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Consumer goods far horizons

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12 Oct 2009

Whether the fast-growing economies of India, China and Brazil can help pull the world out of the current recession is a matter of debate. But to fast-moving consumer goods (FMCG) giant Unilever, which earns 50% of its revenues in the developing world, the question is academic.

The company is implementing a strategy to accelerate lacklustre growth. Its investment in developing economies is a long-term part of that process.

Developing investments

Unilever has historically invested in the developing world. Since 2004, turnover contribution from these regions has grown by 16% — well in excess of those of competitors. Emerging markets, with their large populations and increasing purchasing power, should contribute as much as 75% of its total revenue within 15 years. Last year Unilever reported global revenue of à40,52bn.

Unilever's operations in SA, India, Indonesia and Brazil — where products like Omo, Sunlight, Lipton and Knorr are household names — are highly profitable. SA, for instance, is among the company's top 20 contributors to turnover.

But in newer territories, where the potential is vast but the terrain tricky, Unilever is forgoing profitability in the short term. “The driver of our growth is not to make money, but to continue investing in this market,” says the president of Unilever's Asia, Africa, Central and Eastern Europe division, Harish Manwani.

Mature markets like SA, with a population of 48m, cannot match the revenue growth of newer territories, such as Vietnam, which is Unilever's fastest growing market. Nor is it likely to match future turnover from China, with a rapidly urbanising population of 1,2bn and an economy growing at 7.5%/year.

Long-term strategy

Unilever aims to double turnover in China to à2bn within the next four years. “This is a planned strategy,” Manwani says. “If you want to be a serious player in a market with 1,2bn people, you need a long-term strategy. We could be a profitable à500m company today or a à1bn company tomorrow; but to be a à2bn company, we need to plan.”

Part of the plan involves a new emphasis on research and development. “FMCG is driven by R&D,” says CEO Paul Polman. “Without the ability to discover new possibilities and incorporate these into new products and get these into the market, we will not achieve our growth expectations."

Research centre

Last month Unilever opened a à50m research centre in China's economic capital, Shanghai. It is one of six such facilities worldwide, employs 450 product and market researchers and is the biggest investment of its kind in the developing world. "It is no coincidence that we built this R&D centre here," says Polman. "We are investing here because the growth ambitions of China resonate with our own ambitions."

The research conducted at the centre will serve two purposes: develop local products that the company will use to penetrate the Chinese market as well as new products it can market globally.

Far from simply doing Western-orientated research in an Asian country, Unilever plans to incorporate indigenous knowledge systems into its research. "For instance, the Chinese know a lot about tea," says Polman. "Tea has amazing properties, and research in this area will transcend product categories." Tea, he says, can enhance body shape and mental focus, boost the immune system, and provide a good source of antioxidants.

Unilever also plans to take advantage of China's strong capabilities in structured materials. This research has already delivered novel results. The crispness of the chocolate around a Magnum ice cream, for instance, is based on Chinese research. Other research, for example how ice is structured at the nano level (smaller than the eye can see) could influence how ice cream is made and experienced.

Small markets still important

Though the opportunities in these fast growing markets are vast, this does not make slower-growing markets, such as SA, less important. "It is true that we don't have the population numbers of China and India," says Unilever SA chair Gail Klintworth. "We don't have a low cost manufacturing base and tremendous skill levels, and we probably won't be the source of great technological breakthroughs in the future."

But SA has an important role to play. "This is a valuable test market. We have a split of income groups and of modern and traditional trade. This is the perfect market to test-drive innovations and measure their success."

The fact that so much of Unilever's research emphasis is now on emerging markets is positive for SA. "In some categories, such as savoury, it was difficult to fill the innovation funnel with products that were appropriate for Africa," says Klintworth. "Many were developed with European and US markets (and wallets) in mind. That is changing."

Easier collaboration

The centralisation of research into six global centres is also positive. "Far from being cut off, we have found it easier now to collaborate across the organisation," she adds. At least 1000 of a staff complement of 3200 in Unilever SA collaborate regularly with the global research centres.

And with Unilever determined to grow revenues at over 7% annually (it had been stagnating at 2,5%), SA will not be let off the hook. "The possibility of deflation in food prices means that companies like us need to rely on greater volume to maintain our turnover increase," says Klintworth. "Unlike Indonesia, we in SA cannot rely on a 30% expansion to drive the numbers. If there is a pocket of growth out there, we will find it."

Source: Financial Mail

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