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1st Prize

HINDUSTAN LEVER (A): LEAPING A MILLENNIUM

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HINDUSTAN LEVER (A): LEAPING A MILLENNIUM

CSM Program Manager Aileen Ionescu-Somers and Research Fellow Wolfgang Amann prepared this case under the supervision of Professor Ulrich Steger as a basis for class discussion rather than to illustrate either effective or ineffective handling of a business situation.

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MUMBAI, INDIA: JULY 5, 2005, 13:54. Sharat Dhall, the project manager of "Project Shakti," Hindustan Lever Ltd's (HLL) initiative that had been running for four years, was about to meet with senior colleagues to deliver a progress report on his project. As a sequel to Project Millennium,[1] HLL had brought together a team to help implement this daring new growth blueprint. It consisted of seven new business initiatives that would drive the company's ambition to continue to double its turnover every four years.

Project Shakti was an ambitious plan to stimulate new demand at the lower end of the market by creating a self-sustaining cycle of "business growth through people growth." The team had planned a win-win partnership with rural self-help groups (SHGs) by helping them to access micro-credit, buy HLL products and sell them in their villages. If successful, the initiative would create hundreds of jobs, train new entrepreneurs and extend HLL's distribution reach to even the most inaccessible rural villages in India.

Sharat's predecessors had known that such a promising, if daring, innovation would not be a stroll in the park. Penetrating the informal sector in this way was, first of all, a potentially risky endeavor. Was it, moreover, really the company's role to develop rural areas? At first, the management had been concerned about potential channel conflicts with the existing, successful distribution network. Coordinating with governmental and NGO partners would also be a key success factor, which would bring its own complexities. Training mostly illiterate women in sales and promotion techniques was another major challenge. However, the payback in terms of new markets and wealth creation was potentially enormous.

Sharat wondered if HLL had thoroughly thought through everything that would be required for a successful rollout.

[1] An ambitious plan to create new business growth areas by exploiting business-to-business opportunities along the company's extended supply chain.

Unilever's Background: The Multi-Local Multinational

Unilever, a Fortune 500 transnational company, has a worldwide turnover of €39 billion, operates in 150 countries and has over 223,000 employees. This Anglo-Dutch multinational, a global giant in food, home and personal care products, was formidably placed in 2005. It had a total of 1,600 brands, some of which, for example Knorr, Rexona, Langnese, Dove, Lipton, and Hellmann's, showed substantial brand value. But, in a "path-to-growth" strategy that would concentrate innovation and development on a portfolio of 400 core brands, Unilever was poised to scrap many of the less promising ones.

Unilever and Local Communities

Back in the 19th century, one of the company founders, William Hesketh Lever, built a reputation as a social reformer, promoting a shorter workday, employee savings plans and health benefits for his employees. He laid the foundation stone of the strong corporate responsibility leadership that later became inherent in Unilever's culture. By 2005, Unilever had evolved into what it called a "multi-local multinational." Its management held the view that the company's long-term sustainability depended on looking after consumer needs and improving local communities' quality of life. Being an integral part of local communities and markets gave Unilever invaluable perspectives; it could anticipate market opportunities, develop strategies and levels of investment tailored to particular needs, and anticipate changes in consumer tastes. Unilever produced global brands, but it knew there was no such thing as a global consumer.

Unilever's "Gateway to India"

When Unilever first became engaged in India in the 1930s, the opportunity to conquer unexplored markets was enormous. The company broke ground by establishing the first edible oil, soap and personal product companies in India: The Hindustan Vanaspati Manufacturing Company (edible oil), Lever Brothers India Limited (soaps) and United Traders (personal products) were all founded between 1931 and 1935. The three Unilever companies merged in 1956 to form Hindustan Lever Ltd (HLL).

By the 1990s, HLL was the sole representative of Unilever's business in India. Given its long-standing presence there, it had become a uniquely Indian company and was perceived by Indian people as a local company and not a multinational. The company made painstaking efforts to make its mark on people's hearts and minds by showing that it cared about local communities. Its corporate mission statement noted that "to succeed requires the highest standards of corporate behavior towards our employees, consumers and the societies in which we live" (*refer to **Exhibit 1***). HLL had several ongoing projects that focused on rural development, education, health, community welfare, resource conservation, sustainable development and the national heritage in art and culture.

