments of society. Public digital platforms like Aadhaar is a simple solution to the colossal challenge of delivering benefits and services in an equitable and fair manner. The Jan Dhan Bank accounts ensure an inclusive financial solution for services such as subsidies, overdrafts and insurance.

Adoption of technology has already started paying dividends. Since 2015, India has been rising steadily on the Global Innovation Index rankings, moving up five places to rank 57 out of 126 countries last year. In the Global Competitiveness Report rankings on technological readiness, India moved up to rank 40 out of 137.

While technology is opening up growth opportunities for the country, there are also challenges that need to be addressed. While 60% of the connected population use internet for content and communication, only 25% use it for product transactions. A big barrier to this is the lack of trust.

Unlike most natural resources, which deplete with use, data is a non-exhaustible asset and is the bedrock of Artificial Intelligence (AI). With increasing connectivity and a large population, India has a fabulous opportunity to use data as a national asset for growth and development from agriculture to industry and from healthcare to education. This

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would require laws, regulations and framework, which facilitate their use, prevent monopolies and protect privacy.

### **Section III: THE FMCG OPPORTUNITY**

The economic growth and the technological changes provide an exciting future for the Fast Moving Consumer Goods (FMCG) sector in the country.

Despite being one of the fastest growing markets globally for FMCG products in recent times, the per capita FMCG consumption spend in India is amongst the lowest in the world, giving the industry a long runway for growth. Matching up to Indonesian levels would grow the market by 2X and to China levels by 4X.

Several factors will positively impact the growth of FMCG industry.

**a) Rising Affluence:** The vision for the future of consumption in India is anchored in moving people from the bottom of the pyramid to the middle class and the growth of the upper middle income and above segments, which will grow from being one in four households today, to one in two households by 2030. Critical for realising the potential of FMCG in the country is inclusive growth.

**b) Changing Family Structures:** The extended Indian joint family has given way to nuclear households. The proportion of nuclear households, which has been on the rise, is projected to reach 78% by 2025. This ongoing shift is significant because nuclear families spend 20% to 30% more per capita than joint families.

**c) Growth of Emerging Cities:** India is expected to have 100+ cities with one million population by 2030 as compared to 46 cities in 2011. It is estimated that by 2025, about 40% of India's population will be living in urban areas, and these city dwellers will account for more than 60% of FMCG consumption.

**d) A Young Working Population:** India will have the largest working class population (15-59 years) of over 700 million people. Gainful

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employment of working class population who have access to quality education and vocational training coupled with skilling and re-skilling opportunities would boost the consumption of FMCG products.

### III. i: The Evolving FMCG Landscape

By 2030, India will have a large cohort of 'Generation Z' consumers who would have grown up in an India with ubiquitous internet, smartphones, digital media and digital consumption platforms. As they start earning and consuming, they will actively use technology-enabled consumption models, and have a big influence on the consumption behaviour of their households.

**a) Evolving consumer trends:** Technology is creating a more connected and aware consumer ecosystem. The new-age consumers are looking beyond simple product benefits to complete experiences with the brand. They are increasingly demanding products and brands that are good for their health and wellbeing, good for the environment as well as good for the society. In fact, sustainability has become one of the key drivers for growth in businesses today. In a global survey conducted last year, India topped the list of countries where consumers demanded corporate sustainability.

Indian consumers are also exhibiting increased curiosity and excitement over exploring local roots. They are interested, for example, in natural products in personal care and local flavours in packaged foods.

**b) Shopper & channel evolution:** Shoppers continue to seek convenience, value for money and experience. The shopper journeys and path to purchase are no longer linear. Modern Trade and e-commerce will accelerate to address the shopping needs of the evolving consumers offering greater choice and assortment, and we will also see the convergence of brick & mortar and online retail into omnichannel.

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General Trade with over nine million stores contributes to about 90% of the FMCG industry. It serves over 95% of the shoppers during 95% shopping occasions. From a social perspective, the survival of these outlets is critical for the country. Technology provides an opportunity to wire up and connect these stores, as well as bring the science of retailing to these stores. While the share of this channel will drop, it will continue to be the largest channel even in 2030.

**c) Brand interactions:** With rapid digitisation, consumers are increasingly engaging with brands on a range of media platforms, notably digital media that is consumed on the go and mostly on mobile phones.

In India there are difficult-to-reach consumers and easy-to-reach consumers. The paradox of difficult-to-reach is the top 31% households that have tremendous media choices and the bottom 24% households that have almost none. Add to this, the vast socio-economic differences between classes, different consumption trends within groups in society, as many as 22 official languages and many more spoken across the country, there is no one-size-fits-all solution when it comes to media.

