

2020: My Reflections, My Learnings

In January 2020, we are already two decades away from the turn of the millennium which seemed like an epochal event at the time. In our increasingly turbulent world, two decades have also seen compressed within them the kinds of shifts that would have earlier played out over many more years.

Powerful new companies became an integral part of the lives of millions but started falling out of favour equally dramatically. The world's obsession with peak oil has been replaced by new pre-occupations. The millennium started with a dotcom bust but Big Tech companies have been the biggest winners of recent years. We suffered a crippling global recession, but ironically the epicenter of that recession is back as one of the bright spots driving global growth. We have tracked the dramatic emergence of a powerful claimant to world dominance in the form of China, while growing to accept that Alibaba may indeed find treasures, but through a delivery boy.

This new world, for sure, is not for the faint hearted. One-third of Fortune 500 companies drop out every decade, and the average life of a company on the S&P 500 list has shrunk from 60 years in 1960 to under 20 years today.

Last year we, as the Aditya Birla Group, marked the 50th anniversary of our globalization journey – a privilege, especially against this business backdrop. In 1969 my father, Mr. Aditya Vikram Birla, made a pioneering foray into Thailand 22 years before the Indian economy was formally opened. That was the fount from which has grown a \$48.3 billion global diversified business group, with a presence in 36 countries across 5 continents, that derives more than 50% of its revenues globally.

As we celebrated this momentous milestone, this felt like an opportune time to also reflect on my learnings, especially over the last few years. I do not presume to have all the answers, and we have not always been prescient with our bets. We have just had the chance to place many bets, and learn from each of them. The Aditya Birla Group's pace of activity and breadth of businesses provide a unique opportunity to derive insightful lessons on how the world works.

And the world has duly obliged, especially over the past few years, by presenting us with an ever-shifting landscape - a combination of some dramatic changes and some steady but persistent trends.

Digital technology continues its determined march, providing outsized returns to a few winners. Scale today is being generated with very unlikely players coming together to form ecosystems, united by the insight that by collaborating, value can be created for both consumers and businesses alike.

Cheap capital has sought exciting returns. The five years since 2014 have seen record flows of venture money across the world into attractive new technology-led opportunities. Some recipients have undoubtedly proved themselves worthy. However, 2019 has created new respect for gross margins and cash flows. These trusty old concepts have been extricated from the archives, as businesses seek a renewed understanding of fundamentals. For most businesses, digital and otherwise, unit economics have begun to matter again.

The conflicting forces of globalization and nationalism are making governments and corporations rethink their priorities and are forcing them to come up with new constructs. In a post globalized world, communities and people will find themselves on either side of an increasingly stark divide between winners and losers.

Against the backdrop of multiple competing interests is the one unifying truth which is that, we all share this planet and will collectively drive it to its rescue or doom. In 2019, the sustainability agenda came to the fore like never before, in a charge led by Gen Z. What kind of future are you creating for us, they asked, and companies are being coaxed into finding the right answers?

In this new global construct, what offers hope is the unmatched power of computing coupled with the versatility of the human mind. While problems get harder and more intractable, there is exponentially more brain power being applied to solve them.

As a global business, we have had the chance to learn what drives business success in this new world. A learning is only as good as its power to explain and predict the future in multiple contexts. And the Aditya Birla Group's experiences provide as representative a set, as any. Let me share some of my learnings over the past few years. These are as much ABG's learnings as they are mine. I have to confess, this is an abridged version and I shared a more exhaustive list with my colleagues. I suppose, those are the perks of being part of the ABG family.

My first learning is on Scale.

LEARNING # 1: SCALE IS NOT EVERYTHING. IT IS THE ONLY THING

Dominant scale is not just about size. It is equally about achieving the widest reach, while replicating quality and service standards, across markets. When that happens, you truly become the Number 1 choice of customers.

UltraTech's quest for scale has been a steady two-decade endeavour. Over the last three years, UltraTech has acquired and integrated the cement assets of Jaypee Associates, Binani Cement and Century, and commissioned among others the greenfield Dhar plant in record time. As a result, today we are the 3rd largest manufacturer of cement globally, excluding China, with a staggering capacity of 117 million tonnes. UltraTech is approximately 3 times the size of its next biggest competitor in India.

Scale has given the company a very tangible differentiation.

- 1) Brand Strength: UltraTech has been a power brand for over a decade, known for its quality and reliability in every market across the country. It is not often that you see a company have the discipline to maintain this unwavering commitment to quality, even as it scales exponentially.