By 2005, HLL was one of India's largest fast-moving consumer goods companies--with market leadership in home and personal care products--and one of its seven largest exporters. HLL had over 100 manufacturing facilities across the country, as well as several third-party manufacturing arrangements. It was one of the most desired employers for Indian graduates in management and marketing. A job at HLL would endow their careers with a unique starting position and experience.

The HLL Distribution Network

In 2005 India was one of the fastest-growing economies in the world, as its population of more than one billion could clearly drive large sales volumes. It was therefore a key target for Unilever's global strategy for growth. However, of the potential total of 3,800 towns and 627,000 villages, the existing distribution network only reached 300,000 villages. HLL's dilemma was how to extend its network to the remaining villages in inaccessible rural areas.

HLL had a tried and tested distribution network for consumer products in India. It was not only one of the widest and most efficient distribution networks, but also a recognized key strength. The company's products were distributed through a network of about 7,500 redistribution stockists (RS) who sold to shops in urban areas and to villages accessible by vehicle and with a population of more than 2,000 (*refer to **Exhibit 2** for an illustration of HLL's rural distribution model).* Its supply chain was supported by a satellite-based communication system, the first of its kind in the fast-moving consumer goods industry. This sophisticated network with its voice and data communication facilities linked more than 200 locations all over the country, including the head office, branch offices, factories, depots and the key redistribution stockists.

However, penetrating new markets would be a challenge, not only because of their inaccessibility, but also because the consumers needed to be educated in both personal and oral hygiene matters--HLL products would be entirely new to these rural communities' lifestyle.

Operation Streamline

Operation Streamline, one of HLL's growth engine initiatives to penetrate rural markets that could not be reached by vehicle, had already been launched in 1997. With the help of local stockists, distribution was extended to villages with fewer than 2,000 people, thus doubling the rural reach. Through this new conduit, goods were distributed from the HLL agents to redistributors, who then passed them to "Star Sellers" in local communities. In turn, the Star Sellers sold the brands--everything from detergents to personal products--to retail outlets (*refer to **Exhibit 3** for an illustration of the HLL distribution model under Operation Streamline).*

However, HLL wanted to penetrate these local communities even further and work deep within the villages. A profound knowledge of Indian rural communities

would give HLL an unbeatable market advantage. Sharat's predecessors had seen one ingenious solution--to work with the rural SHGs.

Self-Help Groups and Micro-Finance

In the early 1970s, access to credit was a major problem for the poor in India, as well as in many other developing countries. The poor did not have access to capital to purchase land, housing and other assets, and banks were reluctant to lend even very small sums without any tangible security. The only solution for many Indians below the poverty line was to borrow from a moneylender at extortionate rates. The poor were under particular financial pressure to borrow from such moneylenders as inviting the whole village to celebrate births and weddings is a social tradition and expectation.

A solution to counteract the power of the moneylender in rural Indian areas was found with the successful Grameen Bank initiative,[2] launched in Bangladesh in 1976, that had more than proved that commercial banking for the poor without collateral was no pipedream. The initiative proved that it was possible to:

- Encourage banks to extend their facilities to the rural poor
- Eliminate the use of moneylenders in rural communities
- Create self-employment opportunities for the unemployed rural poor
- Create and organize an effective savings system, which people (mainly women) from the poorest households could easily manage themselves.

The Grameen Bank initiative set up, organized and trained homogenous affinity groups of between 12 and 20 women living below the poverty line (families earning less than Rs 750[3] per month) in local communities. Members of these SHGs were encouraged to meet and save regularly and to pool the savings in a group savings account, thereby giving them access to credit based on "group" savings (*refer to **Exhibit 4** for the traditional micro-credit model*) and allowing the group to use the interest gained for "group" projects. Members of the group could take out loans for consumption (a wedding, birth in the family) and production requirements (purchase of animals or grinding mills), as well as to finance micro-enterprises such as cycle rentals/repairs, retail outlets or tea stalls. Peer pressure proved to be an extraordinarily powerful mechanism to ensure that debtors made their repayments.