While TV and print media account for two-thirds of advertising spends today, digital advertising is the fastest growing channel and will double to 24% in the next few years. The top 31% of the households contribute to 56% of all consumption in the country and almost 100% of nascent categories. While televisions are getting bigger, flatter, smarter in these 31% homes, the content consumed is changing drastically. The only way to reach these affluent consumers will be through authentic, relevant and talk-able brand stories told through sponsored content, native content, branded content, user-generated content and social media feeds.

The middle 45% of India, being sensitive to subscription costs, will continue to interact with brands through advertisements supported

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across both TV and digital platforms thereby fuelling growth of OTT platforms. Relentless data disruption and cheaper handheld semi-smart devices will mean that the bottom 24% of India will be increasingly reachable through addressable media on mobile devices and free-to-air channels on TV. In India, it will be seriously premature for brands with national ambition to write the obituary of TV as an important channel for communication.

### III. ii: Reshaping Human Capital

The World Economic Forum noted that a majority of the jobs our children will do in the future don't exist today. This will be a result of the new division of labour between humans, machines and algorithms. McKinsey Global Institute estimates that 60 to 65 million jobs could be created in India by the productivity surge by 2025, although redeployment will be essential to help the 40 to 45 million workers whose jobs will likely be displaced or transformed by technology. Re-skilling of workforce will become a national priority. The next few years will see the very nature of employment in the country transform - not only will the talent pool change, but the skill-set and the organisation culture will also undergo tectonic shifts.

What will characterise this new workforce?

**a) Gig Economy:** The days of 'employees for life' will slowly fade. Organisations will have people coming in for an assignment and leaving for another equally exciting opportunity. This will result in a completely new set of people who will work on project-based assignments.

**b) Reward Now:** The new-age workforce will also expect to be compensated real-time rather than holding it for the future, urging companies to re-look reward policies.

**c) New Generation Skill-Set:** The new world will also require a completely new skill-set comprising not just IQ (Intelligence Quotient), DQ (Digital Quotient) and EQ (Emotional Quotient), but also CQ

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(Cultural Quotient) enabling easier adaptation to different cultures and environment. While machines will augment human cognition, it will be imperative for companies to optimally leverage humans + machines at the same time.

## **Section IV: HUL IN THE NEW WORLD**

What will the new India mean for Hindustan Unilever Limited (HUL), the nation's largest Fast Moving Consumer Goods company?

At HUL, we have a five-pronged strategy to continue to thrive in the new India – drive purpose into our brands and enhance the societal impact, innovate for the future, build a future-fit organisation, nurture talent in the new age, and reimagine the business across the value chain by leveraging data and technology.

### **IV. i: Drive Purpose into our Brands and Enhance the Societal Impact**

HUL's deep reach into Indian households is a result of our intimate understanding of consumers, our investments in the Indian market and the trust we have built over the last eight decades. Since the very early years, HUL has responded to the stimulus of economic growth, growing in sync with the needs of the nation. This was very well captured in one sentence that has been the hallmark of our growth journey: What is good for India is good for HUL.

With more than nine out of 10 Indian households, using one or more of our products, the biggest impact we can have on society is through our purpose-driven brands. For example, we have cumulatively reached over 150 million people through our WASH (water, sanitation and hygiene) initiatives led by our brands Lifebuoy, Domex and Pureit.

Brand Purpose has twin objectives – that of doing good for society but in the process, doing well for the organisation. Brand purpose builds brand salience particularly amongst occasional users, drives brand penetration and growth.

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In today's world, where there is a plethora of brands, purpose is what makes a brand stand out. In fact, with growing awareness and concern for the planet as well as societal issues, consumers are increasingly demanding brands that deliver more than just the functional benefit. They look for brands that have a higher purpose that resonates with them.

Sample this: Surf excel was HUL's fifth largest brand in 2005 and the fourth in the laundry market. Then came the first 'Dirt is Good' campaign based on the premise 'If by getting dirty, you do something good, then dirt is good'. Today, it is the biggest in both HUL and the laundry category, and is a splendid example of purpose-led marketing leading to sustained results.

We have Brooke Bond Red Label that stands for making the world a more welcoming place by removing social barriers of caste, religion etc. Through its purpose-driven advertising based on its belief of 'bringing people together over a cup of tea,' our brand has been driving inclusion in society. Dove is on a mission to ensure young girls have a positive attitude towards their body image. The brand supports young girls by helping them raise their self-esteem and realise their full potential.

