The CEO Factory

Praise for the Book

'*The CEO Factory* is a step-by-step guide to building a great consumer-driven organization. In particular, the sections on creating an organization of "entrepreneur professionals" and using marketing to deeply understand consumers and build a brand resonated deeply with me.'

Binny Bansal, Founder, Flipkart

'HUL to an outsider is full of contradictions – promotions for instance are given only after completing a certain number of years of service and yet professionals are entrepreneurial. Its organizational values endure in the face of erratic economic cycles. This book provides rare insights into the ingredients at HUL that sculpted the few hundred CEOs that came out of it.'

Errol D'Souza, Director, Indian Institute of Management Ahmedabad

'A great insight into how and why HUL is such a fantastic developer of talent – not only for India, but for the whole of Unilever.'

Alan Jope, CEO, Unilever

'HUL has consistently produced world-class talent who have gone on to lead a number of companies in India and abroad. At Airtel, we have warmly embraced senior talent from HUL and a very large number of leadership positions in the Airtel Management Board and in the operating units come from the

HUL stock. Gopal Vittal, MD & CEO of Bharti Airtel Ltd, is one of the galaxy of leaders having cut their teeth and been nurtured at HUL.'

Sunil Bharti Mittal, Founder and Chairman, Bharti Enterprises

'There are very few businesses in India that are run successfully for a long period with integrity and rigour. Hindustan Unilever is one of them. *The CEO Factory* helps you understand how you can win and be honest. Or perhaps win because you are honest.'

N.R. Narayana Murthy, Founder, Infosys

'An MBA in a book . . . This book is as much from Sudhir's heart as it is from his head. Drawing on his rich experience during his career, he shares the blueprint on how HUL builds brands and businesses by adhering to principles and by a constant understanding of the changing needs of the consumer.'

Piyush Pandey, Chairman, Ogilvy India, and Chief Creative Officer, O&M Global

The CEO Factory

Management Lessons from Hindustan Unilever

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juggernaut

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C-I-128, First Floor, Sangam Vihar, Near Holi Chowk,
New Delhi 110080, India

First published in hardback by Juggernaut Books 2019
Published in paperback 2020

10 9 8 7 6 5 4 3 2 1

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P-ISBN: 9789353451141
E-ISBN: 9789353450854

Typeset in Adobe Caslon Pro by R. Ajith Kumar, Noida

Printed at Thomson Press India Ltd

To my grandfather V. Ramanathan
who insisted on taking charge of my education when he saw
my father insist on almost nothing
and
To my father, S. Ganesh
The only thing he ever insisted on was that I join
Hindustan Unilever

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Preface

The Hindustan Unilever Story

Few Indians have heard of Hindustan Unilever Limited (HUL). But they are intimate with the brands it sells. To name a few: Lifebuoy, Dove, Clinic Plus, Ponds, Lakmé, Closeup, Surf Excel, Vim, Brooke Bond, Bru, Kwality Wall's, Kissan and, as of 2020, Horlicks. Nine out of ten Indian households use an HUL product every month. Forget Google and Facebook, more Indians use HUL products than those who own a television, those who vote or even those who have running water or electricity. Even if you don't know much about Hindustan Unilever, you have grown up with it and you are touching it every single day of your life. Just like your parents, grandparents and their grandparents.

While researching for this book, I came across a faded copy of the first annual report of the newly incorporated

Hindustan Lever in 1958. The company was already among the largest in the country and made a profit after tax (PAT) of Rs 1 crore.* In 2019 the company made a profit of Rs 6080 crore – a compound annual growth of 15 per cent. In the same period that HUL grew its profits 6000 times, the Indian economy grew 1400 times. It is hard to find another large company that has delivered 15 per cent earnings growth over sixty years anywhere in the world. It is nearly impossible to find one that has stayed in the top five of a large country for over sixty years.

It is not just the long-term performance of HUL that is stellar. Its current return on capital employed (ROCE) of 92 per cent is by far the highest in the country. In just the last decade it has given shareholders an annual return of 23 per cent with its stock price up seven times.

