Patrick Cescau
Group Chief Executive, Unilever

Defining and Designing our Future

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The theme I have been asked to address - Defining and Designing our Future – is, to say the least, a challenging one. But I welcome – and very much appreciate – the opportunity to share my perspectives with you here today on behalf of Unilever.

To start designing the future, I want first to look back into the past. Eight years back, to be precise, when Niall FitzGerald stepped onto this stage to discuss 'Tomorrow's Wash - the Challenges and Opportunities for the Detergents Industry in the 21st Century.'

Then, as today, the challenges facing the industry were also the areas of greatest opportunity. They included:

- The need to refocus innovation to reflect the shift in the balance of consumers' spending power from the developed to developing markets.
- The parallel requirement to ensure globalisation doesn't just impose developed-world solutions on these new consumers, but actually meets their needs.
- The absolute imperative to sustain the planet's ecosystem and conserve scarce resources - especially water - for future generations.
- And the need for new forms of collaboration and partnership to make all this work for us, our R&D partners, civil society and consumers.

That was the future agenda eight years ago. Sounds familiar today? It certainly does to me - and I'm sure to you too.

Four years later, in 2002, Procter and Gamble's A.G. Lafley expanded and refined these challenges. He too highlighted collaboration - and innovation that needed to be faster and more responsive. To these he added the need to develop new cost structures to deliver superior value.

At the same event, my colleague Ralph Kugler also examined the challenges of collaboration and sustainability.   And he added the need to engage more widely, both with opinion-formers and with our own people.

That's the end of my history lesson on previous World Conferences. But in terms of defining the future - setting the industry's compass for the early 21st Century - I think Niall, A.G. and Ralph did a pretty good job. With often uncanny accuracy, they foretold much of the world we are living in now.

So we can't say we didn't see it coming. But vision is the easy bit. The real challenge is execution.

So, let me offer you one more quote and, forgive me, one more piece of history. Not from this Conference, but from the 1984 US Democratic National Convention.

The audience there gave a standing ovation to the then Governor of New York and rising star of the US Democrat Party, Mario Cuomo.

Cuomo called on his party to look beyond the glitz and glamour of US presidential politics and to focus on "the hard substance of things". He went on to argue:

> "We must win this case on the merits. And we'll do it not so much with speeches that sound good, as with speeches that are good and sound; not so much with speeches that will bring people to their feet, as with speeches that will bring people to their senses."

It's great rhetoric. But it also has great substance. It's about turning vision into execution - into concrete words and actions that people can relate to.

Fast forward to today. More than two decades later, one of Cuomo's Democrat successors - Al Gore - is energising consumers worldwide by telling them "An Inconvenient Truth" about climate change.

It's powerful stuff.   Already, the film has been seen by millions of people across the United States and elsewhere. People are watching and they're listening.

And when consumers listen, we need to listen as well.

So, today, I want to try to do a number of things:

- To explain why I feel action in the face of fundamental changes to our ecosystem is becoming more urgent by the day.

- Why I think the industry has so far failed to keep pace, and why I think our response needs to be guided by the rapidly changing perceptions – and behaviour – of consumers.

- I will identify some areas where I think the industry can work more collaboratively, and I'll set out the role and importance of industry and non-industry partnerships.

- I'll try to illustrate all of this by talking about the general approach – married with the specific actions – we are taking at Unilever.

And then I will draw the threads together by highlighting what I believe are the key challenges that the industry needs to overcome.

So, that's the agenda. Let me start by taking stock. Since the last World Conference, the pace of change and the resulting pressures have intensified. We have seen:

- Economic pressures around the cost and availability of energy, water and raw materials.

- Regulatory pressures around public health and ingredient safety, especially in Europe.

- And consumer pressures, as people's discretionary spending increasingly goes elsewhere.

None of this is new. In recent years, our industry has thought and said a lot about the challenges facing it. We have been innovative, competitive and resilient in tackling those challenges, making good incremental progress. We should be proud of what's been achieved.

However, I also think a lot more has been said than done. This is partly because we've had to respond quickly to a series of unprecedented events - ranging from supply shortages to natural disasters.

However, many of these events actually serve to underline the urgency of action on the two global issues that will define the future of every consumer, and every business: sustainable development and climate change.

Some of you may have seen the report last week from meteorological experts in the UK, arguing that a third of the planet would be desert by the year 2100. One national newspaper captured the findings with a dramatic – and thought-provoking – headline: *The Century of Drought*.