Together with embedding purpose into our brands, as an organisation, we are working on enhancing livelihoods of communities as well as improving the health of our planet.

- Project Shakti provides livelihood opportunities to women micro-entrepreneurs in rural India. Shakti entrepreneurs are trained by us on sales and distribution. Today, Project Shakti has nearly one lakh ten thousand women micro-entrepreneurs across 18 states and in the process, we get unparalleled distribution reach for our brands.
- Our work with smallholder farmers as a part of our sustainable sourcing agenda, focuses on training them on good agricultural practices such as drip irrigation, nutrient management and pest & disease management. Thousands of smallholder gherkin farmers in

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southern India and farmers growing tomatoes for HUL have benefitted from these training initiatives.

- Through the Hindustan Unilever Foundation, we are creating solutions to water scarcity and enhancing water-dependent livelihoods. Till the end of 2018, working in over 4,300 villages we have created a water conservation potential of over 700 billion litres.
- We are creating greener factories and have already reduced our CO<sub>2</sub> emissions, water consumption and waste generation by over 50% in the last decade. The share of renewable energy in our manufacturing stands at 43% in 2018 and is set to grow further.
- We are systematically reducing our plastic footprint through the 4R framework – reduce, reuse, recycle and recover. We are committed to ensure that 100% of our plastic packaging is reusable, recyclable or compostable by 2025. Also, 25% of plastics we use will be sourced from post-consumer recycled plastic content.

#### **IV. ii: Innovate for the Future**

We leverage Unilever's global knowledge and HUL's deep local understanding to serve Indian consumers better – be it through path-breaking innovations or expertise in new channels. Unilever's world-class Research and Development facilities are making breakthroughs that keep us at the forefront of product development for evolving needs of Indian consumers across the socio-economic pyramid. For example:

- Rising incomes and aspirations are resulting in consumers seeking products with higher order benefits. Global brands like Surf excel, Dove, TRESemmé, Magnum etc are responding to the needs of these consumers and leading premiumisation in their respective categories.
- A trend that's shaping innovations across the world is 'naturals'. At HUL, we have a three-pronged strategy to build our naturals portfolio. We have our master brand LEVER ayush across multiple categories, which makes ancient ayurvedic wisdom accessible to solve modern

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day beauty problems. We also have specialist naturals brands like Hamam, Simple and Indulekha. The third leg of the naturals strategy involves natural variants within our existing portfolio of brands.

- There is an increasing awareness of health and well-being in our consumers. Red Label Natural Care, Lipton Green Tea are examples of products that address the evolving consumer trend. The proposed merger of Glaxo SmithKline Consumer Healthcare with HUL and the addition of brands like Horlicks and Boost to our portfolio will significantly strengthen our presence in the 'Health and Wellness' segment.
- To address the challenges of scarcity of water in parts of the country, the Rin smart foam technology detergent bar helps save up to two buckets of water per wash.

#### **IV. iii: Creating a Future-Fit Organisation**

The companies of the future will need to build an organisation that fosters agility, empowerment and connectivity. Culture is the 'personality' of a company that's reflected in its people and in turn, in its beliefs and outlook. At HUL, we are creating a culture that embraces diversity, inclusiveness, founder's mindset and experimentation.

##### **a) Driving speed and nimbleness**

We have empowered our people by deaveraging the country through our WiMI framework and by setting up Country Category Business teams.

##### **- Winning in Many Indias (WiMI):**

To look at a country as diverse as India, as one homogeneous entity is a gross under-service to the vast cultural and business opportunity it presents. WiMI, is not just a geographical classification, it is also a change in mindset that has enabled our people to look at India through different lenses, enabling them to act on local opportunities and drive significant competitive edge. It has helped the business win consistently and decisively by

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leveraging scale at the centre, while focusing on the many Indias with minimal incremental cost.

#### - **Country Category Business Teams**

The Country Category Business Teams are small empowered decision-making micro-organisations within the business that focus on delivering in-year results. Today, 15 such micro-organisations are embedded within HUL. These empowered teams bring in a founder's mindset and promote a culture of collaboration and experimentation, enabling faster decision-making with speed and agility.

#### **b) Building an inclusive culture**

We are also looking beyond changing structures and processes, to change the mindset of our people that will help us continuously adapt. At HUL, we are encouraging our people to fearlessly experiment and own end-to-end processes so as to deliver superior solutions for the consumer and customer journey.

