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Unilever's Growth Strategy

Patrick Cescau – Group Chief Executive

Richard Rivers – Head of Strategy

Patrick Cescau

Slide 1 – Unilever growth strategy

In a minute, I am going to ask Richard Rivers to start walking you through our growth strategy, but before he does so, I would like to give you some context.

I have made it clear on a number of occasions that I have made growth our Number One priority.

Why? Because growth is the key to sustainable long term value creation, and because growth is where Unilever has been deficient in the past.

Through the 80's and 90's, Unilever volume growth averaged around 2.5%. In 1999 we launched a five year 'Path to Growth' strategy. Our goal was to bring about a sustained step-change in Unilever's growth rate.

Slide 2 – Path to Growth

Path to Growth achieved many important things. Especially those where we had complete clarity of purpose, and exercised clear top-down leadership.

It delivered brand focus, it improved global buying, drove up margins and improved capital efficiency.

But, it failed to transform our growth performance.

It failed because, although Path to Growth was very much a top-down strategy, it did not address important aspects of Unilever's business model.

Historically, Unilever's business had been built up around highly autonomous operating companies, with their own portfolio priorities and all the resources they needed – marketing, development, supply chain – to develop their business in whatever way they saw fit.

This was a highly effective way of building a truly multinational business almost 50 years before the term was invented. But it had become less suited to an increasingly globalised, competitive landscape, where battles were being fought and won with global scale and know-how, and top-down, strategically driven allocation of resources.

In today's world, a hundred different portfolio strategies run the risk of adding up to no strategy at all. It's not efficient, it doesn't leverage your best assets and it doesn't build strong global positions.

Slide 3 – A new business model

By early 2005, it was clear that we needed a new business model for Unilever. One that combined a more active, aggressive, top-down approach to managing and building our portfolio, together with an organisation to support this growth strategy.

Two sides of the same coin.

Ultimately, execution is what counts, but strategic clarity, total alignment, the right governance and mindset ….these are all preconditions for good execution.

The starting point for the growth strategy was a rigorous, unsentimental assessment of the strengths and weaknesses of our portfolio.

Let me now hand over to Richard who will tell you how we set about it.

Richard Rivers – Head of Corporate Strategy

Slide 4 – Market weighted growth vs. peers

The first conclusion was that our growth was not constrained by our portfolio mix of categories and geographies. Against the peer group of companies whose business overlaps significantly with our own, Unilever's market weighted growth rate [our embedded growth] of 3 - 4% places us pretty much in the middle of the pack.

We could not blame our performance deficit on the intrinsic growth of our markets.

Yes, there are always things we can do to move our embedded growth up the table, but the unavoidable conclusion was that the first priority was to make the current portfolio work harder.

Slide 5 – D&E exposure vs. peers

Second, we had very significant advantage in developing and emerging markets. Unrivalled scale and infrastructure, deep local understanding and high quality local management built up over decades.

Our D&E exposure contributes to Unilever's growth potential. Even more significant, this is an ACCELERATING contribution, as these markets grow faster than the first world AND increase as a proportion of our business.

That said, we could see that there was much more we could do in D&E with a new approach and much more differentiated resource allocation. We could do more to leverage successful mixes across our D&E infrastructure – especially in some Foods categories and in Laundry; and we were under weight against our own high standards in China and Russia. Obvious opportunities for priority and investment.

Slide 6 – Foods - Exposure to Europe

It's true that our foods business does have significant exposure to mature markets in Western Europe –although overall we're around the mid-point of our peer group.

But here again, we found unexploited potential. Growth spaces – Vitality spaces – within categories; brands where we could compete better LOCALLY by drawing on GLOBAL positions; just as we do in Personal Care.

Slide 7 – Global leadership, local strength

The fourth observation was about the compelling competitive economics of high relative market shares at the local level.

Where we can combine global leadership with a strong country position, we inevitably do well.

Slide 8 - Deodorants

This chart on Deodorants shows our market share, with each column proportional to our turnover in each country. As you can see, we're not only global leader; we replicate the same high share country after country. We're only really challenged at all in France, Germany and in the USA.

