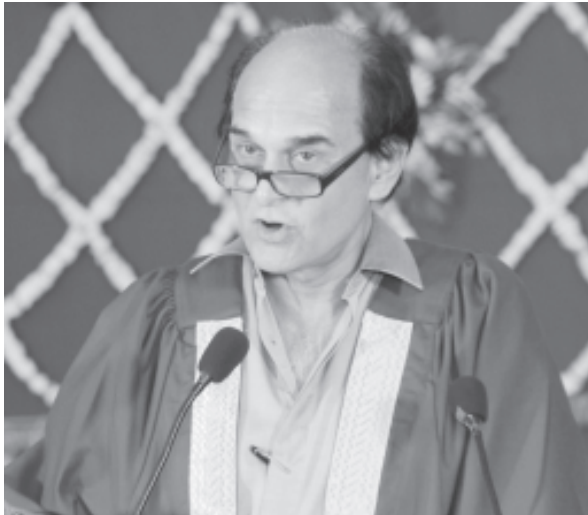


## INSIGHTS

### Do what you want to be remembered for!



**Shri Harsh Mariwala**, Chairman and Managing Director, Marico Limited, was the Chief Guest at the Eleventh Annual Convocation of the Indian Institute of Management, Indore, held on March 29, 2010.

Shri Mariwala delivered an inspirational address where he spoke on how he built Marico Limited and transformed it from being a traditional commodity-based business into a Rs.30 billion consumer products and services company with a leadership position in the beauty and wellness space.

The address offered the graduating participants a succinct preview of the multitude of challenges they were likely to face in the corporate world and also gave them insights on how they could overcome them.

His recipe, it turns out, is what they do not teach at business school as a course. But the idea is to try to inculcate in the participants through academic rigour inside classrooms and a panoply of activities outside the classrooms!

The essence contained in Mr. Mariwala's speech is distilled below.

- Cultivate an enquiring mind and make learning a lifelong habit. Learning can be acquired by:
  - Reading books
  - Short-term/Long-term courses
  - Interaction with thought leaders
  - Having the humility to learn from the lowest member of your company or elsewhere
- Look at challenges as opportunities. Apply yourself to come up with innovative solutions to overcome them.
- Be innovative. Be open to ideas. And learn to do things differently. Look at a situation and ask 'Why Not?' It will help you change the rules of the game as well as to bestow your company and brand with a competitive advantage.

- Be persistent. Be resilient. Fall down seven times to get up 8! Never abandon your dreams. But dream to be the best in the world and back it up with detailed planning and with quality execution on the ground.
- Learn to take decisions as well as responsibility, which comes with them.
- Be focused. It brings depth to your work.
- Attract talent, and then give them freedom to work within a predefined parameter. Only talent can grow a business or build the brands.
- Never allow yourself to be bullied in business. But thrashing the bully means evaluating every aspect of business. Invest resources, strengthen your strategic assets and be prepared to sacrifice, even profit, in the short term.
- Do not be driven by research only to cover yourself from all angles. Precious time will be lost.
- Acquire the skill to ask the right question and it will lead you to the right answer.
- Involve every member of your company in key affairs of the company. They may not contribute but the very fact that their opinion was sought will make them own the decision. This will build ownership amongst the employees for the decision. It will ensure the least amount of delay and friction during implementation.
- Values are very easy to write down, but very difficult to follow and practice. Only when values are lived every day do they become the culture of the organisation. Live the values!
- We are all interdependent and hence the job of an organisation is not restricted to chase profit and keep the shareholders happy. The job is to keep all the stakeholders, which include members (employee), suppliers, advertising agencies as well as shareholders and society, happy and delighted.
- Work to answer the question - 'What do I want to be remembered for?' Therefore, do not blindly chase wealth or promotions in your career, but relentlessly pursue what you want to be remembered for!

Please visit <http://www.iimidr.ac.in> for the speech in full.

### Uncommon Company, Uncommon Leader

Marico's Chairman and MD Harsh Mariwala's (HM) life has been an uncommon journey on an uncommon path. From professionalising the family-owned business to creating brands

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out of commodities businesses, he has built up Marico with his uncommon sense. Be it switching over from tin packaging to plastic packaging or changing the lice treatment product from shampoo to oil, Harsh and his team have walked the untrodden path to take Marico to great heights. Rajesh Srivastava (RS) meets the man who has made out-of-the-box thinking a corporate philosophy to emerge a winner.