This has made HUL an iconic company on Dalal Street. If analysts were to rate Indian companies over a century on financial and non-financial impact, HUL would feature on the top three of all and number one of most lists. HUL's market cap has now crossed $60 billion, making it one of the most valuable fast moving consumer goods (FMCG) companies in the world, ahead of the global valuations of Colgate Palmolive, Kraft Heinz, Mondelēz and Reckitt Benckiser.

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* 1 crore = 10 million; Rs 70 = US $1 (approximately)

Apart from being omnipresent in our lives and being at the top of the business game for a very long time, HUL is an enormously influential company. For the last decade HUL has been ranked by AC Nielsen as the Dream Employer of Choice in the top twenty business schools in India. HUL is taken extremely seriously in government circles with many of its past chairmen being Padma Bhushan and Padma Vibhushan awardees. Most famously, nobody gives more CEOs to corporate India than HUL. From Nestlé to Diageo to Airtel to Hindalco to DMart to Raymond to the Star Network, there are currently around 400 HUL alumni who are CEOs/CXOs across corporate India. In corporate circles HUL is well known by the nickname 'The CEO Factory'. Because of the influence of its alumni many business practices in corporate India have their origin in HUL. This is obviously the case in sales, marketing and HR, but it also exists in finance, supply chain, R&D and legal. There is a good chance that not only are you using HUL products, you are already working in a way that HUL does.

This book asks and then answers the question of why a company this large has been successful for so long. What exactly do managers learn in HUL that makes them so much in demand as CEOs across industry?

A lot of people assume that there must be a codified HUL way of doing things that its managers are able to apply elsewhere. Well, there isn't. Plenty of internal rulebooks exist, but the real HUL way resides not in manuals but in practices and beliefs. There is an HUL way of advertising, of sales and of running a manufacturing operation. These are well-defined processes. There is also an HUL way of operating a business: with rigour, consumer connectedness, discipline and above all integrity.

I joined HUL in 1999 as a management trainee. During my twenty years in the company, I have worked across the three divisions in HUL – Personal Care, Home Care and Foods and Refreshments – in a variety of roles and am currently also an Executive Director on its Management Committee, getting a bird's-eye view of the entire organization.

I draw from these twenty years of experience to try to synthesize how I think HUL works, warts and all. But it is like the story of the blind men describing an elephant. Despite the time I have spent here, I can only infer from my own subjective experience. I hope the many HUL employees and alumni who have seen other sides of this elephant will be motivated to write down their own views.

It is also a perilous job writing a book like this while still serving the company as an Executive Director. What should one keep confidential? How honest can one be about the failings of the company? How extensive should I be in giving credit to the people who have contributed to company wins? My former boss Sanjay Dube reminded me that my primary responsibility in writing this book is to the reader and with the exception of genuinely confidential information this is the principle I have tried to follow. Needless to say, the views expressed in this book are entirely my own and not of HUL.

The first chapter deals with the characteristics that have made HUL a CEO factory. Chapters two to eight look at different functions within HUL and how they work: from marketing and advertising to sales and cost management and HR. Chapter nine concludes with the values that have been drilled into generations of HUL managers.

I hope this book is useful to corporate executives trying to understand how HUL thinks about a function like advertising or cost management; to entrepreneurs trying to build a culture in their organization; to MBA students trying to get a broader-brush view of the corporate world; but most importantly to anyone in India trying to build an institution that lasts.

Let me start with a few lines on the history of HUL and how it came into being. If you believe, as Henry Ford did, that 'history is bunk', you can skip it and go to the first chapter directly.

Behind HUL: English Marketing, Dutch Acumen and Indian Entrepreneurship

Hindustan Unilever is a child of two parents: the British Lever Brothers and the Dutch Margarine Union merged to create Unilever in 1930. But 'Hindustan' Unilever has the unique mix of this European Unilever with a special Indian twist to its DNA, having adapted to Indian conditions for the last six decades. Let us begin with the birth.

William Lever, the founder of Lever Brothers, was an enlightened, if eccentric, capitalist. Joining his father's grocery business, he soon spotted the opportunity for pre-packed goods. He created a washing soap that was different from other soaps in the market as it contained none of the fillers or chemicals that added to the size of the soap but did nothing for its performance. He set up a company, naming it Lever Brothers and the product Sunlight. Sunlight was smaller but contained more punch than other soaps, and in a few years, by 1888, it had become one of the biggest brands in the United Kingdom.

