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Cracking the code

SANJIV MEHTA
Chairman and Managing Director, HUL

PHOTOS: KAMLESH PEDNEKAR

Despite a challenging market environment, HUL has delivered on key financial parameters. What makes it tick?

VIVEAT SUSAN PINTO

The air is palpable at the Mumbai office of the country's largest consumer goods company, Hindustan Unilever (HUL). Visitors wait patiently in the reception area for their appointments. Employees stride purposefully up and down, some on the phone, some speaking to clients who've come visiting. There is no time to waste as the bellwether fights competitive intensity across the board — from digital-only brands, retailers who are also manufacturing consumer goods and traditional rivals.

In the last few years, HUL has consistently delivered on key financial parameters. Both return on capital employed (ROCE), which measures how efficiently a company utilises all available capital to generate additional profits, and return on net worth (RONW), which considers profits generated on shareholders' equity, are at sector highs.

For FY18, HUL's ROCE and RONW were 85 per cent and nearly 75 per cent, ahead of peers such as ITC, Nestle, Britannia, Dabur, Marico, Procter & Gamble Hygiene & Health Care, Godrej Consumer and Colgate-Palmolive. While HUL's five-year average sales and net profit growth was in mid-single-digits, at nearly six per cent and nearly seven per cent respectively, between FY13 and FY18, experts say that in a challenging market environment this is still commendable.

India witnessed two droughts, a slowing of spends on the Mahatma Gandhi National Rural Employment Guarantee Scheme, and a fall in commodity prices between FY13 and FY18. The fallout of this was that growing sales and profit wasn't easy for most fast-moving consumer goods (FMCG) companies,

'Our aim is to help consumers trade up'

Hindustan Unilever (HUL), India's largest consumer goods company, believes premiumisation is here to stay despite a large part of the domestic consumer goods market being of a mass nature. In an interview to ***Viveat Susan Pinto*** *and* ***Niraj Bhatt****, CMD* ***Sanjiv Mehta*** *articulates his vision for the company amid a rising tide of challengers. Edited Excerpts:*

What underpins your growth strategy in a market where competitive intensity remains high?

We brought focus on the "core of the core". These are brands in categories that are highly penetrated. Using our "Winning in Many Indias" strategy, we've sought to drive penetration and distribution for our brands. The overall market has been broken down into 14 consumer clusters. We do not have a pan-Indian approach because one size cannot fit all. We've also built engagement platforms for our big brands. This has helped us drive growth.

The second leg of our strategy is market development, which is not only about growing market share, but also building categories of the future. The third leg is premiumisation. About one per cent of the fast-moving consumer goods (FMCG) market is moving from mass and mid-tier to premium every year. At an overall level, about 28 per cent of the FMCG market is premium. Our aim would be to help consumers trade up. The fourth leg is talent and building capabilities. We have notched this up.

What explains the growth in FMCG market at a time when GDP growth is slower like in Q3?

We are always circumspect about how the market will shape up, given the variables at play. Unlike other sectors, FMCG does not grow exponentially during a boom, nor does it tank during a tough phase. It is resilient. What counts for the market is inclusive growth. Do more people have money in their hands? This comes with a stable government, when there is law and order and a sense of hope for the future. This government is at the end of its tenure. We will have to wait and watch.

How is HUL countering new entrants and digital-only brands, many of which are targeted at millennials?

I am of the belief that it is not the big that will beat the small or the small that will beat the big, but the fast that will beat the slow. I also believe that disruptors are often overplayed and that adaptability is underplayed. An incumbent, if agile and resilient, can be a formidable force for anyone. FMCG is not a zero-sum game. There is room to grow for everyone. As a company, we keep a close watch on what is happening in the market. We do not have to be the first to enter a category, we could be second or third, but be better.

What is your outlook on acquisitions, especially in foods?