- 2) Customer Insights: UltraTech's cumulating flywheel of customers provides rare insight into the needs and expectations of contractors, masons and individual house builders across the country. This scale and access to insights have given the company an opportunity to aggregate its learnings. With these insights, it can differentiate its offering to serve its customers more meaningfully.
- 3) Talent Pool: The most talented professionals in the cement industry aspire to work with UltraTech. Attracting and retaining talent is another advantage that scale has brought.

The stupendous journey of Ultratech has propelled the growth of an entire ecosystem comprising of vendors and distributors.

Which brings me to my next learning. It is my deep belief that the next phase of growth and scale for all our businesses will now come from what I would call, unlikely handshakes.

LEARNING #2: CONNECTED ECOSYSTEMS: UNLIKELY HANDSHAKES

The new age way in which business will create value shall come by gearing with unconnected growth engines emanating from 'seemingly' disparate industries and companies. The linear concepts of value chain will be challenged by a new mesh of interconnections.

For example, in Aditya Birla Capital, I see a few green shoots and examples of such an ecosystem.

The Health Insurance business has created a unique ecosystem comprising partnerships with fitness wearable companies, gyms, pharmacies, dieticians and wellness coaches in a highly symbiotic way. Today, when our customers use these fitness devices or go to our partner gyms, they are rewarded with Health Returns that can be used to lower renewal premium. As our customers engage with this extended ecosystem, we have found that it results in 15% higher retention and 5% lower claims versus the non-engaged ones.

What this experience tells me is that businesses of the future will need to be built on positive interdependence among disparate players. And opportunities to scale could come by plugging into seemingly 'unconnected' growth engines. This also means that the lines between a competitor and a collaborator will blur.

LEARNING #3: DIGITAL: NEED FOR QUANTUM LEAP

In the digital world, incrementalism counts for little. Whilst, we have made progress in some of our businesses, I have come to the realization that half measures will just not cut it. As Jeff Immelt, said in a memo: *“Half measures are death for big companies, because people can smell lack of commitment. When you undertake a transformation, you should be prepared to go all the way to the end. You've got to be willing to plop down money and people. You've got to be all in.”*

Digital transformation to me, entails rethinking assumptions about existing business models. Our branded apparel's business, Aditya Birla Fashion and Retail Limited, is doing just that.

ABFRL has pioneered an industry-first online merchandise booking process, moving away completely from the decades old physical trade show model. This innovative process enables ABFRL's 2000+ wholesale customers to book orders digitally every month vis-à-vis the traditional model of seeing actual samples and committing to orders for 6 months at a time.

The business deployed a state-of-the-art tech stack to create lifelike 3D images of garments which eliminated the need to create more than 20,000 physical samples every year. Another challenge was end to end technology integration to create a B2B site that allowed seamless order booking.

This is a response to rapidly changing fashion trends by moving the design cycle from 2 seasons a year to 12 seasons. Effectively, the lead-time of getting a garment from the designer's concept board to a customer's wardrobe has shrunk considerably from 8 months to as few as 45 days.

This new paradigm will enable higher sell-through, lower markdowns, reduced pressure on liquidation of slow-moving designs and tighter control on inventory. It will also allow ABFRL to deliver fresh and on-trend merchandise, in time, month on month.

The key learning here is that real digital transformation cannot be delivered unless a business goes 'all in' to make that quantum leap.

LEARNING #4: SUSTAINABILITY: NOW OR NEVER

When historians put 2019 in perspective, it will perhaps be marked as the year that saw a quantum leap in the climate change narrative.

It is incredible that a 16-year-old Swedish activist, has now become the face of a global movement, forcing governments and corporations to rethink their priorities. Greta Thunberg could well be the conscience of Gen Z. This generation is born into a post hedonistic world - where the choices they make will be influenced not just by considerations of personal good but also of how they impact the world 50 years from now. You can agree with them. You can disagree with them. But you can no longer ignore them.

I have to confess, we have traditionally looked at sustainability from the perspective of compliance and good governance. In this new environment, we need to think strategically about how to create business value through sustainable initiatives. Sustainability is, therefore, not just good citizenship but also, good business.

The resounding success of Liva Eco is testament to that.

The Pulp and Fibre business launched an eco-enhanced version of Liva at a significant premium. Liva Eco boasts of the lowest water consumption, significantly reduced sulphur emission, 100% FSC certified pulp from sustainable forests, and a molecular tracer for 'end to end' traceability.

Liva Eco was launched in a record time of 4.5 months. This is nothing short of spectacular given the substantive changes to the manufacturing process. Water usage has been reduced to a third, and at these levels Liva Eco is among the best in class globally.

As is said, it takes a lot of blue to stay green. No wonder, more than 15 brands including marquee global customers such as Zara, M&S, Bestseller Brands and Tesco are sourcing this fiber at a premium.