But 'a century of drought' is more likely to arise if it is accompanied by a century of doubt. So, now is the time to act. As an industry, we have to recognise that the level of engagement with these issues is rising by the day.

Who would have thought, even two years ago, that a former presidential candidate would have a hit movie in the US about climate change? Or that Wal-Mart would hold corporate screenings of that movie for its staff, and actively seek partners to reduce its environmental impact and move this agenda forward?

In Europe, the impact of social and environmental considerations on consumer buying is reaching a tipping-point. Sales of 'ethical' products such as Fairtrade coffee may still be tiny – but in places like the UK they are growing at twice the rate of 'conventional' products.

And across the world, the rise of green consciousness is reshaping the strategies of major businesses:

- UPS now has fifteen hundred alternative-fuel vehicles;
- Wal-Mart is the world's biggest buyer of organic cotton; and
- sales of GE's environmental Ecomagination brand surged 62 per cent in 2005 to over 10 billion dollars.

Statistics like these get bracketed loosely under 'responsible corporate' behaviour. But what does it mean to be responsible in the 21st century? Ask yourself this question. If the 20th Century defined industry responsibility in terms of product safety and workers rights, is the 21st Century going to hold us accountable for the social, economic and environmental impact over the full lifecycle of the goods we offer?

The answer is probably yes. The tide, I believe, is irreversible. These are seismic shifts in the world we do business in. As their true scale emerges, could it be that our industry has been too busy trying to define our own future?

In reality, the external environment is evolving so fast that it is going to shape us more than we can possibly shape it. We are not masters of our own destiny. And it is misguided to pretend we are.

These are strong words. But think about it. A reality gap has opened up between where we are and where we know - both instinctively and intellectually - we need to be. Rather than building abstract visions of our future, it is time to respond to that future - because it's happening. Now.

This conference gives us an opportunity to stand back every four years and scan the horizon. When we do, we'll find that we are entering a period where incremental steps are not enough. Just keeping pace will require bigger leaps than ever before.

The new external focus of this Conference is an important step in the right direction. As the list of speakers shows, we are moving from an industry that only talks to itself, to one that engages and collaborates much more widely. I welcome that.

So, what will our industry look like in the future?

The starting-point must be our consumers. It's obvious, but it needs saying: consumers are changing fast - in their aspirations, location, priorities and environment.

Today's consumers are more excited by technology experiences than by detergent brands.

Some are happy to trade down on their detergents so they can trade up in other areas of their lives. A Unilever colleague of mine in India met a lady who had cable TV but no running water. Given the choice, would she trade in her TV for water? No. She was used to fetching water - it was good exercise, and she always met people for a chat on the way - while the cable TV connected her to the rest of the world. So who needs running water, when you can have the latest TV, mobile handset or iPOD?

Trading down on detergent isn't limited to emerging markets. This is worrying, since commoditisation and falling prices will deny our industry space to innovate, unless we start to think differently about the products we sell.

So, consumers are changing. But what new are we offering them? Be honest: essentially the same way of cleaning as we offered their parents. A hundred grams of detergent, the usual amount of water, churn it around, and finally pour the chemical and dirt cocktail down the drain. Sure, we've offered the convenience of a bar, a powder, a liquid, a unit dose and with different concentrations. All good incremental progress. But are we really creating genuinely better solutions?

There's a similar challenge at the industry level. We are a mature sector, with mature growth rates. For companies interested in top-line growth, detergents – in the developed world at least – is not where the glittering prizes lie. Here, the challenge is to provide innovative and relevant brand offerings. In detergents, we look to the developing world for growth: and even here we face stiff competition from low-price, low-cost but not necessarily low-margin players.

How does Unilever view all this? Actually, with some optimism.

The combination of explosive growth in emerging markets and trading-down takes us into an area where Unilever has vast experience: reaching the huge numbers of people at the base of the pyramid.

And, like consumers themselves, the pyramid is shifting.

Take India. Despite high GDP growth over the next few decades, we expect socio-economic disparity to increase there. The result will be a vast consumer pyramid with even more sharply segmented and differentiated needs.

As this happens, how can we make our brands as exciting as mobile phones or fashionable shoes?

A one-size-fits all approach won't work.

And focusing just on one segment will restrict growth and profitability.

So the most value-creating approach is to serve the entire pyramid. Of course, this is easier said than done.