Slide 9 – Global / local II

Where we have strong local or regional positions but not global leadership, OR where we have global leadership but many contested positions, we can also do well IF we choose our battles carefully.

Slide 10 – Spreads

For example, in Spreads we're massive global leaders but usually competing against cheap local or own label brands. Our success therefore depends on targeting high value segments like Heart Health, where we can bring our skills to bear.

Slide 11 – Global / local III

Where we have weak local positions and little global leverage – we have little to offer.

We have looked at every one of our businesses in this way.

Slide 12 – Unilever vs Competition

The overall picture was of a business with real strengths, not driven to it's full potential; the performance gap largely attributable to a historic lack of clear prioritisation and active portfolio management; too much AVERAGING; too much money wasted on the costly defence of weak positions, and not enough concentrated on building strong ones: plenty of opportunities for better performance WITHIN the portfolio. Above all though, a real opportunity to align resources behind building the portfolio of the future.

We could raise the overall performance of the business by making more aggressive top-down choices as to our growth priorities, supported by sharply differentiated investment decisions. This, in turn, needed an organisation and new ways of working to ensure that resources are fully aligned behind these priorities and that the growth strategy is executed relentlessly and effectively.

You will hear much about how organisational change is supporting the growth strategy in later sessions.

So what choices have we made?

Slide 13 – Growth share matrix

The principles are very straightforward and follow naturally from the analysis that you've just seen.

First, we focus on businesses that are ATTRACTIVE. Businesses that are growing faster than average. Businesses that are favoured by demographic and consumer trends and especially Vitality. Businesses that are big enough to matter and that have a margin structure that fits with our business model.

Second, we like businesses where we are already ADVANTAGED or where we see a realistic route to building advantage in the foreseeable future. Businesses where we can combine global leadership with strong local positions. Businesses that will benefit from our brands and our technology.

And third, we like businesses where there is the potential to harness our unrivalled strength in D&E to roll out winning mixes to build more high share positions in faster growing markets.

I hope it follows that we're interested in PERFORMANCE businesses. Whether they're Foods or HPC.

Slide 14 – Growth Priorities: build 1

Several of our personal care categories tick all these boxes – Deodorants, Skin, Hair. Fast growing, high margin categories where we have strong global presence twinned with strength on the ground in many key markets. And categories where big global brands, marketing skills and technology already make the difference.

Slide 15 – Growth Priorities: build 2

But a number of our Foods categories also fit the bill. Like Savoury, Ice Cream and Tea, where, again, big global brands, marketing and technology CAN make the difference, (even if we haven't yet fully realised the opportunity). We're now applying everything we've learned in Personal Care to turn these Foods categories into a global game.

Slide 16 – Growth Priorities: build 3

However, in some of our other Foods categories – slower growing and less attractive overall – there is, WITHIN the category, a high growth segment. Commonly that is a Vitality space. Here we believe all the same rules apply. Big brands, proprietary technology, international transferability. Vindi will talk in detail about how we're targeting vitality opportunities in Foods.

Between this group and the last, we think we can dispel the myth that Foods is somehow a purely LOCAL game. You'll hear more about this from Silvia Lagnado.

Slide 17 – Growth Priorities: build 4

And this means, of course, capitalising on our D&E presence. Once we say that much of Foods works like HPC, we have the opportunity to leverage many more of our categories across some of the most vibrant consumer markets in the world.

There are other categories where we do not believe that it is a realistic, cost-effective option to aim for global leadership. Laundry is one of them. Here we put our emphasis on D&E. Our extremely strong positions give us the scale we need to compete successfully, extract good value and, when we need to, invest to defend our high shares with absolute determination.

As a matter of interest, in terms of number of washes worldwide, we are the market leader.

Slide 18 – Growth Priorities: build 5

And finally, before we leave D&E, there are those key markets I mentioned – Russia and China - where we can rapidly build our business, extending our D&E footprint by leveraging the same global brands and categories that we focus on elsewhere.

Other businesses that do not form part of these global priorities still play a role – as long as they contribute to Unilever's overall performance. Where they can add scale to a local portfolio or generate funds to invest elsewhere, we will do just that. (You'll hear more about Household and Oral Care later.) But we will not hesitate to act on businesses that are not strategically important and where we cannot create long term value.