We are open to mergers and acquisitions, especially bolt-on acquisitions. There aren't many such as GlaxoSmithKline (GSK) Consumer around. That was a once-in-a-lifetime opportunity. We will continue to scout for relevant opportunities in foods and other areas.

What is the plan of action on Horlicks, given the Competition Commission of India (CCI) approval for the merger of GSK Consumer into HUL?

The CCI approval has come, but there is still work to be completed. We also have to plan for integration. My brief to my team is that the combined food and refreshment business should be more than the sum of two parts. This means we are going to harness the skill sets of the people at GSK Consumer and marry them with HUL. Our objective would be to accelerate growth and drive synergies.

Will price-led growth ever come back?

FMCG is a highly competitive market. If you are off even ₹1, you will lose volumes and margins. There is a self-correcting mechanism in the market, which ensures equilibrium. We keep a close watch on strategic price points as well as the price-value equation. India is a price-sensitive market and we have to be conscious of this all the time. HUL's 10-year compound annual growth rate, in top line, has been 10 per cent, 60 per cent of which has been volume growth and 40 per cent price-led. Volume growth has a number of benefits. It helps you get more consumers, if you're driving penetration. If you are driving consumption, existing consumers are using more. Price growth alone is not sustainable.

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including HUL. The company responded to this challenge by simply going back to the basics. As Sanjiv Mehta, chairman and managing director, HUL, said in an interaction with *Business Standard*, "We brought focus on the 'core of the core'. These are brands in categories that are highly penetrated. Using our 'Winning in Many Indias' strategy, we've sought to drive penetration and distribution for our brands."

By 'Winning in Many Indias', Mehta is pointing to a hyperlocal strategy that HUL has in place to address market needs. From a broad regional classification of north, south, east and west, which is a norm in marketing, HUL put in place 14 distinct clusters based on consumer profiles and segments. This approach, Mehta says, has helped the company understand consumer behaviour in different pockets and design products accordingly.

For instance, in Punjab, HUL launched a blend of Taaza, its mass-market tea brand, after executives of the Punjab cluster saw a large base of tea drinkers sipping mostly regional teas.

Similarly, Pepsodent clove oil and salt toothpaste was launched in southern India after insights were derived from clusters across the region for products that had the goodness of local ingredients. In Uttar Pradesh, different price points were created in detergents to shift consumers from local brands to Rin.

Analysts say that 'Winning in Many Indias' has helped HUL fight local brands that are both popular and economical for consumers in those regions.

Apart from this, the company has also focused its attention on building new categories, especially niche segments across its portfolio. This leg is also linked to the broader "premiumisation" agenda that HUL has had for years, which has seen it launch products ahead of the market, such as liquid detergents, handwash, hand sanitisers and conditioners.

Experts say that HUL was among the earliest players to push the habit of conditioning in India, following research which showed that women weren't conditioning their hair enough after shampooing it. HUL launched conditioners across its hair care portfolio and aggressively advertised them to improve adoption.

Mehta says, "About one per cent of the FMCG market is moving from mass and mid-tier to premium every year. At an overall level, about 28 per cent of the FMCG market is premium. Our aim would be to help consumers trade up."

With the FMCG market showing signs of revival over the last few quarters, experts say that HUL is best placed among its peers to capitalise on this momentum. "There are a number of things that HUL is doing besides focusing on its core portfolio," says Sachin Bobade, senior research analyst at brokerage Dolat Capital. "It continues to push distribution aggressively, especially in rural markets. Second, it has been quick to align its portfolio to market realities after the implementation of the goods and services tax. And third, it continues to scout for opportunities, both organic and inorganic, to grow its business."

While the company is in the midst of merging GlaxoSmithKline Consumer with itself after parent Unilever's acquisition of the latter, it is scanning the landscape for good buys, said Mehta. In the last few years, the company has bought Indulekha, an Ayurvedic hair care company, and Aaditya Milk, an ice-cream brand in Karnataka.