

Leadership and transforming an organisation

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Speaks at the CIES 50th World Food Business Summit, Paris

22 June 2006

Good morning ladies and gentlemen.

I am delighted to have this opportunity today to talk to you about the transformation of Unilever.

I know that Unilever will be well known to many of you, but it is worth noting that the company is today the world's third largest consumer goods business, turning over 40 billion euros a year.

Our brands help people look good, feel good and get more out of life – 150 million times a day, in 150 countries. Twelve of those brands now have sales revenues in excess of one billion euros a year.

To avoid disappointment, let me say straight away that this is a story that does not yet have an ending.

Unlike some of the speakers here today, we in Unilever are in the middle of a transformation, not at the end of one.

But we are making real progress and that is what I want to tell you about this morning.

With the ancient Louvre sitting right above us, it is appropriate perhaps to start with a little historical context. For while transformation may be a modern word, the reality is that successful businesses have been transforming themselves since commerce began. Companies that do not embrace this need, die. That is why the average life of a Fortune 500 company is 40-50 years.

Unilever knows this better than most. Way back to its origins in the 19th century, the company has been constantly evolving and adapting to meet changing circumstances.

It was one of the first, for example, to seize the opportunities presented by new and expanding markets across the world – from its roots in the nineteenth century it became a genuinely multinational business long before the term multinational was even in use.

Indeed, the company was the product of one of the first ever cross-border mergers.

This was followed by a period of unprecedented diversification – vertically through the supply chain and horizontally into a range of new business areas. Hardly surprising perhaps that by the middle of the last century Unilever was commonly referred to as a ‘global concern’.

Vertical integration made less sense by the 1970s and ‘80s, and our business refocused dramatically back to its core fmcg heartland.

So by the 1990s, the company had already experienced at least three major transformations – first becoming a vertically integrated multinational, then diversifying, then refocusing on the core.

Each was much more than evolutionary change; it was almost a re-invention of the business. Each was borne out of a sea change in the industrial environment. Each was essential for survival. And each was accomplished successfully.

To return to my point about the Fortune 500, only sixteen of the companies that were in the top 100 in 1957 are still there today, fifty years later. Unilever, of course, is one of them.

So, we know a thing or two about transformation. And we know – and I know personally - that the role of leadership in a time of transformation is to make the case for change and to set out the direction of the journey.

Latest transformation

In our industry today, the case for change is overwhelming. Consider just some of the factors which are driving change:

We face pervasive price pressure – on input costs, from our consumers and as always from our customers.

The nature of competition is changing, dramatically. Our industry is consolidating. Traditional competitors are becoming more global.

And new, low cost competitors are entering the market everywhere.

At the same time, indirect competitors – companies like Apple or Vodafone – are targeting the wallets of the same consumers.

And those consumers are getting more and more difficult to reach as media fragments and proliferates.

And then there's the changing nature of retailing. Our retail partners rightly ask for more innovation, supported by great brand mixes, rolled out across the world, available at minimum cost. Business has become a battle for organic growth: a battle in which only the fittest survive.

Looking back to 2004, we were struggling to deliver on this.

In fact, we decided that we could not deliver unless we transformed the company once again.

I'll put it more strongly – we concluded that without a major change to the business, we would eventually become less relevant to our consumers and less relevant to our retail partners.

That is the challenge we faced.

So what are we doing?

We're making changes in four major areas.

- To our portfolio.
- To our capabilities.
- To the organisation and our ways of working.
- And to our culture and behaviours.

Let me say something about each, and let me start with our portfolio.

1. Portfolio

The days when a leader could set a direction that would be interpreted by a hundred individual managers are long gone. In today's world, one hundred different strategies adds up to no strategy at all. So now we set much clearer priorities, and we do so on the basis of strategic choices.

Our objective is to build a portfolio weighted to market leadership positions and playing in higher growth spaces. Hence our emphasis on personal care, on our businesses in D&E markets, and on realising the company's Vitality mission – our response to consumers' increased attention on health, nutrition and their well-being.

We are competing to win in these defined areas of focus and are investing disproportionately – and over the long term – to support this objective, whether in R&D, people, trade spend, A&P.

Where businesses don't fit with this strategy, we are taking the decision to exit – starting with our cosmetics business, and most recently with much of our frozen food business in Europe.

2. Capabilities

A key part of any business transformation is to upgrade skills, not across the board but in those areas that are mission critical.

We refer to these as our 'capabilities' and it is the second of the four areas of change that I want to talk about this morning.

In a world where the strategies of the major players are steadily converging, it is the quality of execution that will distinguish the winners from the losers. So you have to decide which capabilities will give you excellence in execution.

The most valued capability in Unilever used to be general management. Today, we recognise that we need to put much more emphasis on ensuring we are world class in *each* of our core processes – everything from innovation to shopper marketing; from customer management to supply chain.

We have always been good in these areas, but not consistently enough. Our performance needs now to be good everywhere, all of the time.

Our initial priority has been on customer management. We are running a major programme of change to strengthen our capabilities here and to give it the importance it deserves – right at the heart of the business.

We call this programme, Winning with Customers.

It has been pioneered successfully in the United States and the Netherlands, and is now being extended to other major markets around the world.

On the other hand, where it makes sense for some capabilities and activities to be handled by others, we are outsourcing those functions, whether in IT, HR transactions or in areas of finance.

This is leading to lower cost and better service, but also providing more scope and flexibility for us to focus on core priorities.

3. Organisation

The third area of change is to the organisation itself.

Here, we are doing all of the things you would expect us to do: delayering the organisation, simplifying the structure, increasing the speed of decision-taking.