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[2] Set up by Professor Muhammad Yunus, head of the Rural Economics Program at the University of Chittagong, this action research project examined the possibility of designing a credit delivery system to provide banking services targeted at the rural poor.

[3] Rs 56 = €1

The 95% repayment rates that Grameen experienced were more than the banking community could have dared to hope for, since this had never been achieved in normal commercial operations. In the 1980s, the Indian government started vigorously promoting economy at grass-root level, working with NGOs to create more and more SHGs. By 2000, India had a rich tradition of financial SHGs. Making credit available for micro-enterprises had had surprising results, activating, as it did, the innate entrepreneurial spirit within the country. The creation of sustainable livelihoods was the basis of the micro-credit schemes. In fact, micro-finance--as it was called--became increasingly important as a tool for alleviating poverty in the development process.

A Macro Opportunity Based on a Micro Model

HLL's growth strategy was to ask SHGs to operate as "rural direct-to-home" teams of saleswomen, who would accomplish several tasks by raising awareness and educating people about HLL products as well as selling the products directly within their communities. The idea was for the women to not only act as salespeople, but also as veritable brand promoters, often physically demonstrating products, such as shampoo, by offering hair washes at religious festivals, or at the *haat*, the local village market (*refer to **Exhibit 5** for photos of these events*), or by performing hand washing experiments to compare washing with soap to simply washing with water.

Apart from selling, the women would work on changing people's mindset by, for example, convincing them that a simple wash with water did not guarantee hygiene, or that shampoo could be used as a grooming product for the hair instead of just using soap to clean it. These rural consumers did not have access to television or radio, but by demonstrating and promoting HLL products at the *haat*, the Star Sellers made up for this lack of audiovisual brand advertising.

HLL's challenge was to test whether this organized, potentially major direct sales force available in the local communities could help achieve its business strategy objectives of "meeting the everyday needs of people everywhere" while creating wealth in the community. The existence of a ready-made network of SHGs was a great opportunity.

HLL established a committed project team to help it plan a strategy to achieve this. Kthalli Srinivas--called Srini by his colleagues--was the business manager of the New Ventures Unit (now called "New Adventures" by HLL's staff), and brought many years of sales experience to the team. Pratik Pota was taken on as marketing manager. At the time, both doubted whether engaging untrained groups of women to become micro-entrepreneurs was an attainable objective. They were, nevertheless, convinced that only new and innovative solutions, such as tapping into high-growth markets, would help HLL substantially increase its distribution in India. And although it was true that, per capita, rural consumers in developing markets used smaller quantities of products, a huge rural population also meant a huge market that, even at modest profit levels, was well worth entering.

HLL had the credibility to negotiate with the banks and convince them that the company could provide the local women with a meaningful income-generating activity. The new micro-entrepreneurs would thus be able to access micro-credit and use it to stimulate both demand and consumption at the local level. This could be a win-win situation that could modify the traditional micro-credit model, but without making the model overly complex (*refer back to **Exhibit 4** for the modified micro-credit model under HLL*). As Pratik observed:

> We feel as if we are "writing the book" on micro-entrepreneurship. This is a groundbreaking initiative. The problems are many, but the ultimate pay-offs in terms of wealth creation within India and new markets for Unilever could be enormous.

Because their products could clearly offer health benefits, HLL established partnerships with UNESCO and NGOs, working with small theater groups to stage dramas that helped to build the local rural people's health awareness.

HLL had recognized that lending the local population a helping hand rather than giving handouts, would meet its own business strategy and provide opportunities for new distribution channels for its products, as well as contribute to a more stable and prosperous society. HLL felt that if micro-credit were available to local people, it would be possible to build and develop established SHG networks to become direct-to-home HLL distributors in rural markets. This would help create desperately needed new jobs and lead to an improvement in the living standard and prosperity in India. This new direct sales model nevertheless signified a major change from HLL's traditional model of formal sector distribution channels and professional sales representatives--and carried with it an inevitable element of risk.

