
# Winning in Turbulent Times

Harish Manwani - 2009

Hindustan Unilever Limited

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was the subject of the speech,
delivered by Mr. Harish Manwani,
Chairman, Hindustan Unilever Limited,
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## An unprecedented global crisis

March 16, 2008: Bear Stearns is acquired for 2 dollars a share against its 52-week high of 134 dollars a share. July 14, 2008: Oil hits 145 dollars a barrel and then collapses to 34 dollars within six months. September 15, 2008: Collapse of Lehman Brothers. November 20, 2008: Dow Jones at a record low of 7449 points. June 1, 2009: General Motors files for bankruptcy. We are living in a time that has seen unprecedented volatility. From boom to bust in a matter of months.

It was barely two years ago that the global economy was on a bull run that looked like it would never end. Asset prices were on a continuous upswing. In October 2007, the Dow Jones braced the 14000-mark. Everyone wanted to join the party.

But distant winds have a way of moving in faster than we imagine. Less than a year later, the collapse of several leading financial institutions has caused a global chain effect that has shaken governments, investors and the common public alike.

The profound impact of this has since been felt deeply in the real economy. The total expected write-downs on global exposures are now estimated at about $4 trillion. World output is projected to decline by 1.3% in 2009. The International Monetary Fund (IMF) estimates the decline to be as sharp as 6.2% in Japan, 5.6% in Germany, 4.1% in UK and 2.8% in the US. The social cost of the downturn in many of these economies around the world has been particularly devastating. The rising numbers of those who have lost their jobs, homes and pension savings is leading to public anger. Questions are being asked about leadership, hubris and regulation.

While we have seen the markets stabilise in the second quarter of 2009 after concerted and coordinated intervention by various governments, the green shoots of global recovery have still to look convincing and consumer confidence is a far cry from the levels seen before the downturn.

## The India impact

While the crisis began with the US housing market, the ferocity and speed with which it has spread around the world and even into India has surprised everyone. This has effectively debunked the myth that economies like ours are delinked from the developed economies. The belief that we would continue to grow at the same rates irrespective of what happens elsewhere in the world seems misplaced in hindsight.

As the Governor of the Reserve Bank of India, Dr. D Subbarao, pointed out in a recent speech: “Contrary to the 'decoupling hypothesis,' emerging economies too have been hit by the crisis . . . In a rapidly globalizing world, the 'decoupling hypothesis' was never totally persuasive.”

While this crisis underscores the interdependence of the global economy it is equally true that the impact of the global crisis in India has not been as severe as it has been in the developed world. The fact is that our economy is more regulated and increasingly well managed. In addition, domestic consumption continues to be a critical driver of growth in India. The numbers support the optimism: India's GDP is expected to grow between 6.5% and 7% this year. This is certainly slower than the close to 9% growth we have seen over the preceding five years. However, it is still good growth particularly at a time when many other economies in the West are actually shrinking.



## Crisis as an opportunity

Albert Einstein once famously remarked, “In the middle of every difficulty lies opportunity.” He also said, “The definition of insanity is doing the same thing over and over again and expecting different results.”

Over the last hundred years or so that Unilever has been in existence, we have seen and lived through numerous crises. We have leveraged these crises into opportunities and emerged stronger each time. Of the many examples across continents, one such example, closer to home, is Indonesia.

In 1998, Indonesia experienced an economic meltdown. The Indonesian Rupiah plunged from Rp 2,342 for a dollar to an exchange rate of Rp 15,540 for a dollar within a matter of months – a devaluation of over 675%. Many businesses in Indonesia, global and local, simply collapsed. We adopted a clear and simple approach: maintain or increase market shares, manage cash margin by driving down costs, raising engagement with employees and customers to an even higher level.

It sounds simple enough today but to be able to execute this strategy we had to develop an even sharper understanding of rapidly changing consumer needs and to respond to these changes quickly. We launched new affordable brands and propositions like the Sunlight economy bar, Sunlight washing powder and Sunlight toilet soap. We introduced new formats of existing brands like Pepsodent toothpaste and Blueband margarine in sachets. With these introductions, we increased the relevance of our portfolio to consumers. We knew that while one can expect downtrading in periods of sudden crisis, consumers punish brands severely for low quality and poor performance that disappoints. Quality was never compromised.

Cash generation and cost savings were key. This was achieved by single-mindedly reducing complexity in our operations. As happens in a crisis, new truths are revealed. We realised for instance that a little under 10% of SKUs in our portfolio accounted for two-thirds of profit! We moved decisively to do away with SKUs that were not relevant in the context of the times – the number of SKUs dropped by more than 50% freeing up much needed cash. We put in place a plan to move out obsolete inventories sitting in distributors' warehouses and holding up their cash. By doing so, the amount of trade capital available to fund purchases of our products increased.

We remained committed to employee development by investing in training and entry level recruitment – a clear sign of our confidence that no crisis lasts forever and that things would pick up again.