At the <u>top</u> of the pyramid, affluent Indian consumers want brand offerings as good as the best in the world.

At the <u>base</u>, we need brands that excite the hundreds of millions struggling to improve their lives on two or three dollars a day.

Fortunately, the answer is the same at every level of the pyramid: to focus on delivering value to people's lives, not just on price.

Sure, consumers want affordable products. But we won't grow our business by setting out to offer a 'cheap' solution. As my British colleagues would say, it has to be a bloody good solution.

But that raises another question.

What does a ‘good’ solution actually mean - and what will it mean tomorrow?

Of course, we need to make clothes clean - that’s a given. But how about fitting in with social and environmental changes, in a world where clean water is in short supply, and where regulators, NGOs and consumers themselves are increasingly scrutinising our environmental performance? And how can we all help to define better solutions under these conditions?

Take REACH, for example, the new European regulatory framework for chemicals, which covers thirty thousand substances and is expected to come into force next year.

Like many of you here, Unilever has worked hard to get a more reasoned debate on REACH and to improve its impact. True, its adoption still creates a further cost burden. But like much regulation we should recognise it also has a positive side, by embedding best practice. Despite some critics, we believe the industry is using chemicals safely - and REACH should help us to get this message across.

The challenge now is to get the communication to consumers right. That means focussing on the needs of consumers – not just regulators and NGOs – and doing so on the basis of likely risk not potential hazard.

This argument is yet to be won. Indeed, it is still being debated, as you know, within the European Parliament. For our part, we will go on arguing that a framework for effective communication is a crucial element in the management of chemicals. And we will do so in the same positive and constructive manner that has underpinned all our representations on REACH. In the end, it is about building and safeguarding consumer confidence and trust in our brands.

I hope that as an industry we can continue to make common cause on this.

However, REACH represents only the tip of the biggest iceberg facing our industry: our collective impact on the environment, especially water.

Are we really facing up to this challenge?

Water is essential for everyone - and for our industry more than most, something highlighted last year by the World Business Council for Sustainable Development (WBCSD) in its work on Water Scenarios.

We worked on this project with Procter and Gamble and companies from other sectors. It brought it home to all of us how finite a resource water is.

The message is clear. We all need to examine our own water needs and act together to reduce them.

At Unilever, we have pioneered water initiatives through innovations such as *Surf Excel*, which is enabling Indian consumers to get the same results with less rinsing. But we need to go further and faster.

Of course, the industry as a whole has made real strides towards making consumption more sustainable, by scaling down the chemical load and moving towards low-temperature washing - an objective that is becoming ever more crucial amid rising energy costs.

Concern over water is also feeding into the whole debate about washing machines using less water. But is this debate reaching down into the industry's product development mindset?

One of the calls to action made from this stage in 1998 - the need to save fresh water by making surfactants work in 'grey' water and salt water - is still largely unanswered.

Whatever action we take, we do know that the pressure for sustainable consumption is mounting so fast that it will be hard to keep up.

Let me say something about the approach we're taking at Unilever.

The top line is that we are raising our sights in the whole area of corporate responsibility and sustainable consumption. There are lots of things we can't influence. But where we can reduce our impact, make better use of resources and deliver better brand solutions, we will.

First, we need to consider the direct impact of our manufacturing operations.

A holistic lifecycle approach - also called Life Cycle Assessment, or LCA - has enabled us to evaluate the potential environmental effect at every stage, especially in such areas as:

- energy and water consumption;
- transport;
- packaging;
- and chemical content.

This lifecycle assessment helped us, for example, to develop Skip Actigel tablets - now our fastest-growing home and personal care brand in France. The tablets deliver the same laundry performance with 20% less chemical composition and a 5% reduction in the size and weight of the packaging - saving energy and resources in making and transporting the tablets.

However, in practical terms, our direct environmental effects in these areas represents only a fraction of the impact at the point of use.

Reducing this is now a vital focus for us. That's why we helped to develop the AISE Code of Good Environmental Practice, as well as its "Washright" campaign, which we continue to promote. And we've gone further – we're leading the AISE Charter for Sustainable Cleaning and supporting sustainability projects in Central and Eastern Europe.

However, while energy and detergent use are important, our most critical impact is on water usage. Fresh water is crucial at every stage of the detergent product lifecycle - in 2005 we reduced our own consumption of water by 2.3% overall, and by 4.2% per tonne of production.