"Project Shakti": HLL's Rural Initiative

A pilot initiative was set up in the Nalgonda district of Andhra Pradesh in November 2000, with 50 SHGs in 50 villages and between 1,000 and 2,000 inhabitants participating. The kick-off meeting on November 28, 2000 was initially sparsely attended, but as the morning progressed, women who had traveled long distances began to arrive. A discussion involving 150 women, all members of SHGs who ran micro-credit operations, ensued.

The initiative was facilitated by the DRDA in Nalgonda--a body under the authority of the Andhra Pradesh government with a mandate to promote and develop SHGs. As P. Shylinapo, representative of the DRDA at that time remarked:

> The women were looking for ways of capitalizing on their savings. The idea of buying HLL products at cost and making a profit on sales was exciting to them. They also realized that the direct sales training provided would serve them well.

Together with an organization called MART (Marketing and Research Team), a consulting agency specializing in rural marketing and micro-business promotion in rural areas, the DRDA worked towards promoting micro-enterprises in the

district of Nalgonda. MART was responsible for coordinating the HLL-SHG business partnership and would also provide formal training in micro-entrepreneurship to the direct-to-home sellers. Once fine-tuned, the model would be scaled upward to cover more than 150,000 villages in India. This HLL-SHG business partnership initiative was called Project Shakti, meaning “strength” or “power” (*refer to **Exhibit 6** for the project logo*).

Making It with MACTs

As part of the Shakti Project, HLL also worked with Mutually Aided Cooperative and Thrift Societies (MACTs) in the Nalgonda District. The MACTs were federations of 20 SHGs with up to 400 members that elected a representative committee to facilitate decision-making (*refer to **Exhibit 7** for the Shakti structure of operations*). The MACTs often acted as financing agents for SHGs and, given their membership volume, were in a position to offer a higher loan. They also made decisions on investments to benefit the community, for example, investing in a school or setting up a supermarket. These MACTs were fostered by the same NGOs that had earlier been conduits for finance and advisory services to SHGs. The NGOs later handed over supervision of the MACTs to the SHGs themselves, which could clearly better identify with the basic issues and problems facing their members.

In a bid to encourage fledgling entrepreneurs, the Indian government offered successful MACTs incentives, sometimes donating infrastructure, such as buildings, to facilitate further development. The MACTs in Nalgonda opened 14 supermarkets (called “bazaars”) across the district in order to further encourage entrepreneurship amongst the members. HLL even envisaged the MACTs becoming distribution stockists for the SHGs. This would keep the distribution costs low and allow HLL to create a commercial system parallel with the Star Seller system. Srini commented:

> The question was: why would people buy from an SHG instead of a retailer? What incentives would there be? We soon realized that shopping for the best deal would still be more important to the village people than their resolve to promote their SHG in the joint struggle against moneylenders. We thus needed to keep costs down so that there would be a cost incentive, or offer other value-added services.

The challenge of maintaining a different price for rural consumers purchasing from the SHG sales representative was more important for HLL than the scalability of this model. However, HLL also knew that having a system of two channels of the same company competing on price would, unless carefully managed, have its problems. Undermining local retailers would not be a solution, as this would be a real threat to the initiative’s success.

The First Reality Check

By the beginning of 2002, the project team had already reached the entire Nalgonda District and more than 400 villages with no sign of this momentum slowing down. This project had the potential of giving the company a lasting superior understanding of rural consumers, which would ensure that the sales and marketing team had a favorable position in future. With the Shakti initiative within Project Millennium, HLL was profiling itself as a sustainability leader. Shakti had also attracted the media's attention, therefore the risk to the company's credibility if the project should fail was high indeed.

Looking back on all the innovations, related troubles and problems of which HLL was now aware, Sharat asked himself whether HLL should have entered the informal sector in the first place. There were substantive opportunities as well as risks for the various stakeholders involved. What were the true drivers of success that could be transferred to other initiatives? What could HLL have done to lower the risk of a channel conflict, and could one have foreseen that it would develop the way it had? Looking back, Sharat wondered if HLL had done all it could to ensure success.