This clearly shows that the market today is willing to pay a premium for greener products. Equally, investors are also increasingly looking at the sustainability profiles of the companies that they invest in.

LEARNING #5: THE WORLD ISN'T FLAT

The tension between nationalism and globalization is reshaping the world and, will perhaps be the most defining trend as we head into a new decade. Back in 2005, When Thomas Friedman coined the phrase the world is flat, the world was a very different place.

Back then he opined that technology and geopolitics were reshaping our lives while we were sleeping. Now that we are wide awake, I see a very different world, dealing with the consequences of globalization and its discontent.

A world where rules of commerce are being re-written all around. A world where nationalism has surpassed globalization as the more popular search term on Google.

While the march of globalization is perhaps inevitable, what is certain is that the world is no longer flat. As globalization makes way for '*slowbalisation*', the emerging pattern of trade is more regional. One needs to look no further than Novelis and Birla Carbon to appreciate this mega-trend.

Both these global businesses have a footprint spread across multiple countries. Birla Carbon's network of factories spans 11 countries and 5 continents. Novelis' range of operations extends to 9 countries and 4 continents.

Their longstanding regional structure have allowed them to effectively navigate a dynamic trade environment by serving customers primarily at the regional level. They have been saved from being entangled in many of the trade issues ensnaring our competitors. Many of them, who import or export their goods across regional borders, have now found this trade unviable. The regional structure thus allows, Novelis and Birla Carbon to function as truly global companies - local, yet global.

This new trend of slowbalisation raises some questions that challenge conventional wisdom on how businesses should distribute their capacities. Given that the traditional benefits of a single location operation are an obvious contrast to the resilience that multiple local operations provide.

There may be no easy answers, but the reality of this new world is something we need to be very alive to.

In a post-globalized world, communities and people will increasingly demand more from corporations. Perhaps our founding fathers saw it coming, 150 years ago, which is why community engagement is so closely embedded with our business values.

LEARNING #6: OUR PEOPLE. OUR STRENGTH.

People have always been at the core of why we do business. Over a longer arc, our cultural evolution as an organization has also provided me with a fascinating set of learnings.

- 1) Purpose creates magic: Empowered teams create value. But to create magic, people should seek purpose in the work they do.
- 2) Be 'Genuine': People see through pretense. Genuine intent, genuine efforts and genuine results can often be the difference between good and great.

3) Make space for the disruptors: Organizational culture can very quickly create an assembly line of 'similar-sounding' and 'similar-behaving leaders'. It's important to break the mould. In today's world, homogeneity of leadership can be counter-productive.

I have always felt that the only lasting way to create long term value is to have an energized workforce.

LEARNING #7: THE INNOVATION IMPERATIVE

One way to energize teams is to unleash their creative potential through innovation. This means connecting their rational - logical side with the emotional - intuitive one.

But driving innovation at an institutional level in diversified business groups is never easy. While we have a rich legacy of driving inside-out innovation, my learning over the last few years has been that 'outside-in' frameworks can also be equally effective.

Through Bizlabs, our outreach programme, we now have several engagements with start-ups across the Silicon Valley, Israel, Europe, Singapore and India. These engagements cover a wide range of applications including logistics, packaging, sustainability, fintech and home building innovation, to name a few.

Aditya Birla Capital's 2019 chapter of Bizlabs once again proved how excited the innovation ecosystem is to partner with us. The program that had 17 real business challenges across 6 lines of businesses, received an overwhelming response of 550+ entries, most of which were relevant commercialized solutions.

As I have now learnt, innovation cannot be bound by the traditional organizational cadence. It requires different incentives and often longer time horizons.

Large, successful organizations often find it the most challenging to drive innovation not because they cannot do it. But because, there isn't a compelling incentive to disrupt themselves. Insurgent competitors often use this as the wedge to drive their way into markets. Innovation can act both as a bulwark against insurgents and as a means to penetrate and capture new opportunities.

To conclude, I am emerging out of 2019 with an energizing new perspective - there is no limit to what, who, when and where we can learn from. From the beauty of natural elements to the abstractness of artificial intelligence, from defiantly creating scale to humbly collaborating for scope, from the wisdom of Gen X to the audacity of Gen Z and from the zenith of success to the nadir of failure.

I feel the ability to learn and adapt is the only consistently reliable way to succeed in this increasingly complex environment. I am often tempted to subject my past decisions to the scrutiny of retrospect. Not to seek validation, but to evaluate how those decisions played out. And I have learnt from doing that.

So, while hindsight may well be 20/20, learnings do exist aplenty.

Happy 2020!

Kumar Mangalam Birla