Finally, it is in tough times that relationships, which have been built over years, are of great benefit. Even as banks rationed foreign exchange and suppliers rationed supplies due to shortages, many stood by us.

Today, Unilever Indonesia is considered one of our most successful operations enjoying strong market leadership and unmatched



corporate reputation, an eloquent testimony to how a period of crisis can be turned into great opportunity. Only recently, Unilever has again been recognised as the most admired company in Indonesia by *The Wall Street Journal* in the Asia 200 Survey.

This crisis is no different because it presents us with tremendous opportunities. The opportunity to still remain focused on a growth agenda while significantly transforming our cost structures. It is this paradox in strategy that I now refer to as 'business as usual on growth, business unusual on costs.'

## Business as usual on growth

Growth is the oxygen that every business needs. We are determined to use this crisis to continue to be singularly focused on growth. India is a very diverse country with millions of consumers at every level of the socio-economic pyramid. While needs are different in each segment, every consumer has the same hopes, the same aspirations and the same dreams for a better life. This is what inspires us to serve the needs of all our consumers in a manner that is most relevant to them – what we describe as our strategy of 'straddling the pyramid.' As a result, we have a portfolio of powerful brands, packs and product formats at varying price points that make our offerings affordable and accessible to 700 million Indian consumers.

In a rapidly developing country like India, economic uncertainty often results in simultaneous movements of consumers to uptrade and increase consumption, even as others cut back consumption or indeed downtrade.

For example, in many parts of rural India, we find consumption increasing due to growing incomes led by rising food prices and interventions like the National Rural Employment Guarantee Scheme (NREGS). Simultaneously, we are seeing some signs of downtrading in fixed-income homes given the more direct impact that such consumers have experienced due to the downturn.

Straddling the pyramid at a time like this gives us the ability to capture the uptrading opportunity while simultaneously insuring us against the inevitable downtrading that also occurs.

To give an example, in the Laundry segment we have Wheel, the largest detergent brand in India catering to the bottom of the pyramid. Likewise, we have Rin for the mid-market aspirers and Surf Excel for the more affluent households. At any given time there are some consumers moving up the ladder and other consumers who downtrade. Either way, we have brands that offer excellent value at every price point.

In many of our categories such as Hair, Cleansing, Oral Care and Tea we leverage the power of currency price points and small unit packs to play the pyramid. This allows millions of consumers to buy into the same benefits, aspirations and hopes that our brands offer in a manner that is affordable to them. All of these examples point to our ability and determination to straddle the pyramid. This becomes crucial given the economic uncertainty and allows us to retain and strengthen our competitiveness through the power of our portfolio.

Consumer understanding has always been and will continue to be at the heart of our business. At a time like this, it is crucial to <u>understand and respond to changing consumer and shopping behaviour</u>.

There are huge differences in the way consumers are responding to uncertainty across segments and geographies. In larger cities, we are seeing consumers shopping less often. These consumers are stretching the consumption of brands just that little bit more to cope with inflation and uncertainty. While small packs and currency price points are important in such a situation, there are others who are indeed buying very large packs given the intrinsic value that they offer. Equally, in some developed markets, there is rising demand for high-end food products as consumers eat out less but compensate for that by eating better at home. It is this understanding across markets that helps build competitive advantage. Even in India, as consumers become more careful about discretionary purchases, innovations like the Lakmé Lip Duo, Pond's Age Miracle and Kwality Wall's Cornetto ice cream meet the needs for those little indulgences and small joys of life.

Delivery of stronger functionality and value has always been important. Leveraging science and technology, however, to deliver even better value and create stronger differentiation becomes absolutely vital at a time of uncertainty. We are therefore seeing explosive growths in brands like Dove where technology differentiation has allowed us to offer a bathing experience like no other in the market. We have pioneered the use of innovative diagnostic devices to powerfully and simply demonstrate to consumers the benefits offered by our brands such as Fair & Lovely and Rin. We have leveraged the power of our deep consumer understanding to develop a patented shape for the new Lifebuoy soap that signals better value, reduces mush and at the same time is aesthetically stunning. Similarly, Bru delivers a far more delightful consumer experience through packaging that retains the aroma of coffee for a longer time.

We have seen that in difficult times consumers tend to go back to trusted brands. Brands must therefore renew their contract with consumers to understand them better and offer solutions that are accessible, affordable and available while continually seeking to deliver superior value through the leverage of science and technology.

## Business unusual on costs

While growth must continue to be the focus, it is equally important to recognise the volatility of these turbulent times. A responsible business must ensure that while it continues to invest in growth, it is simultaneously reshaping the cost structure for the worst-case scenario, that is 'business unusual on costs.' This implies a fundamental re-engineering of many processes to make the company nimbler and fitter to compete in difficult times.