Slide 19 – Growth Priorities: Personal Care, Vitality and D&E

So you can see, Personal Care, Vitality and D&E markets is really short-hand for a much more detailed and deliberate focus within our portfolio. It should be obvious that we don't invest in everything, everywhere, all the time. But neither is it any longer a patchwork quilt. A single business approach to build the portfolio of the future, with carefully selected, top-down growth priorities agreed down to the level of individual countries and sub-categories.

Without getting into areas of commercial sensitivity, let me give you some insight into how this maps into our categories as we saw them at the beginning of 2005.

Slide 20 – High performance categories

First, the simple part. Higher growth categories – where we have grown ahead of the market and gained share. Not just on average but, with the exception of what we all acknowledge was a terrible year in 2004, pretty much year in, year out. 45% of turnover. The majority of our growth priorities lie within this group. But not all.

Slide 21 – Mid-performance categories

Because then there is the slower-growth business where we perform overall in line with the market. Generating the funds to invest elsewhere. But it's WITHIN this group that we find the SELECTED growth opportunities – Heart Health in Spreads, D&E within Laundry – that I have just run through.

Slide 22 – Low performance categories

And finally, coming into 2005 we had about 14% of the business that was just performing badly. Here we have taken determined action. We've disposed of Fragrances and Frozen; we've stabilised Slim-Fast (at last): and we've slimmed down our Oral and Household business to the core of strong sustainable country positions that are now growing very nicely – and at good margins.

That's the portfolio strategy and the overall priorities. I hope it gives you a better insight into the kind of business we intend to build, and how.

We translate this into differentiated roles, different targeting, differential investment.

We do not just invest money into the market indiscriminately.

Slide 23 – Portfolio roles, investment

Through 2005 and 2006, we conducted a comprehensive review of our category strategies. These were then driven down through a disciplined 'strategy into action' approach so that now every unit knows its portfolio priorities and investment status, by brand and by category and we back this up with hardwired performance management.

As a result of this, for 2006, around 30% of our category / country business units were designated "high investment". Mostly because they form part of our growth priorities – either across the board (like deodorants) or a specifically targeted growth segment (like Heart Health within Spreads). But also a few where we are engaged in defending a valuable high-share position (like Laundry in India).

Around 50% of the business attracts normal, competitive levels of investment, typically because we are relatively unchallenged and seek to reap the rewards of leadership.

And 20% of the business is run on relatively low investment levels – either because we've focussed on maximising short-term value and generating funds to invest elsewhere, OR because market conditions make it relatively unattractive to invest at this time.

And this strategically driven investment plan has had a very direct impact on our growth performance in 2006.

Slide 24 – 2006 growth and market shares by investment mode

That 30% of the business in which we invested grew strongly, and we started to grow share as a result.

The business that received more normal – but still competitive – levels of support grew more modestly, but held its own in share while we started to extract more money.

And where we intended to cut investments and extract more profit we did just that – albeit at some cost to share.

So the strategy is showing through in results. The growth momentum is picking up, the COST of growth is under strict, centralised STRATEGIC control, and we're starting to reshape the portfolio into one that can deliver more sustainably into the future.

For more on that, I shall pass you back to Patrick Cescau.

Patrick Cescau – Group Chief Executive

I said at the outset that we have a NEW BUSINESS MODEL for Unilever. You've seen inside the growth strategy and you've heard how we ruthlessly allocate resources and hardwire management performance targets (and rewards) – all through our Strategy into Action process.

Slide 25 – Operating model

But the other component of the business model has to do with HOW we compete – with an absolutely aligned organisation.

You will hear from the GLOBAL CATEGORIES. Their single-minded role is to drive to true global advantage – and to leverage best practice across the world.

And you will hear from two of our REGIONAL PRESIDENTS. They are totally focussed on deploying investment and executing in line with the strategy.

FOCUS and single-point accountability are two watchwords of our new organisation. Capabilities is the third. You've heard before and you'll hear more about what we're doing in customer management and marketing.