Lever Brothers soon began to face competition from an unlikely source. Margarine, a butter substitute made from vegetable fat, was discovered in 1869 during the Franco-Prussian war when butter was in short supply. The invention of hydrogenation (increasing the melting point of oils through the addition of hydrogen) allowed the making of margarine from cheaper vegetable oils. This brought the Dutch margarine makers Margarine Union in direct competition with Lever Brothers, who used vegetable oils in soap, for the sourcing of vegetable oils.

Both considered a merger. Apart from competition for raw materials, there was another strategic reason for the merger. Margarine Union was on a financially stronger footing but was essentially a continental European company. Lever Brothers on the other hand had a wide global footprint but had lately been in financial difficulties because of over-expansion by its colourful founder. This mutually beneficial merger between the Dutch Margarine **Uni**on and the English **Lever** Brothers resulted in the creation of Unilever in 1930.

Two of William Lever's exceptional qualities continue to be part of HUL's genetic pool: brilliant marketing and social responsibility.

A salesperson in his early days, William Lever had an instinct for marketing. Lever was by no means the pioneer in advertising. That credit probably goes to Pears soap's (incidentally, now owned by HUL) Thomas Barrett. His somewhat meaningless catchphrase 'Good morning, have you used Pears soap' became so popular that in the early twentieth century no 'top-hat-doffing was complete without the greeting', says Adam Macqueen in his must-read *The King of Sunlight* (a definitive biography of William Lever).

Lever however transformed advertising from mere name recognition to product benefits being conveyed in an insightful manner. An early ad of Sunlight, for instance, shows a woman doing back-breaking laundry, and its caption reads 'Wonder why a woman looks older sooner than a man'. A famous Persil detergent ad from a later period chuckles to the photo of two girls in differently white uniforms 'Someone's mum isn't using Persil'.

But if William Lever is remembered today, it is mainly in his role of the enlightened capitalist. In 1888 near the soap factory at Warrington, he built a town called Port Sunlight for his employees. At a time when 90 per cent of British citizens did not own their own homes, Lever employees were given free housing, medical care, schools, recreational facilities and, most radically, pensions. Port Sunlight is now recognized as the earliest example of a factory city, the most famous Indian example of which is the Tatas' Jamshedpur.

When it was founded in 1930, Unilever already had its genetic code in place: a Protestant work ethic and commercial acumen from its Dutch owners and brilliant marketing with a strong social conscience from its English founder, William Lever. In the 1950s Unilever chairman Geoffrey Heyworth introduced a third genetic strand, one that differentiates Unilever even today from other multinationals. Heyworth felt that as Unilever expanded globally it needed 'delegation to the end of the limbs'. Overseas units were to be run not by expatriates in London but by locals who were much closer to the market. It was a formal HR policy called 'ization' and the organization to benefit the most was the recently formed Hindustan Lever Ltd.

Birth and Growth of HUL

William Lever introduced Indians to the joy of Sunlight and Lifebuoy as early as 1888, to meet, as he characteristically put it, 'the washing needs of the teeming millions of India'. The precursor companies to HUL, Hindustan Vanaspati Manufacturing and Lever Brothers, were incorporated in the early 1930s. Both were owned by Unilever, though Hindustan Lever Limited (as HUL was formerly known) was formed by their merger only in 1956. So in a sense the real history of HUL in India is over 125 years old.

The history of HUL can broadly be broken up into three phases: a phase of market development followed by managing in a highly regulated environment and then competing in an open economy. Each of the three phases has added to the genetic makeup of HUL: from the importance of category development, to being resilient and innovative in times of extraordinary difficulty to becoming an even more consumer-focused company. If the genes that HUL inherited at birth were Dutch thrift and British marketing savviness and social consciousness, ever-changing Indian conditions have made HUL resilient and innovative. The first phase lasted till the 1960s, where mainly British, but also a few Indian, managers introduced India to the core categories of vanaspati, soap, tea and powder detergent.

