



Hindustan Lever

Manvinder Singh Banga, Chairman of Hindustan Lever, Ltd (HLL) the Indian subsidiary of Unilever PLC, reread the cover story of the March 18, 2002 issue of *Business India*, one of India's most widely-read business news publications. He was pleased with the positive coverage that both he and his company had received. HLL continued to be one of the most respected multinationals operating in India.

However, the article also highlighted the company's most daunting challenge. Many of the company's core brands were maturing. While top-line growth had been sustained comfortably in the double digit range through the early and mid 1990s, it had declined to 7%, 5%, and 4% in 1999, 2000, and 2001. As a result, managerial staff at all levels had been encouraged to submit proposals for initiatives that would reinvigorate growth.

Historically, the company's growth strategy had been guided by two primary considerations. First, HLL prioritized opportunities which built upon existing assets and capabilities. For example, after building a supply chain for manufacturing and selling wheat flour, HLL had expanded into value-added wheat flour based products such as bread. Second, they avoided spreading their management talent too thinly.

Given HLL's declining revenue growth, however, Mr. Banga had pushed for more expansive thinking. Entirely new ventures were to be considered. As he reviewed some of the proposals, he was inspired by their potential—there was certainly no shortage of ideas. But he was also concerned about the associated implementation challenges. Did HLL have the necessary skills?

HLL had always had a focus on innovation, and was proud of many of their accomplishments. For example, they had received a great deal of recognition for the giant strides they had made in developing innovative approaches to product development, sales, and marketing that were suitable for India's rural poor. Also, they had launched a new brand in 1995, *Kissan Annapurna*, for staple foods, including iodized salt. Finally, and most recently, they had strengthened their competitive position in salt with a critical breakthrough. Their research labs had discovered an improved way of fortifying salt with iodine, which is added to many salts for health benefits. Through the use of a proprietary method for encapsulating the iodine, it was prevented from boiling away in India's unique cooking environments.

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These successes gave HLL a great deal of confidence. But Mr. Banga wondered if the management practices and principles that had guided these efforts would continue to be valuable as the company stretched further from the core business for growth.

Serving India's Rural Poor

India's population, which exceeded one billion in 1999, was second in the world only to China's. Though the market potential was tremendous, India's population was still poor by global standards, with an average annual income of about \$2,200 at purchasing power parity.¹

Historically, multinationals had not targeted the poor. Their products and services had been designed for developed-world customers, and this resulted in cost structures that priced the poor out of the market. As a result, as multinationals expanded around the globe, they tended to serve only the top of the economic pyramid in the poorer countries in which they operated.

Global expansion was a demanding management challenge that augmented top-line growth to impressive rates for years or even decades for many multinationals. As a result, until the global expansion was completed, there was little pressure (and few resources available) to explore other avenues for growth. Finding innovative ways to serve poorer customers was one possible avenue, one that a handful of multinationals were turning their attention to in the early years of the 21st century.

Well ahead of most multinationals, HLL began to tackle this challenge in the 1980s, focusing particularly on their soaps and detergents.² It was the company's fervent belief that identifying ways to serve the poor was not only the smart thing to do from a business perspective, but the right thing to do from a social perspective. By finding ways to make the quality and reliability of branded products accessible to the poor, HLL offered an improved standard of living. As part of its commitment to this market, HLL included a six to eight week stay in a rural village in its management training. Unilever, HLL's parent, shared the enthusiasm. It believed that by 2010, half of its sales would come from the developing world, up from 32% of its sales in 2000.

Part of HLL's approach to reaching the rural poor involved a dedicated research and development effort. This was a departure from the typical approach to lower-income markets. Many companies assumed that high-tech R&D couldn't possibly fit in the

¹ www.economist.com

² For a more detailed description of Hindustan Lever's initiatives to serve India's rural poor, see Balu, Rekha, "Strategic Innovation: Hindustan Lever Ltd.," *Fast Company*, June 2001, p. 120. The remainder of this section briefly summarizes that article.

budget for low price products, and that developing products for the poor was simply a matter of making existing products cheaper by lowering quality. One payoff from HLL's research-intensive approach was the development of a Breeze 2 in 1, a combined shampoo and soap that was cost effective and less harsh on hair than typical body soaps. HLL also discovered that it was critical to package this product in small quantities, even single use quantities, as poor customers often could not afford a larger quantity on a given day.