Exhibit 1
Unilever's Corporate Purpose Statement When Launching Shakti

At the heart of the corporate purpose, which guides us in our approach to doing business, is the drive to serve consumers in a unique and effective way. This purpose has been communicated to all employees worldwide.

Our purpose in Unilever is to meet the everyday needs of people everywhere – to anticipate the aspirations of our consumers and customers and to respond creatively and competitively with branded products and services which raise the quality of life.

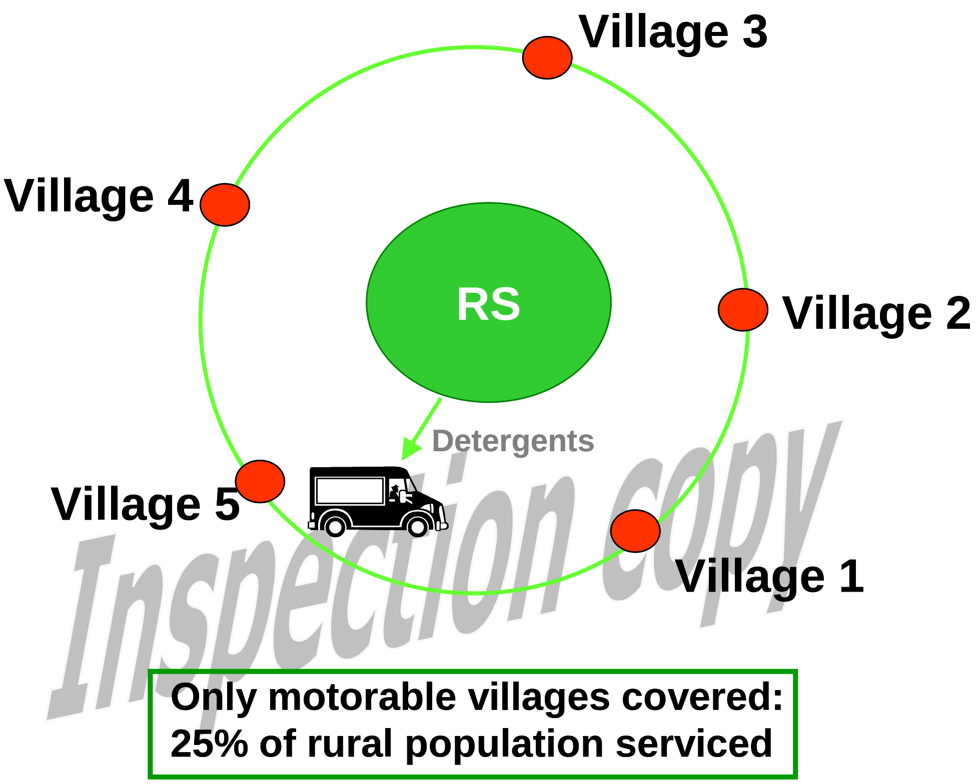
Our deep roots in local cultures and markets around the world are our unparalleled inheritance and the foundation for our future growth. We will bring our wealth of knowledge and international expertise to the service of local consumers – a truly multi-local, multinational.

Our long-term success requires a total commitment to exceptional standards of performance and productivity, to working together effectively and to a willingness to embrace new ideas and learn continuously.

We believe that to succeed requires the highest standards of corporate behaviour towards our employees, consumers and the societies and world in which we live. This is Unilever's road to sustainable, profitable growth for our business and long-term value creation for our shareholders and employees.