A few decades before this, Lipton and Brooke Bond (both part of HUL today) responded to Viceroy Lord Curzon's clarion call to develop the domestic tea market in order to find an outlet for the excess tea production that was taking place in Assam. Tea, a quintessentially British drink, was treated with suspicion in India. It was considered an addiction and something that weakened you. This led to the creation of Indian chai, high in milk and sugar content, that was sold to the customer as a nutritious drink, as the undated ad on p. xxi shows. The invention of 'chai' is just one example of HUL's core management principle: developing new categories.

Nihal Kaviratne, a former chairman of Unilever Indonesia, told me how HUL developed the market for detergent bars. In 1957 HUL launched Surf NSD (non-soapy detergent) powder made from petrochemicals.

Until then Indians had washed their clothes with HUL's Sunlight laundry bar, which was made from vegetable oil. Surf powder was more effective but required a habit change – that of soaking clothes. Remember this was well before washing machines had arrived, and Indians were reluctant to clean clothes (or dishes) by soaking dirty things. To bathe, Indians scrubbed and poured water on to themselves, and would not dream of stepping into a tub.

HUL initiated a gigantic effort to knock on doors and demonstrate to sceptical housewives that solution washing with the NSD product would lead to far superior results. These women were used to direct application, but saw that the Surf powder required much less work: no scrubbing. This was a dramatic improvement for them, since even a good quality soap bar like Sunlight took time to lather in the hard water coming out of their taps. In addition, HUL included plastic buckets as promotional gifts with their new Surf product. Plastic bucket manufacturers made a killing. Surf did make headway, but the majority of Indians, while acknowledging the benefit of an NSD powder, continued to use the direct application soap bar.

B.A. Vatsal had joined HUL as a management trainee in 1964, when he returned to India, cutting short his studies on scholarship at Stanford, to take care of his parents. An outstanding product of Elphinstone College, Vatsal was regarded as one of the finest minds in HUL history and seen as someone with a very bright future. It was he who conceived the idea of providing the housewife with the benefits of NSD in a direct application product. The technical process was convoluted and had not been attempted anywhere else. The English marketing director

(David Webb) was convinced that it was a great step backwards, after the many years of hard work to get housewives to switch over to solution washing.

Vatsal persisted, and pestered Webb, until Webb finally agreed to allow him to market test Rin NSD bar, to prove that it would fail. And so it was that in the late 1960s, a market test was actioned in Bangalore. It proved an outstanding success and the product was launched nationally in 1971. Vatsal passed away prematurely in 1974, but his creation Rin Bar is one of the most famous brands in India today.

The second phase of HUL is from the late 1960s to the early 1980s, when HUL had to reckon with the system of socialist government controls known as the 'licence-permit-quota raj'. While most multinationals either left India or diluted their stake below 50 per cent, HUL persisted. It is not clear exactly why, but it probably had to do with the proactive Indianization of management that Unilever had encouraged in the previous decade.

There were two major challenges HUL faced in this period: price control and Unilever retaining majority control.

Both vanaspati and soaps were subject to price control in the 1960s and 1970s, and in the early 1970s HUL started making cash losses in India. What followed was the adoption of a very Indian entrepreneurial mentality of flexibility-cum-resourcefulness that persists in the HUL DNA even today. HUL realized that the imported oil it was using for soap-making was a drain on India's foreign exchange reserves, which the government of the day considered a precious commodity. So HUL scientists devised soap that substituted locally grown castor oil and rice bran oil for imported oil. HUL chairman T. Thomas then went to meet the chemicals minister D.K. Baruah to request removal of price control in exchange for HUL saving precious foreign currency. The Congress patrician told him that nobody used soap, and as evidence claimed that he himself got massaged with olive oil and a hot towel every day! Nonetheless, the government agreed to decontrol soap prices.

Retaining 50 per cent equity share of Unilever was as tricky. In late 1973 the government introduced the Foreign Exchange Regulation Act (FERA) where foreign equity holding would have to be reduced to less than 41 per cent unless a sector was considered capital-intensive. Since consumer goods were not considered capital-intensive the ownership of Unilever would fall from 85 per cent to 41 per cent. T. Thomas decided to oppose this policy.