HLL also changed their approach to marketing to the rural poor. Because of widely varying levels of literacy and access to television, HLL had to minimize its reliance on traditional media channels and find ways to get its message to consumers in a more personal, more direct way. Their solution involved hiring actors, dancers, and magicians to perform traveling shows which entertained villagers, educated them health and hygiene, and increased their awareness of HLL brands. These events would often generate excitement in villages several days before they arrived. The company also took advantage of festivals that would draw millions of people to the same location, and set up demonstrations. In one such demonstration, potential customers were educated about the dangers of dirt and germs, and shown where on hands germs tended to reside using an ultraviolet light.

Finally, HLL found new ways to sell. Much in the style of Avon and Amway, it encouraged villagers by the dozens to go into business for themselves selling HLL products. While HLL also distributed its products to local stores, this more personal approach augmented the marketing effort to educate customers on the benefits of using HLL products. The initiative required a tremendous training effort, as many of the people anxious to sell HLL products to neighbors were illiterate, and had no relevant work experience.

Expanding the Product Portfolio

HLL's pioneering efforts to develop techniques to bring branded products to India's rural poor gradually had an impact on their entire portfolio of brands. Still, HLL also looked to exploit other growth opportunities. In the early 1990s, their foods category was a minor portion of their overall product portfolio, consisting of only cooking fats and oils. Based on the advice of Unilever, which had experience in a variety of global foods markets, HLL believed they could expand their presence in foods dramatically. The logic was threefold:

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- The market was tremendous—food accounts for 50% of all economic consumption in India.
 - HLL's existing system for selling and distributing throughout rural India could be used to improve the economics for most food products.
 - HLL had proven it possible to create nationwide, mass-market brands despite India's overwhelming ethnic and cultural diversity.

In 1993, through an acquisition, they expanded into processed fruit and vegetable products, such as ketchups, jams, and cold beverages. In addition, in 1994, a research team of four was assigned to investigate a wide variety of additional growth options in the foods category. The team learned that 80% of the food purchased off the shelf in India is raw and unprocessed—basic food grains and other staples were the largest food category, and most of it was produced and sold locally.

Because this was such a large market, the team investigated markets for several staple foods, including wheat, rice, beans, salt, spices, and others. Each had a different set of supply chain, production, and consumer decision-making process issues associated with it. Because salt was a raw material input for many of HLL's other products, there was a great deal of in-house knowledge about the salt market. As a result, research was quick, and salt was chosen almost immediately as one area for expansion. After about one year's additional effort, the team also identified wheat flour as a second attractive market.

Of many criteria, one of the most important was the extent to which consumers would value a brand promise of quality and consistency. Rice was eliminated as an option, for example, because consumers felt confident that they could judge the quality of rice based simply on a physical and visual inspection. By contrast, a brand promise was viewed as critical for wheat, because consumers would spend a great deal of labor preparing bread, knowing that they would not be able to judge the quality of wheat until the cooking was complete. Branding was also viewed as valuable for salt, since consumers could not add iodine, an important health additive, on their own.

Market Entry – Kissan Anapurna Iodized Salt

In developing a new salt product, HLL was hardly creating a new market. In fact, the fascinating history of salt dates back many centuries.³ Salt had been one of the most highly valued and sought after commodities throughout the world. In fact, demand

³ For an eclectic but fascinating history of salt and its role in world history, see Kurlansky, Mark, [Salt: A World History](#), Walker Publishing, 2002. The brief facts given here are but a small selection of the numerous intriguing tidbits that Kurlansky includes in the introduction to the book.

for salt created many of the earliest trade routes. Of thousands of uses, one of its most important is as a preservative, particularly of food, though Egyptians also used salt to preserve mummies. It was so valued that in many cultures was used symbolically to represent stability, perseverance, and immutability. It has been used in Jewish culture to seal love and friendships, and in Islamic culture to seal bargains. In traditional Japanese theater, salt is distributed on the stage to keep evil spirits at bay.