Recognising this reality, in Hindustan Unilever Limited (HUL) we have rolled out the new Go-To-Market model. This model reduces complexity at the front end by directly integrating the distributors supply chain with ours – so that we are managing for efficiencies across one extended supply chain. This means larger sized distributors, superior talent in the field making the sale to our customers, more efficient order fulfillment and consequently considerable reduction in cost.

Leveraging the power of information technology is helping us create



better connectivity between the customer and the back-end thereby making the supply chain far more efficient. Simultaneously, this is allowing us to produce a win-win partnership with customers and reducing working capital at a time when liquidity is at a premium.

A very important part of driving efficiencies in turbulent times is our proclamation of a 'War on Waste.' We have cross functional teams identifying and putting in place actions to eliminate waste from the business. Through simplification and harmonisation of our product specifications, we are bringing to bear significant efficiencies. Our understanding of surfactants in the Laundry category for instance allows us to take advantage of cost variations by seamlessly changing product formulations without any difference to the end-use experience. By eliminating and rationalising tail-end SKUs we expect to bring in substantial simplification and therefore cost savings.

Another example of the 'War on Waste' is Return on Marketing Investment (ROMI). Our founder Lord Leverhulme is known to have once famously remarked, “I know half my advertising is wasted. I just don't know which half.” In an uncertain environment it is critical to determine with a high degree of science which 50% really works. As a result, we have identified media elasticity of every brand and continue to drive for superior ROMI. In addition, we have developed advanced marketing mix modelling techniques that allow us to assess all the marketing levers to drive for growth and superior yields from marketing investment.

Given the tremendous volatility that we have experienced in the sharp rise of input costs followed by the collapse of these costs within just a few months, it has become extremely critical to plan for and manage the business more dynamically. This calls for much shorter planning horizons. As a business we need to ensure that the decisions we take get to consumers hands within a matter of weeks. As a consequence, we have now done away with the earlier system of annual plans and moved to a continuous 12-monthly planning cycle. This enables us to manage the business far more dynamically than in the past.

Finally, conserving cash is crucial at a time like this. There is a relentless drive to reduce working capital and capital expenditure. At the same time, there is no cut back on innovation and growth yielding expenditure. In doing so, we are raising the hurdle rates for every element of expenditure in order to improve return on capital.

## Leadership matters

At a time of crisis more than any other it is ultimately leadership that matters.

Today, the role of leadership in business has come under ever more scrutiny. The combination of lack of regulatory oversight, poor judgment but above all hubris is what has been at the core of this crisis. In the end, winning over the long haul demands a deep seated belief in principles and values that are non-negotiable. That is the moral underpinning of a successful enterprise. As Peter Drucker said several decades ago, "For it is character through which leadership is exercised, it is character that sets the example and is imitated in turn … what will be decisive above all, in the future even more than in the past, is neither education nor skill; it is integrity of character."

The lessons from the global crisis are simple and must not be lost. Businesses must be fair, must be honest, must be transparent and



above all must be responsible. Those that walk a different path will attract questions on their very relevance and role in society. Replacing long-term principles with short-term profits cannot be good business – not even in the short term.

At HUL, we have always sought to serve the larger interests of society in the course of doing business. Doing well by doing good has defined the conduct of HUL over the 75 years of its existence. Our conduct and standing over the years is the best proof of the philosophy that businesses can grow and thrive only when they work in consonance with the needs of society.

## Conclusion

We have had no control over the economic storm that has taken its toll across continents. Some fallout of such a huge event is inevitable but we know and recognise that this is an opportunity for us to step up our game to further drive our business for competitiveness.

Equally, it is crucial to recognise that crisis and opportunity are two sides of the same coin. This inspires us to push for business as usual on growth – straddling the pyramid, delivering superior value and functionality while pushing the boundaries of our understanding and responding to consumer and shopper behaviour. Simultaneously, this is an opportunity to drive for business unusual on costs – re-engineering core processes, declaring a war on waste, dynamic performance management and cash conservation.

In the end, however, the difference between winning and losing in the long run is leadership and integrity. After all, it is not just what you do or what you achieve but how you do it and how you achieve that will ultimately stand the test of time.

The plaque that stands at the gate of Lever House, our corporate headquarters in Mumbai, always reminds us of a simple and profound truth professed by our founder William Hesketh Lever: “I believe that nothing can be greater than a business, however small it may be, that is governed by conscience; and that nothing can be meaner or more petty than a business, however large, governed without honesty and without brotherhood.”

The lessons we draw from the economic turmoil reinforce our beliefs, and indeed make us better placed to win at a time when citizens would increasingly prefer businesses, products and brands they can trust. We continue to passionately believe that our approach of doing well by doing good places us in a privileged position of winning the hearts and minds of our consumers and communities. Equally, this is the reason why our 15000 employees are energised to give their best to the company during good times and difficult times.

In the words of Mahatma Gandhi, “The future depends on what we do in the present.” It is precisely with this inspiration and spirit that we seek to win in these turbulent times.



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