RS: How did Marico's transformation happen from a family-run organisation to an enviable professionally run organisation?

HM: When I started working in my family-managed business, there were no professionals. The family business was mainly into unbranded edible oil, chemical, spice and extract business. Being a commodity business, it was dependent on speculative elements like raw material prices. I realised that if our business could be 'branded', then it would be more stable and provide us with sustainable profitable growth. My visits to markets in various parts of Maharashtra made me realise that if we could extend the distribution significantly then we could grow our business. This was true for Saffola too, which was sold in certain parts of Mumbai and Delhi.

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RS: Any other thoughts that came to you during this initial period?

HM: During those initial years between 1974 and 1984, I realised that people and innovation play an important role in business. Focusing on these two strategic resources, I was able to convert an unbranded commodity business to a branded business, which is more profitable. Hence, the mantra from then on has been to invest in people and try to do things differently.

RS: What other steps did you take to transform your business?

HM: In the 1980s, I realised that to carve a dominant position in consumer products space, a separate organisation was needed. The perception of a family-managed business puts off professionals. I was firm on building an fast-moving consumer goods (FMCG) culture, which nourished people and innovation and helped us compete with bigger multinationals. Remember, it's people who create brands.

RS: What other steps were involved in undertaking this transformation?

HM: I would break the journey into different parts. The first part led to starting Marico. It gave me the opportunity to create the right image and right culture and recruit the right people. The second part involved converting coconut oil to packaged coconut oil, Parachute and refined sunflower oil to Saffola. Beyond that, we launched value-added oils like Sweekar, Hair & Care. The next part saw us going public in 1996.

RS: Any problems you encountered during this phase?

HM: Hindustan Lever entered coconut oil business as they had acquired Nihar. They were very aggressive in the market place, and the stock market lost faith in us thinking we wouldn't be able to survive. This was reflected in our price to earnings (P/E) multiple dropping dramatically. When we went public, our P/E multiple was 13, which went down to 7 in less than 3 years.

RS: So what did you do?

HM: We gave a clear message to the capital markets that we may suffer temporary setbacks but, in the long term, we were into branded consumer products and not commodity business.

RS: What gave you the confidence to take on Hindustan Lever?

HM: We had faith in our capability. Also, products based on coconut oil were everything for us, whereas for Hindustan Lever it was a small part of their operations. Also, we knew the business and had market leadership.

RS: And what drove you personally during this 'siege'?

HM: For me, business is more than money! I could have sold the business and made a lot of money, but money doesn't drive me beyond a point. Business is more of adding and creating value and having the satisfaction of doing it and giving something back to the society.

RS: What lessons did you learn from that experience?

HM: This experience taught us that we could take on bigger giants if we galvanise ourselves. If you have the strength within you, you are not overawed by MNCs and other giants. You have to be perseverant, despite short-term reversals.

RS: What steps did you take to convert coconut oil into Parachute brand so that customers happily pay a premium price?

HM: First, innovation in packaging - sachets, pouches, bottles and large packs. Second, multiple price points and mass distribution. And, last, overall brand creation with a combination of advertising and merchandising. Parachute has become an iconic brand.

RS: Marico today is an admired FMCG company with footprints in more than 26 countries. How did this transformation happen?

HM: One of the key drivers was the fundamental need to grow, and if we had to grow we had to create newer opportunities. In the early 1990s, we noticed some of our coconut oil products were being smuggled to Middle East. It coincided with the time when reforms were happening in India and we advocated to the government to free

exports. That gave us a good opportunity to grow in the Middle East market. Then our survey in Bangladesh showed that it was a very big coconut oil market. We replicated there what we did in India and increased our market share from 0 to 73% in Bangladesh. We manufacture there and have a local field force. Today, we are the largest Indian company in Bangladesh in terms of turnover.

RS: Did the Bangladesh experience help?

