

## Hindustan Lever at the Base of the Pyramid: Growth for the 21st Century

Rural demand for, and consumption of, consumer products is set to explode. The challenge for most companies is to be able to offer appropriate products in an affordable way in relatively remote locations. It is our view that India will soon see an inflexion point in rural consumption.<sup>1</sup>

Mr. K.B. Dadiseth, Hindustan Lever Limited Chairman

On August 30, 2004, Hindustan Lever Limited's (HLL) share price on the Bombay Stock Exchange touched Rs.100.5 (US\$ 2.28) - a new low for one of the largest Indian companies by market value (see **Exhibit 1**). In its Q2 2004 results, HLL's bottom line had fallen by 43% due to price pressures in its mainstay detergents business. Procter & Gamble, its long-time nemesis, had unveiled a series of price cuts on its leading detergent brands, Ariel and Tide, forcing HLL to respond. As a consequence, operating profit margins, which had peaked in 2002 at 19.6%, declined to 14%.<sup>2</sup> Furthermore, although the mergers, restructuring, and operating changes that HLL underwent in the 1990s had helped profits grow through 2003, the company's top-line growth had remained more or less stagnant over the past few years, causing some analysts to re-align their portfolios.

In fact, since 1999 revenues at HLL had remained nearly constant, an outcome stockholders had not welcomed. With this lack of growth, increasing attention was directed to the company's Millennium Plan - an ambitious blueprint outlining the company's growth strategies for the 21st century. The Millennium Plan was a part of the company's renewed emphasis on business focus and operational efficiencies. Additionally, a core aspect of the Plan was to identify and nurture businesses of the future. Over 150 new businesses were proposed before the list was narrowed down to nine. These included a foray into drinking water, a plan for network-based marketing (along the lines of Amway) and an entry into retailing herbal therapy products and services through a chain of therapy centers. Perhaps the most interesting, though, was an initiative called Shakti, which aimed to extend the reach of HLL's products to the 742 million rural consumers in 637,000 villages at the base of the economic pyramid, a market not well-served by HLL at the time.

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