In addition, salt symbolized fertility. In fact, the word *salacious*, which refers to anything that is appealing to sexual desire, has the Latin root *salax* – literally, in a salted state. Celibate Egyptian priests abstained from salt because they believed it excited sexual desire. And, in absence of Viagra, it was apparently believed in 12th century France that virility could be enhanced by rubbing salt all over a male body.

Clearly this colorful history presented any number of opportunities to the creative marketing team at HLL. However, extensive research, including hundreds of hours of listening to customers and testing concepts like freshness, purity, quality, and convenience, clearly demonstrated that purity was the most important attribute. Early communications positioned the product as better than unbranded choices which contained impurities, and even appeared dirty or discolored. Because none of HLL's existing brands were believed to be transferable to salt, the decision was made to create a new brand, *Kissan Annapurna*.

At the time of entry in 1995, only ten percent of the 6.5 million tons of salt that were consumed annually in India were branded and refined. HLL decided that it made more sense to try to expand the market by upgrading consumers to a higher quality product than to compete head to head for existing purchasers of branded, refined salt.

Even in the more developed, urban areas in India, most customers consumed unbranded salt. Although 75% of India's population was rural, HLL decided to focus their efforts on the urban markets first, to prove the viability of the new product.

Production and Distribution Strategy

Production capacity for salt was well above demand in India. To avoid adding further capacity, and also because HLL felt its strongest competencies were in R&D and marketing, HLL immediately sought manufacturing partners. The primary screening criteria were the quality of the manufacturing processes and the integrity of the business managers. Once partnerships were in place, HLL took a very active role in managing production, transferring their technology, and upgrading quality and cleanliness standards at each plant. Over time, they were able to improve utilization rates for their manufacturers, and that reduced costs.

HLL also wanted to minimize financial risk. By partnering for manufacturing capacity and sharing distribution assets with other HLL products, the investment in fixed assets for the new product was near zero.

Despite the approach to production and distribution, cost competitiveness remained an issue for HLL because the competition in each market was local. HLL faced high transportation costs, especially in the northern and eastern regions of the country, which were furthest from the most cost efficient locations for salt production. Local, unbranded producers faced much lower transportation costs, and no refining or packaging costs. Because of this, *Kissan Annapurna* salts were priced at 6 Rupees (about US\$0.03) per kilo, twice the cost of a typical unbranded salt.

While initial response in urban markets showed that it was possible to upgrade consumers to branded salts, cost reduction remained a priority. HLL found ways to reduce costs by taking a different approach to distribution management than was practiced for other HLL products. Because shelf life, price to weight ratio, and tax status were all different for salt than for other HLL products, it made less sense than was expected to simply “ride” the distribution system for other HLL products. Ultimately, salt distribution relied more heavily on rail transport than other HLL products, had fewer middlemen involved, and sometimes ended with wholesalers rather than retailers.

Marketing Strategy

Fragmentation in Indian media offered HLL the opportunity to test the product incrementally. In the first few cities in which they launched the product, HLL was gratified to discover that they were successfully upgrading consumers from unbranded to branded salts.

However, as the rollout continued, they became concerned that they really hadn't sufficiently differentiated themselves from other branded salts with the purity positioning, and therefore were worried that they wouldn't necessarily retain the new customers they were acquiring. As a result, HLL began exploring ways to position their product more strongly. They shifted their emphasis from purity, a product attribute, to health, a consumer benefit. Essentially, they positioned their product as healthy because there was nothing bad (no impurities) in it.

Later, HLL investigated the possibility of including messages about iodine in their communications. Although all branded salts were iodized, nobody in India had really tried to take advantage of iodization from a marketing perspective.

Iodine is a critical chemical element for regulating bodily functions, particularly in the thyroid. Deficiencies in iodine result in goiter, an unsightly growth on the neck.

More significantly, iodine deficiencies can result in abnormal mental development and inadequate physical growth in children.