But the critical change we have made is in our decision to move to a more integrated and globally-co-ordinated business model. And, paradoxical though it may sound, we have moved the two big pillars of our company in different directions.

On the one hand, we have set up **global category organisations** to be our experts in the needs of shoppers and consumers in *all* of the markets in which we operate.

They are responsible – across geographies – for leveraging all of the things that have to be global. Excellent brand mixes, R&D, innovation, advertising, the allocation of resources, the building of world class marketing capabilities across the globe.

And on the other hand, we have established **regional go-to-market organisations** to meet the needs of shoppers and retail customers – market by market.

In effect, I have asked our country leaders to undergo their own personal transformations; To change from being general managers to being – at least first and foremost – chief customer officers in each of our markets. To refocus their time from being 80% on consumers, to 80% on customers. To view customers, not as a channel through which to sell brands, but as partners in revitalising our categories.

4. Culture and behaviours

The fourth element of our transformation is in our culture and behaviours.

This was essential if we were going to make all the other aspects of the transformation fit together – our new strategic priorities, new capabilities and the new organisation.

In particular, we needed our people to be more accountable for delivery and more willing to work together at the same time. So managers in the go-to-market part of the organisation cannot succeed unless they work together with their colleagues in the global categories. And vice versa.

Behavioural change is never easy. Our history has left us with a legacy of fiercely independent entrepreneurial general managers in 106 countries around the world, wherever possible led by indigenous managers. In many cases they are so successfully integrated into their local cultures that the population would be shocked to learn that Unilever Brazil or Unilever India are anything other than a wholly Brazilian or wholly Indian company.

In a globalising world of intense competition and specialist skills, such independence is an asset but one that needs to be tempered and directed. We all understand that. We have all bought the rational argument. We know that the incredible talent we have in Unilever can adapt. But that doesn't instantly change how everyone *feels*. It doesn't change their mindset overnight. It is hard for a senior leader to change the very behaviour that made him or her so successful in the first place.

So we are doing all the things necessary to help facilitate the new behaviours. We've changed our incentive systems. Regrettably, we have had to change some of our people – in fact almost half of our most senior leaders have left the business in the last year because they didn't fit. We've changed a lot of the language we use internally. And the new senior leaders in Unilever are acting as role models for the new behaviours. We are making real progress. But you won't be surprised when I tell you we are only part way through.

The challenge here has been to move with a combination of pace and sensitivity.

Impact on the business

So how are we doing?

Let me give you a quick snapshot of where Unilever's latest transformation – the latest in a long line – has got to.

First, growth. The transformation is beginning to show through where it matters – in our results. Unilever's organic growth fell to almost zero in 2004. Last year, we improved that to around 3%, the growth rate for our markets, and we maintained it – as you'll see from this slide - into the first quarter of this year.

Some of this growth has been fuelled by our Vitality-driven innovation programme, which is helping to revitalise whole categories. Spreads, for example – a category we effectively invented more than a hundred years ago with margarine but which by the 1990s was moribund with virtually no growth. The pro Activ/Becel brand, with its cholesterol reducing properties, has helped to restore growth – impressive growth at that - and at premium prices.

By responding both to a consumer desire and a public anxiety over heart health, this brand is at the frontier of functional foods, to the point that it even qualifies now for reimbursement under some French and Dutch healthcare systems.

And we are already reaping the benefit of a global category organisation, brilliantly illustrated through the roll-out of the Dove Campaign for Real Beauty. Highly innovative and commercially successful, it is helping to drive growth in a very vibrant category - skin. The product of an Anglo-US collaboration, it is now being rolled out across the world.

Equally ground-breaking, and also being rolled out globally, is the laundry category's 'Dirt is Good' campaign, which was originally developed in Brazil.

We are also getting the benefit of our increased focus on high growth areas, like our personal care business and our businesses in D&E markets.

The results speak for themselves.

And finally, raising our capabilities in our relations with both customers and consumers is also bearing fruit.

Customers themselves tell us that they see the difference, exemplified by last year's Cannondale Power Ranking Survey in the USA, which many of you will be familiar with, and which shows Unilever improving – in some cases significantly – in all of the main areas of the survey.

And we are developing some phenomenally successful brand mixes based on brilliant consumer marketing and advertising.

Take Axe, for example, our men's grooming brand, which goes from strength to strength on the back of some unconventional advertising that really connects our consumers to the 'Axe effect'.

Little wonder therefore, perhaps, that Unilever was one of the big winners at last year's Cannes Advertising Awards, winning 17 of the coveted 'Lions' – twice as many as our leading competitors. Just take a look at some of these...

What's not changing?

A vital task for the leader in transforming an organisation is to be crystal clear about what not to change. As the English would say, not to throw the baby out with the bathwater.

Every organisation has a unique set of values. The role for leaders is to reassure people that while the business may be transforming our values remain the same.

For us at Unilever, the values that will not change are:

- our commitment to responsible and sustainable trading;
- playing an active and positive role in the communities in which we operate;
- behaving with integrity and sensitivity in all our dealings, whether with customers, employees, suppliers or with our many other stakeholders;
- and living out our commitment to diversity.

These values have always provided the glue that helps to bind Unilever together – but their adhesive qualities become even more critical in a time of change and transformation.

Conclusion

Ladies and gentlemen. Unilever's transformation has started in earnest. We still have some way to go, but the direction is clear and we are making progress. We're gearing up now to go even faster.

As I indicated at the beginning, in Unilever we know something about transformation.

We have done it before, and emerged stronger.

We believe it is a fact of everyday business life; one we embrace with confidence.

I hope you have found it an interesting story.

Thank you.

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June 22 2006