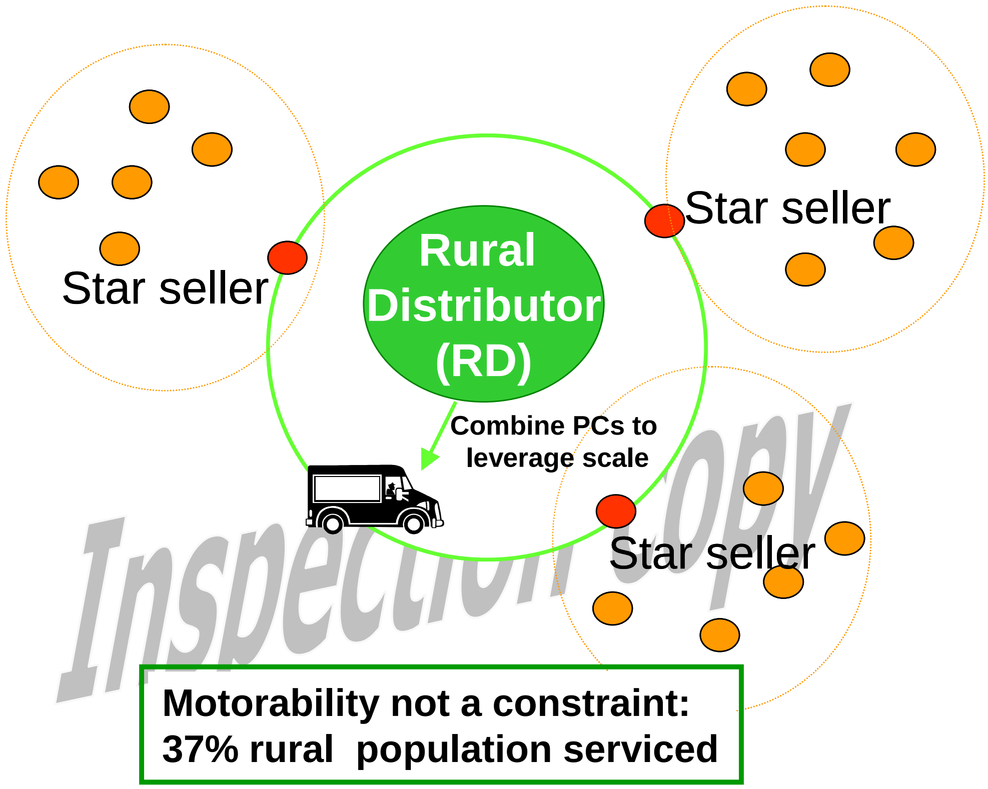
Source: Company information

Exhibit 2
Rural Distribution Model – Indirect Coverage



Source: Company information

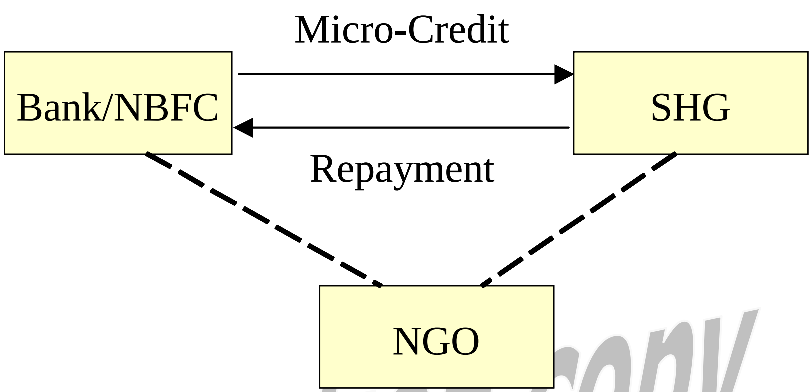
Exhibit 3
Rural Distribution Model - Streamline