But even significant savings like these are dwarfed by the scope for reduction in consumers' homes. This is because 95% of the water used in the overall lifecycle of a detergent product is used during the actual laundry process by consumers. The rest is split between detergent manufacture and the production of raw materials.

And the need to save water is increasingly driving consumers' buying decisions.

This is partly because consumers want to limit their own impact. But there is a direct economic incentive too. Consumers only have so much discretionary spending. We can help them manage their household costs by reducing their water and energy costs in a meaningful way – and brands that understand this best will add the most value.

Take *Surf Excel Quickwash*, which I mentioned earlier.

It saves households in India two buckets of water per wash. In 2005, sales of *Surf Excel* grew by 50% in the water-stressed southern Indian states of Tamil Nadu and Andhra Pradesh; and by 10% even in Northern India, where water is more plentiful.

Alongside such product innovations, we also invest and participate more generally in water conservation projects at the community level.

This is not just good for the societies and consumers involved, but also helps to safeguard the detergents market - because without water to use with them, nobody will buy our industry's products.

Again, we're making progress.

In Indonesia, the River Brantas in East Java has suffered from decades of heavy pollution both from industrial and domestic waste. Local people use the river for their water needs - as do we, in manufacturing personal care products in our local factory.

Thanks to a Clean River Programme we have been running there since 2001, fruit trees once again grow on the banks of the Brantas, and silver catfish caught in the river can be found in local restaurants. This is clearly in everybody's interests.

Initiatives like these can and do make a difference - but we have much further to go, not least in giving consumers more opportunities to conserve water themselves.

In many African countries, laundry accounts for more than 10% of total domestic water use. Increasing water stress or scarcity in these countries means people will face tough choices over how to use available water.

As an industry, we have a clear responsibility.

We have to enable consumers to clean clothes in locations where water is scarce or poor quality – and do so in a way that is both cost effective *and* offers all the necessary functional benefits, including hygiene.

One response we are developing is to keep the value in water by recovering and recycling rinse water to allow it to be re-used post-laundry.

Another is to improve the 'rinsability' of our products and reduce the need for a second rinse.

Like others in the industry, we are also developing 'green' chemistry solutions. Many of these are being done in partnerships.

And striking new partnerships and collaborations - one of the major themes from previous conferences - is also key in reducing lifecycle impact. We can't safeguard water - in all places and for all its uses - on our own. We need partners.

That's why we participate, for example, in the Water Group of the WBCSD, helping to build business awareness and practical solutions. And following the insight we gained from working on the Water Scenarios, we've recently reaffirmed our commitment to Water and Sanitation for the Urban Poor (WSUP).

Co-founded by Unilever and a number of profit and not-for-profit organisations in 2004, WSUP is a ground-breaking, multi-stakeholder partnership which addresses the water and sanitation needs of low-income communities in fast growing cities across the developing world.

Today WSUP is working with local partners in Kenya, Tanzania, Zambia, Mozambique and Madagascar, in India and Bangladesh and in Brazil and Nicaragua. They are scoping opportunities in communities of between 50,000 and 100,000 people where there is a pressing need for sustainable water, sanitation and better hygiene.

Partnerships like these help to engage our businesses directly with people's everyday challenges. And, as urbanisation gains momentum in the 21st century, they will enable us to really understand what corporate responsibility for water means and how we can best respond.

As these examples suggest, we believe the industry's agenda - like its impact – is far wider than water. Since the last conference four years ago, we have run a major study with Oxfam in Indonesia.

By exploring the full breadth of the value chain, this two year study represented one of the most thorough attempts ever undertaken to understand the links between international business and poverty reduction in the developing world.

We both learnt a lot. Building on the Oxfam findings, we are combining our LifeCycle Analysis process with our marketing process to create a tool called Brand Imprint.

Brand Imprint will give an all-round picture of the total social, environmental and economic impact of a brand and the influences that will shape its growth in the future. This, in turn, will enable us to optimise our impact through new collaborations, different partnerships, and new kinds of open innovation.

Let me give you one example, from the US.

When we first worked out how to concentrate enough detergent for 32 loads of laundry into a slim 32-ounce aqua plastic bottle of '*all' Small & Mighty*, we knew we could save energy, shipping costs, shelf space, water, plastic and cardboard.

But we were concerned that the smaller packaging might make US consumers think they were getting less for their money.

So we formed a partnership with Wal-Mart under which it agreed to promote *'all' Small & Mighty* - helping to increase consumers' confidence and get sales moving.