Governments had taken different approaches to this public health issue. In some countries, most all salt was iodized. In others that were less susceptible to iodine deficiency and more averse to chemical food additives, it was not. Iodine deficiency disorders had been prevalent in several developing countries, including India, and a few non-profit, non-governmental organizations had become involved in persuading governments to take a more active role in ensuring the population received sufficient iodine.

Salt was viewed as an ideal delivery mechanism for iodine because everyone used it. Water was less ideal because it came from too many isolated sources. After researching the health issues associated with iodine, HLL began a campaign to educate the public on the importance of consuming sufficient iodine. Because HLL concluded that marketing messages that related to goiter, particularly visual messages, would be unattractive, they decided to focus on mental development.

Anil Dua, who had been the senior brand manager since the launch of *Kissan Annapurna*, recalled the excitement of discovering such a powerful but untapped marketing angle:

“Every mother wants her child to be intelligent...brighter than the next door child. Therefore it is in her interest to give iodized salt to her child. That was the big idea. With that idea, we hit a very emotional chord within our target customer. It was a big opportunity because research showed that almost every single district in India is at risk for iodine deficiency disorders. We saw that especially in India there was a huge opportunity and need.”

Their approach was initially met with skepticism by parents. In focus groups, a typical response was: “You must think we’re really dumb if you think we’re going to believe something so gimmicky as my child’s mental development is dependent on consuming the right salt.”

To make their case, HLL sought endorsements from trusted government agencies. Ultimately they had to pay the government for an endorsement. The government, in turn, used the funds to support research programs. As a direct result of the endorsement, focus group responses to HLL’s messages dramatically improved.

HLL then aggressively implemented their communications plan, heavily emphasizing the health-related aspects of iodine. A typical advertisement might show a child asking a parent an intelligent question—one that the parent didn’t know the answer to. The child would then provide the answer, and the parent would be very proud. HLL also offered Annapurna scholarships, and held contests which encouraged children to submit interesting questions with answers.

Following the techniques that HLL had pioneered with soaps and detergents, “demonstration vans” traveled through rural India putting on shows. For many rural residents, these shows might include a first opportunity in a lifetime to view a moving picture, so excitement in a town would build prior to arrival. School assemblies were addressed, and salt samples and coupons were left with students. Health charts were posted on school walls. This was expensive but generated tremendous word-of-mouth.

As a result of HLL’s success with the health positioning, they initiated a similar strategy with wheat flour, focusing on iron supplements in their marketing. Their strategy was also copied externally. By 1998, all of their competitors were repeating messages about iodine and mental development.

In search of a new source of competitive advantage, HLL researchers discovered a problem. Indians tended to add most salt to their food before it was cooked, as opposed to sprinkling it on top of food. And, Indian spices and cooking techniques created conditions that broke down salt and released iodine as a gas. Much of the iodine within salt was simply boiling away.

As a result, HLL began a multi-year research effort to develop a technique to prevent this from happening. By 2002, HLL had introduced a new and improved salt which included what they called “stable iodine,” and had patented in eighty countries. They had discovered that by encapsulating the iodine in aluminum and magnesium hydride (both of which were found in salt anyway), iodine was retained even in Indian cooking conditions. Critically, HLL was able to prove through nuclear imaging that the encapsulation materials broke down during the digestive process—otherwise the iodine would simply pass through.

Mr. V.K. Mahindru, who headed the research into the encapsulation technique, reflected on the managerial mindset through the project:

“In certain products, we know we have to do fundamental research. If it is interesting enough from a marketing point of view, from a customer point of view, we are prepared to invest resources. For two-and-a-half years we did. Progress was reviewed every three to four weeks. What are we doing? Are we moving forward? Are any problems developing? Is it worth continuing to invest? How will we know when we are successful?”

As with many fundamental research projects, it was difficult to project with any precision how the research would progress.

Armed with the new breakthrough, HLL felt confident they could build on their success in the salt category. By 2002, HLL led with a 17.7% market share, having dislodged the former market share leader, Tata.