HM: That experience has really helped in increasing the growth engines in the organisation and leveraging opportunities of our brands outside India. It provided other learning experiences too! For example, catering to modern trade in the Middle East helped us cater to evolving modern trade in India. It also provides employees good opportunities for career growth. So, we benefited in multitude of ways - formation of new growth centres, increasing profits, learning from new markets and opportunities for people and leveraging intellectual property in international markets.

RS: What was your strategy for the international markets?

HM: In international markets, the first phase was organic growth. But organic growth is a long-drawn process. It took us almost 10 years to establish our business in the Middle East and Bangladesh markets. Now we are a little impatient in terms of growth and started surveying markets in Asia and Africa. We identified brands for acquisition through proactive targeting and have presence spanning across 26 countries in Africa and Middle East.

RS: Marico is now moving into service - Kaya. What is the difference between managing a brand and managing a service business?

HM: It's very different. We may be the only FMCG company which has successfully made this transition globally. Nurturing a service brand requires different focus. If you put an FMCG person in charge of it, he will handle it with an FMCG mindset, which is not the way to handle a service brand. Hence, from day one, we had to nurture it as different business.

RS: So what is the difference in nurturing an FMCG and service business?

HM: In service, we are dealing with individual customers and individual feedback. There is active interaction and delivery of experience with one customer at a time. In FMCG business, we manufacture and distribute our brands to retailers and create demand through advertising. We don't interact with the consumers. We had to change our way of advertising, as our service brand didn't have the large budgets that FMCG brands had. So, more of PR and events were used to create awareness rather than using traditional big budget mass media vehicles like TV.

RS: Did people from Marico get an opportunity in this new growth engine?

HM: We put Marico people having flexible mindset required in a service industry. We located them at different locations and gave them the required freedom, and they reported to me directly.

RS: What were the learnings from your new business?

HM: When you start any new international or domestic business, you have to remove the 'Escape' buttons. It is the first step to success. When we started the international business, we hired a CEO, although the business was not large. If we had made international business a part of the FMCG business in India, it would have got step-motherly treatment because its size was very small. But when a guy is fully responsible for the international business, he will constantly look out for opportunities to grow that business.

RS: On environmental issue, how biodegradable is the Parachute pack?

HM: I think that's a valid point. Plastics add a lot to environmental degradation. We have reduced weight of the bottle to the minimum. This proenvironment initiative and investment has paid us back financially because we have reduced lot of weight. In India, most of the plastic bottles get recycled. Biodegradable plastic has not come to India, but we are not adding to the wastage.

RS: Is Marico's manufacturing environmentally friendly?

HM: Yes, we started this journey 2 years back. We are doing audit and water conservation and cutting down wastages of power.

RS: Private labels are the biggest threat for an FMCG. How are you tackling this threat?

HM: At this stage, presence of private labels in our category is low. Our brands are very strong. The best strategy to fight private labels is to have a strong brand and keep innovating continuously. We follow this strategy, so we are insulated from threat of private labels to some extent.

RS: 'Uncommon sense' is the driving force in Marico. What is this 'uncommon sense' and how has it resulted in value creation for stakeholders?

HM: Uncommon sense is a different way of looking at things, adopting a different approach and getting the right insight. Take personal expenditure incurred by employees or leave taken by them. At Marico, we have self-authorisation, so the employee feels the organisation trusts him. We spend a lot of time in culture building, openness and trust. Take another example. When we acquired Mediker from P&G, it was available only as a shampoo. We realised that penetration of oil is more than penetration of shampoo. So we reasoned that if we actually changed Medicare from shampoo to oil, we should be able to increase our sales! Within a year of acquisition, we developed

anti-lice oil and the sales doubled. The third example is innovation in packaging. We came up with one rupee mini-bottle, which is far more attractive and convenient to use. Result - our market share increased from 17 to 51%.

RS: Can you share some more insights into 'uncommon sense'?

HM: The journey into plastic packaging was an uncommon thing. At a time when the whole market for coconut oil was in tins, we offered it in plastics. Before us someone had offered coconut oil in plastics, but they had executed it badly. So when we launched plastic bottles, we faced huge resistance from retailers. We had to show them that our oil wasn't oozing out and emphasise that plastic containers were better looking. We had better costs and margins, so we could spend more on advertising. It also made sense for the consumers too. I think the Parachute brand evolved and reached the heights it has reached today because of that single decision to enter into plastics.