So we have a growth strategy, and the means to drive this down into our operational plans. But how, ultimately, will this lead to improved business performance?

First, by choosing our battlegrounds, and focusing on our strengths we aim to gain share in aggregate. Not everywhere and not all the time – but selectively and purposefully.

And so, with our markets growing around 3 - 4%, and even after allowing for a certain level of on-going trade de-stocking, we can be confident of delivering growth firmly in the 3-5% range.

Slide 26 – Improving portfolio shape

But, importantly, the growth strategy also improves the SHAPE of our portfolio. By focusing resources and growing faster in our leadership positions and in high growth spaces, we will drive our portfolio in terms of both its competitiveness and its growth potential.

At a high level, you can see this happening with both our category mix and regional mix.

Developing and emerging markets, which accounted for around 36% of sales in 2004, now account for 41%. Looking forward, and even without a boost from acquisitions and disposals, we look set to hit 50% in the medium term.

Similarly, our Personal Care business, which has risen to 28% over the same period, would be over 30% in 2010 on a simple extrapolation.

At a lower level of granularity, the improvement in our portfolio will be even more marked as we simultaneously strengthen our global leadership positions and local market presence in high growth spaces.

As you know, we target 3-5% organic growth for the next few years. But clearly, re-shaping our portfolio should increase our opportunities to go for share gain AND help push up our momentum growth rate over time.

Slide 27 – Margin enhancement through better portfolio mix

And the benefits of improved portfolio shape are not just felt on the top-line.

Business in leadership positions and in higher growth spaces, business where we can also benefit from global leverage, HAVE higher margins. Personal Care is one, but only one, example.

This together with the operational leverage that comes from increasing volume means that our growth will be margin enhancing.

There is still one piece of the story missing - the role of acquisitions and disposals.

The growth strategy I have outlined for you today is an organic one.

It allows us to unlock the potential that already exists within Unilever's portfolio of categories, brands and geographies.

But acquisitions and disposals can have a role to play – not as an alternative route to portfolio development – not as a fall-back if we fail to execute our plans effectively, but as a means to ACCELERATE THE DELIVERY of our growth strategy.

Slide 28 – Growth/share matrix and role of A/D

Acquisitions can help us fill in a geographical gap or weakness in a priority category. Foods in Asia is an obvious area of interest.

It can move us QUICKLY into a leadership position in an attractive segment of an existing category. I've mentioned Vitality.

Most significantly, it can accelerate us into a leading share in high growth categories like Personal Care.

Over the past year, we have made no acquisitions of any note. Not because we haven't been looking for candidates but because we have not yet found the right value creating opportunity.

Nevertheless, being very clear on our portfolio priorities makes it much easier to sort the wheat from the chaff and to be clear on the strategic value of potential opportunities.

I have already touched on disposals. We will continue to assess all parts of the business on strict value creation criteria. We will not hesitate to dispose of businesses where we cannot see a realistic and value creating plan going forward, or where they might become a drain on resources that we can better deploy elsewhere.

In short, our growth strategy is not dependent on acquisitions or disposals, but they can certainly speed up the transformation of our portfolio. They are therefore likely to be an important feature of Unilever's business development over the next few years.

Slide 29 – More value from the portfolio

At the beginning of this presentation, I talked about a new business model for Unilever. I've given you some insight into our growth strategy. It's based on rigorous, unsentimental analysis, active portfolio management, differentiated investment decisions – deliberate and controlled.

We have made our choices and intend to win in the areas where we focus. We will build a business that is more weighted to leadership positions in high growth spaces.

But the new business model is not just the growth strategy. The other half of it is the organisation, the people, the capabilities and ways of working, the mindset, that can deliver the growth strategy.

Over the coming presentations, you will hear many echoes of the growth strategy.   But you should also hear a lot about how we are changing the business to support it. How our new ways of working are allowing us to do things today in the market place that we struggled to do with sufficient speed and effectiveness in the past.

This is therefore a good place to hand you over to Simon Clift, Unilever's Chief Marketing Officer, who is going to tell you little bit about how life is changing for our marketing function.

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