In his autobiography, TT, as T. Thomas was better known, reflected on why he felt it was important for Unilever to continue retaining 51 per cent share. 'The first and foremost reason was that I firmly believed in the

Unilever system of developing and promoting professional managers without any involvement of the common Indian failings of linguistic, regional or religious considerations.'

TT did several things to hold on to 51 per cent shareholding. He first offered to export 10 per cent of HUL's turnover to earn the country precious foreign exchange. To meet this undertaking, HUL got into several categories such as chemicals, carpets, leather and fisheries and used its global clout to ensure that the 10 per cent target was met. Second, TT kept negotiating with government for smaller Unilever equity reductions: 85 per cent came down to 65 per cent and then to 51 per cent over several years. He was convinced that government policy would eventually change and it was better to bat through the difficult overs than to give in.

If HUL adapted to government control in the heyday of the licence-quota-permit raj, the early 1990s saw HUL adapting to liberalization. Excise duties fell, consumer incomes started rising and till the late 1990s HUL raked in a bonanza. However, in the new millennium it realized that its tools for competing in a closed economy were blunt in an increasingly competitive India. Local competitors like Nirma were closer to the consumer and big multinationals were willing to forgo short-term profits to get a toehold in the country. The period between 2001 and 2009 was a very tough decade for HUL where share price remained stagnant. In hindsight it was a period where the company strengthened several brands and also unblinkingly defended its laundry business from a major competitor attack. In 2009 HUL had a particularly difficult period on the back of extremely volatile commodity prices. In early 2008 commodity prices led by oil at $120 a barrel shot up and then crashed in late 2008 to $40. On the way up, unlike local competitors who just cut media investment, HUL rapidly priced up and on the way down didn't drop prices fast enough. Both decisions cost HUL dearly in terms of market shares. The crisis seems to have got the best back into HUL and since 2010 the company's share price has increased eightfold.

So yes, there is an HUL way of management that insiders and informed outsiders recognize or at least intuitively sense.

Being strongly Indian and simultaneously strongly Western is at the heart of the HUL way of management. The ability to walk the dusty markets while being comfortable in Europe. The inherent belief like William Lever had in being 'Good before being Great'. The Western belief in meritocracy. Dutch economy. Indian entrepreneurship. These pulls from all sides have ensured that HUL has remained successful through the decades.

1

Middle-Class Management

The HUL Way

In 2018 our chairman of thirteen years, Harish Manwani, stepped down. Harish had spent close to forty years in the Unilever system, rising to become global Chief Operating Officer. It was the highest an HUL person had risen. Harish had double-hatted as non-executive chairman of HUL while fulfilling his global responsibilities. He was now finally retiring from the company he loved.

Harish had several farewells and gave many speeches, but he saved his best talk for the retired directors' meet in 2018. The HUL retired directors' meet held every June in Mumbai is among the few HUL alumni events where there are no CEOs. Only those who retired as directors are invited.

It is a unique ritual and I am not aware of any other company that does it. The current chairman shares business progress of the previous year and is then grilled by the men who built HUL. Sharp daggers are unsheathed from dusty scabbards. After the trial by fire, there is a sit-down dinner, drinks and a few speeches by former chairmen and occasionally some others.

At the meet Harish spoke about how unique a company HUL was. What, he asked, was its secret sauce? He gave four answers which you will find woven through this book: a *middle-class soul*, a *meritocratic culture*, managers who are *equally comfortable in dusty Indian villages as they are in London or Rotterdam* and finally *unchanging core values*. These aren't just the ingredients of what makes HUL great, but also the four qualities that make HUL executives such successful CEOs when they run other companies.

Almost every major company in India boasts an HUL man or woman in its top management, and the companies that now have HUL alumni as their CEO include Airtel, Viacom, Diageo, DMart, Star TV, BMW, Raymond and Nestlé. So successful and in demand are HUL alumni in the Indian corporate world that many see it as the ultimate finishing school for the ambitious executive. But it is much more than that. If Harish's four HUL traits are married with the historic demand for HUL CEOs, it means that industry thinks that these very traits are what are required for all companies and, dare I say, institutions that succeed in India.

Everyone I spoke to about the book, including several HUL alumni who have gone on to become CEOs, agreed with Harish's four points. There was however a fifth