RS: What is your spend on R&D?

HM: Our R&D spend is less than 2% of the group turnover. We believe in a judicious use of in-house R&D and 'Connect and Develop' model. We have scientists working on product and process development and also people with good network, so when someone is doing good work in technology, we can use it.

RS: Marico is proud of its culture. Can you define it? How do you sustain it on a daily basis?

HM: Marico culture is very open, informal and empowering. It is based on trust and meritocracy. The organisation's leadership continuously reinforces it. For example, to emphasise openness, we designed the office interior so that everyone can see what's happening inside others' workplace. We have an Open House session once a year where employees can ask any question to the management. This again signifies openness. We use first names and prefer to keep the dress code informal. So, openness gets reinforced from multiple angles.

RS: Marico has been voted as the No. 1 employer of choice. What steps did you take to earn this title?

HM: I feel that all the steps taken for building the culture would have played a role in creating the right image of us as an employer. We have focused on issues relating to ethics, governance and environment. We have empowered employees to take decisions and provided them growth opportunities.

RS: What are the uncommon things done by Marico to share prosperity with its employees?

HM: At the manager level, we have an incentive scheme based on goal achievement. Each individual has a 'Goal Sheet' with three to four goals set at the beginning of the year. At the year-end, there is scoring of goals and depending on how the scores stake up, a variable pay, which can be up to 33% of the salary, is disbursed. It's a variable-pay scheme linked to the performance of the organisation and individuals.

RS: Parachute is associated with coconut hair oil and you have stretched it to creams. Saffola has been stretched to food. Are you stretching your brands too much?

HM: I don't think so. We are not associating Parachute with coconut oil but with coconut, which we can leverage in whichever way possible. The fact that so many of them have done well is proof that it is working well. Also, beyond a point, it is difficult to create new big brands because it requires big money, whereas if the extensions stay within a certain boundary, then it is good for the mother brand too.

RS: Are you stretching Brand Kaya from skin care into weight loss?

HM: Kaya is a beauty brand and weight loss and good figure is also good for beauty. Also, Kaya Life is in prototype stage, so the jury is still out on this one! We'll have to wait and watch the impact of Kaya Skin on Kaya Life.

RS: Marico has experienced success, but you must have also experienced failures too.

HM: I think we underestimated the brand equity of the competitors for some of the new products we launched. For example, we entered the baby care segment, but we underestimated the equity of Johnson & Johnson. Moreover, mothers are in a transient mode and, at that time, it's hard to impress mother's mind that the new product is good too.

RS: Is Marico co-creating products with its customers?

HM: We have an active and interactive R&D team. They are frequently interacting with the customers. Product development happens based on the interaction with the customers and we do a lot of product testing involving our customers.

RS: How does Marico ensure that it has a steady stream of innovative products?

HM: Basically, by identifying consumers unsatisfied need. We have a programme of consumer insighting focused on getting deep into the consumer's mind. The objective is to answer questions regarding consumers' needs and expectations. The insighting is converted into an action plan for developing new products.

RS: In India, distribution channel is a key to success. How did you expand and nurture it?

HM: In 1997 to 1998, we did a workshop, which helped us identify our key sources of competitive advantage. One was distribution, second was branding and the third was innovation. We have been continuously investing in distribution, and I can proudly say that in IT and sales, we must be the best company in India. But it's not just about technology; it's about change management. We got 6 to 7 of our IT-savvy Sales Representatives to train our distributors and their in-house staff and make them IT savvy as well.



RS: What did you do for brand building?

HM: We created processes and invested in best practices for brand building. We recruited best people and continuously invested in their training. We also engaged good quality associates like advertising agencies.

RS: How has modern trade affected you and how are you protecting your brands and business?

HM: As of today, we are not impacted at all. In fact, it has been positive for most FMCG companies partly because modern trade has been fragmented amongst different players. Modern trade creates an experience for the consumer and provides great opportunity to create newer categories with the consumers for certain new products.

RS: Let's move to three of your products: Sil, Sundri and Top Ramen noodles. Marico's relation with all the three brands has been terminated. Why did this happen?