Building the Staple Foods Organization

HLL staffed the *Kissan Annapurna* team internally. Anil Dua, the senior brand manager, was charged with developing the brand from the beginning in 1995, after successful stints with two other existing brands. Personnel to be shifted to new product launches were selected for particular qualities which were evaluated routinely as part of the performance review process. Mr. Gunender Kapur, who became Executive Director of Foods for HLL in 1999, described the staffing strategy:

“We have probably the best management group in Asia. That is the strength of our company, and that’s why we staff from within. For new brands, we look at people who have displayed a strong drive in previous assignments, and who are better than others in dealing with uncertainty. You want people with a bias for action, who can think on your feet. In mature businesses, you can lose these qualities.”

It was well understood that working on a new product could accelerate advancement in the company. Senior managers would try to honor opportunities for their talented subordinates to work on new products, but generally it was not in their selfish interest to do so. For this reason, staffing decisions were made by a human resources group that reported directly to corporate. Most management employees at HLL sought out new product assignments, though some preferred building a focused, functional expertise to pursuing a general management career track.

Because working on new products accelerated career paths, HLL did not see the need to provide any incentive compensation based on the performance of new products. The potential for career advancement was enough of a reward.

The organizational structure for *Kissan Annapurna* was modeled after the structure for any other brand. However, because the sales and distribution systems developed differently (urban focus, heavy use of wholesalers, etc) , total staffing levels by function were somewhat different.

However, the management team developed a culture that was distinct from that of the core operation. Sudip Shahapurkar, an operations manager within the division, recalled the early days:

“I felt a real lack of structure when I transferred in 1996. Until then, I had worked in detergents. There, systems were very established. They did have some mavericks and nonconformists, but by and large people understood that the systems were to be followed. They understood their constraints. Here, we were just trying to figure out what it was going to take to get into the business, and how to make it successful. It was a little frightening at first. All of a sudden, boundaries were removed. You decide what to do. You have a complete free hand, so you prove that your ideas are worthwhile by making them work. You

had to network internally on your own to get things done. There were no systems. There was just one small factory.”

Mr. Shahapurkar also viewed the managers that he reported to as more cross functional, and more able to make quick decisions based on rough estimates of the upside and the downside.

Over time, systems developed, and the organization felt more and more like that of the core operation. For example, within the sales force, where the “HLL way” was emphasized. The sales group worked with a company-wide sales strategy group, and looked for lessons learned that would apply throughout the organization.

Management Control of the Staple Foods Organization

HLL had a great deal of experience in launching new brands. As a result, they had were able to make reasonable estimates of the cost of creating a new brand. There was no mathematical formula, but substantial data on other brands. Each year, they identified a limit to the total losses they were willing to take as the new operation ramped up.

This limit was not negotiated directly. Instead, the brand management team would identify specific action steps that they wanted to take to build the brand. The negotiation would center on which of those steps to actually proceed with. Then, if the total budget was out of line with previous brand-building experience, the plan would be reconsidered. Over the life of the brand, the greatest uncertainties were associated with the research into the iodine encapsulation technique.

Each month, the financial results were reviewed at the corporate level, with a detailed variance analysis of plan vs. actual. Changes to action plans were made based on these performance evaluations. A few key performance measures were regularly reviewed, including the fraction of customers that were upgrading from unbranded products (as opposed to switching from a different branded product). This variable was an important input to their financial projections. They also closely monitored percentage gross margin, which they viewed as a direct indication of the value customers placed on a brand.

There really were no dramatic changes in the business plan as the iodized salt business evolved. There were regional hurdles to overcome, but no changes that affected the overall plan.

Future Directions

Mr. Banga felt that restoring HLL to its previous levels of revenue growth required a more aggressive approach. His management team was to meet the following week to



discuss the criteria by which they would select from amongst several growth proposals.



Discussion Questions:

1. What criteria would you use to select from the many growth proposals that have been submitted to the chairman, Mr. Banga?
2. Why do you choose these criteria?
3. Given your decision, what practices and processes should HLL retain? What new practices and processes will have to be developed?