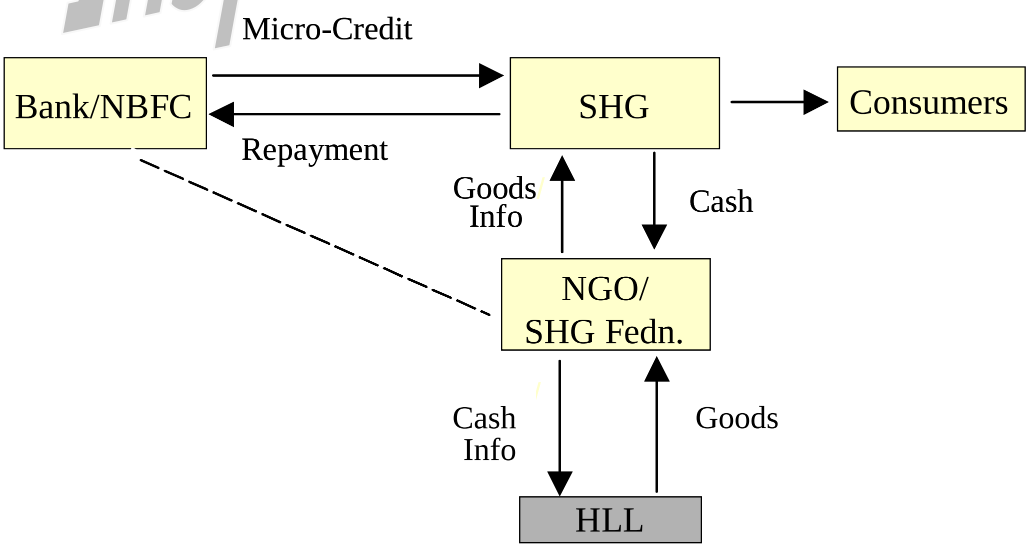
Source: Company information

Exhibit 4
Traditional and Modified Micro-Credit Models

The Traditional Micro-Credit Model



Using the Channel to Expand Market:
The Modified Micro-Credit Model



Source: Company information

Exhibit 5
Places Where HLL Reaches Out to Rural Consumers

The *Haat* or Market

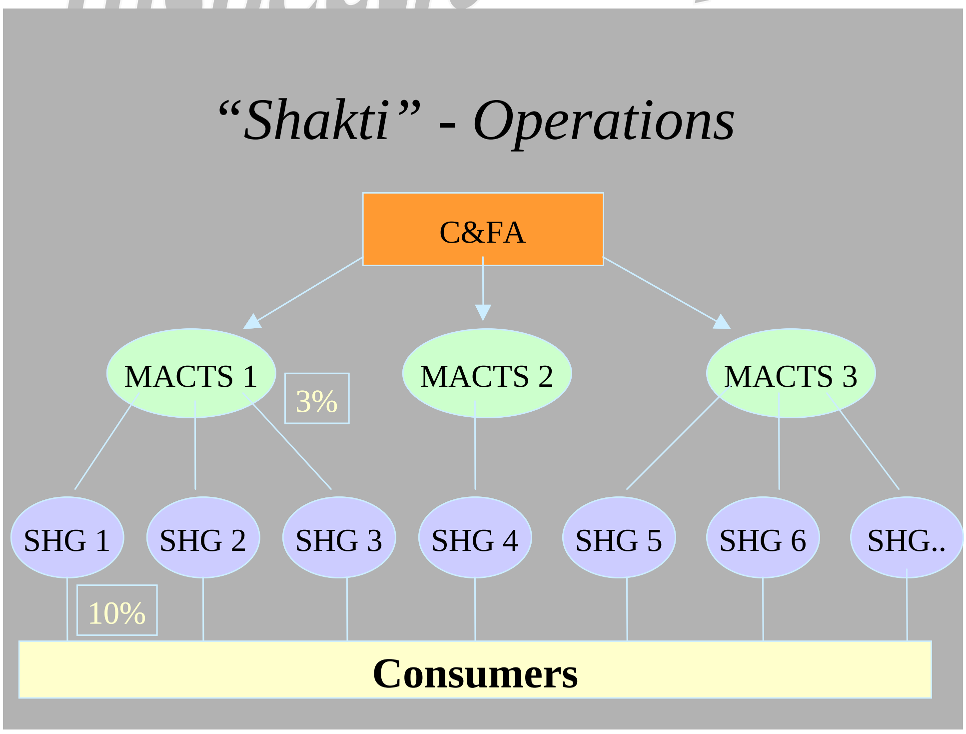
Religious Festival

Source: Company information (in conjunction with Ogilvy and Mather)

Exhibit 6
Project Shakti Logo

Source: Company information

Exhibit 7
Shakti Operating Structure



Source: Company information