HM: We had a sales and distribution alliance for Top Ramen as we needed a critical mass in our distribution system. Sil came to us due to realignment of shareholding in the family. We tried reviving the brand, but couldn't identify anything unique in it. Sundari represented a desire to make a presence in developed countries, but we underestimated the challenge of being in B2B business.

RS: The heart of any business is execution. How does Marico ensure quality execution of its strategies?

HM: You are right; execution is the key. It is easier to think and plan but it's important to execute it well. It is attention to detail and ensuring that work is done error-free. So, it's basically the quality of talent, detailed planning and robust execution. It's necessary to establish processes to ensure certainty in execution. We have a review mechanism and IT also helps in good execution.

RS: All businesses have risk. How have you derisked your business?

HM: Through newer products and businesses. Before we launch a product, we do prototyping. Currently, Kaya Life is a prototype in Mumbai only. During prototyping, we go through a learning curve. So, we derisk by prototyping. Risk management is critical in today's environment. We identify the key risk and go overboard in tackling it.

RS: Customers are changing. The way mothers have been using Parachute may not be the way daughters would be using it. So what are you doing about it?

HM: We have launched Parachute kids' range. Kids may not want to use coconut oil but may not mind using a shampoo with fruity flavour. So, we have Parachute Stars. This is our way of overcoming the resistance of youngsters towards using traditional products. Then, we have a hair cream and night cream too.

RS: PwC was involved in Satyam audit and they are also your auditors. When you got the Satyam news, what was your reaction and what have you done?

HM: We met PwC and found out what went wrong. We exposed them to our Audit Committee and asked for a road map for improving their capability.

RS: How independent is your Board of Directors?

HM: We have a nine-member Board of Directors and, except for two, all others are totally independent. Most of the discussion is centred on strategic issues. I, along with my team, attend the Board meeting. My team also interacts directly with the Board members. I'd say the Board is independent and provides strategic inputs.

RS: Have you ever disagreed with the Board members?

HM: Yes, in the case of Sundari, I didn't say no to them; I just asked them to give me some more time to take the call.

RS: How strong is corporate governance in Marico?

HM: I'd say it's very strong. I take pride in saying it because it's usually not the case with a promoter-driven or a family-managed company. We have ensured there are no interrelated party transactions and removed each and every area of conflict.

RS: Marico's P/E is about 28. How did you achieve it?

HM: We improved the overall basket of products and moved from low-end to high-end products. We also declared corporate dividend. We have an unblemished record of almost 37 quarters of top-line growth, which assures our stakeholders. We also had a very high top-line and bottom-line growth. I think the whole perception about Marico has changed over a period of 4 to 5 years.

RS: Your intangible assets are about Rs. 4,000 crore. Which elements make up your intangible assets?

HM: One of the biggest elements is brand. Brand nurturing is delegated to the experts. Next is people and culture. I spend a lot of time on culture building and people issues. Corporate governance also plays an important role.

RS: For FY08, your RoNW is 51% and RoCE is 48%. How did you achieve these numbers?

HM: If you have succeeded and gained market leadership and created brand equity, then you can actually get returns which are good.

RS: What do you look for in a brand when acquiring it?

HM: I look for acceleration in growth. In case of Nihar, it was for consolidation. In case

of Mediker, it was a niche area with leadership potential in the market. In general, acquisition is geared towards value creation for the shareholders.

RS: What is the essence of 'Harsh' leadership?

HM: The emphasis has to be on meritocracy. Other key areas are openness, empowerment and development through learning and experience.

RS: Who are your role models and how have they influenced you?

HM: To be honest, I don't have one role model. I am influenced by reading or interacting with different types of individuals. There are many individuals who have left a positive influence on me. Amongst management thinkers, I respect Prof. Ram Charan.

## Author's Profile

### **Rajesh Srivastava**

**Rajesh Srivastava** has rich experience of value creation spread over 23 years in industries spanning alcoholic beverages, food and personal-care products. During the course of his career he has conceptualised, launched and nurtured over 50 brands which touch and enrich the lives of consumers everyday, and has also built equity in timeless and enduring brands which include Bagpiper, McDowell Signature, Royal Challenge, Blue Riband, Captain Cook and Lomani.