We believe that while technology will play an important role in the future, it is equally important that we have a 'High Tech & High Touch' culture where we do not lose the human element and find ways to augment our people performance through machines. At HUL, we are also building a diverse and inclusive culture and respect every employee for who they are – regardless of gender, age, race, disability or sexual orientation. We believe that our employees' contributions are richer because of their diversity, and we want to help them feel free to bring their authentic self to work every day. Today, 40% of our managerial workforce are women and by 2022, we will be a gender parity organisation.

#### **IV.iv: Nurturing Talent**

Often termed the 'leadership factory', HUL has a proud people legacy. We are one of the most sought-after employers across business schools and

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our talent management practices are considered benchmarks across the industry.

To equip our people with future-skills, we have developed a culture of 'always-on learning' – shifting focus from classroom training to creative forms of learning like immersions, mentoring, peer-to-peer and e-learning.

All our employees are undergoing mandatory learning on digital fundamentals. In the last 18 months, we have invested hundreds of hours in digital immersion and e-learning. This has had a record adoption with over 56,000 courses completed by over 5,000 employees in 2018 alone. To accelerate our journey on digital transformation, we have set up the Digital Council – comprising of a cross functional team of leaders, working in an agile manner, who are designing and landing the agenda of 'Reimagining HUL' consisting of over 80 experiments currently underway in the business.

#### **IV. v: Reimagining HUL**

To adapt and address the surge in the digital ecosystem, businesses need to sharpen their competitive edge, and ensure delivery of enhanced digital solutions to consumers and customers. Powered by data and AI, the new digital ecosystem is helping us understand potential trends, customise solutions, augment decision-making and build a feedback loop.

In fact, we now have a full-fledged end-to-end digital transformation programme for the business that will redefine the way we work in the future. We start with what our consumers and customers want and need. All our experiments and innovations are based on key insights acquired by seeking to understand the unmet needs.

**a) Picking up consumer signals with speed:** Our People Data Centre picks up real-time consumer signals and identifies business opportunities that go as inputs to craft brilliant mixes.

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**b) Generating demand:** We are increasingly using consumer and shopper data captured through our digital platforms to drive precision and performance marketing across channels. At HUL, we are working to understand consumption patterns of new media as well as 'on-shelf' impact. We work with a sophisticated suite of precision marketing capabilities, driving sharper communication and call to action. Through data-driven marketing, we endeavour to reach our consumers at the right time and in the right space. For instance, our consumers based on their preferences, would now see different advertisements for the same product online that would highlight the very specific product benefit they are looking for. On the other hand, our digital Content Hubs like 'BeBeautiful' and 'Cleanipedia' work as a source of addressing consumer issues and passion points.

**c) Demand capture:** A significant aspect of modern-day consumption is understanding random demand variation. Machine learning helps us monitor demand in real-time and respond quickly to market changes with high levels of accuracy. At HUL, we are continuously working towards strengthening our machine-learning models. Through our connected store programme, we are creating a fully integrated customer and shopper experience. We have created a platform that augments general trade through technology and helps in generating, as well as capturing, shopper demand. On the other hand, we are leveraging technology to create an easy order and payment interface for the trade. Together, these initiatives are creating a frictionless experience for our customers and shoppers.

**d) Demand fulfillment:** We are enhancing customer experience by significantly reducing service lead time through integrated Sales and Operation Planning, creating a customer-focused factory network and agile and faster customer servicing logistics and distribution network. Our Internet of Things (IoT) powered digital factories are helping us leverage installed capacities. Automated warehouses, robotics and guided vehicles are helping with stock accuracy, reducing

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truck loading time and raising the level of customer service. For example, we have successfully piloted a fully automated 'dark fulfillment centre' – a robotic-enabled distribution centre that also contributes significantly to energy savings.

## CONCLUSION:

The world around us is transforming at lightning speed. HUL is adapting to these changes to remain future-fit. This is being enabled by:

- **Brands with purpose:** Our brands based on cutting-edge innovations, are combining superior functional benefits with a strong sustainable living purpose.
- **Consumers and customers at the heart of the business:** We remain acutely conscious of our true north and all the changes we are making are to serve our consumers and customers even better.
- **Silos to seamless processes:** We are breaking down the functional barriers and increasingly working as a seamless interface to deliver superior consumer and customer experience.
- **Data at centerstage:** Data is joining our brands and people to become a critical enterprise asset that provides competitive edge.
- **Augmenting humans with machine:** We are developing capabilities on harnessing AI to augment human cognition.

There has never been a time like today, when we could scribe our future. At HUL, we are reimagining ourselves from the lens of portfolio, organisation, capabilities and culture. We are clear that we do not want to simply follow, we will lead the change. Destiny beckons India and Hindustan Unilever!

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