You can now find ‘*all’ Small & Mighty* in supermarkets across the US.

Already, the partnership with Wal-Mart has accrued savings of:

- Over two million gallons of water during manufacture;
- 3.5 million square feet of corrugated cardboard;
- And almost 5,000 gallons of diesel.

Total financial savings in the supply chain and in-store run at over $600,000.

A win-win for us, Wal-Mart, consumers and the environment, including:

- Lower greenhouse gas emissions.
- Less plastic packaging.
- Reduced use of petrochemicals.

All these are part of a complex system of interconnections and interdependencies. We need to get to grips with and manage these. When we do, we can influence consumers and reap the benefits collectively.

Here’s a final thought on the industry’s positioning on sustainability. I haven’t said much yet about brand-building. That may seem strange, since branding is at the core of what we all do. But I believe that while the aspirations and values we use as inputs to all our brands may change, our skills in creating and sustaining powerful brands - including through 360-degree communications - means we are well-positioned to lead in this area.

Our industry’s brands have a proven track record in changing people’s behaviour. So, why not use them now to move consumers towards sustainability?

We have an opportunity to turn this industry into a model for others - and position ourselves as the physical translation and manifestation of sustainability for consumers in their everyday lives. I think as Unilever we’re doing just that with ‘*all’ Small & Mighty*.

Our collective challenge is to act as one on the principles of change with suppliers, NGOs, governments and retailers. Then, individually as businesses, we can seek to create competitive advantage by being the best provider under that new framework. It’s still dynamics of market competition - but with a wider and more representative set of factors taken into account.

I’ve covered a lot of ground in this presentation, and raised a number of issues affecting the future design of our industry. Many of these are inter-related. None lend themselves to easy answers.

Some are also mutually conflicting - in that attempting to solve one problem may make things worse elsewhere. In that context, I am reminded of a recent editorial in *The Financial Times*, which argued:

> “On present policies, the rise of China and India from poverty is incompatible with any attempt to slow, let alone halt, global warming. A choice has to be made to keep poor people poor - or to take our chances on the environment.”

Our industry faces a similar growth paradox. The more successfully we strive to make our products sustainable, then the more we sell - and the harder we have to strive to stop our overall impact increasing.

We face similar paradoxes ourselves as Unilever. Our 'Dirt is Good!' campaign, for example, has been hugely successful in striking a chord with consumers. It promotes true vitality by encouraging kids to get outside and play, while allowing parents to feel safe in the knowledge that they will be able to remove those awkward stains. At a time when obesity and children's sedentary lifestyles are the focus of growing concern, this is a very positive message.

The paradox of course is that we are also encouraging increased consumption of our laundry products.

It is a difficult circle to square. However, I believe that this industry can marry growth with sustainability. Let's face it, we'll have to if we're going to align the interests of consumers, citizens, shoppers and employees with our brands and values.

It comes down to looking at the world around us, and reshaping ourselves and our role to fit. In an era when so many of the forces shaping our industry are external - new environmental pressures, new regulation, new consumer aspirations, new textiles, new machines - we must renew our industry to avoid being reduced to a bit-part player in the clothing care sector. The camera film-processing industry became obsolete almost overnight, and we need to avoid the same thing happening to us.

We will do it by re-examining what consumers actually pay us for. Instead of saying 'let's improve our products', let's go back to thinking about what laundry, health, hygiene is really about. About how meeting consumers' changing needs in new or different ways can enrich their lives, deliver better economic value and reduce the environmental impact.

That includes enriching their whole environment. Sure, tackling the issue of water scarcity will be costly, but if we can demonstrate real benefits through laundry technology, then we are truly becoming competitive.

This is the best answer to commoditisation.

We need to shift from a product efficiencies mindset to a brand delivery mindset. We need to identify what benefits in terms of lifestyle, environment, time, and excitement we want to deliver in, say, ten years' time.

Then we can set our R&D in train to deliver these benefits by designing the right solutions with our partners in innovation. We recognise at Unilever, for example, that we don't have a monopoly on new concepts or solutions. That is why we are open for business on Open Innovation. We want to collaborate with the best minds to make the differences that no single firm could make alone. We would rather work with someone who has the answer today than hold out in the hope we can eventually come up with it ourselves tomorrow. And these could be any partners - retailers, machine and clothing manufacturers, mobile phone operators, handset makers, soft drinks manufacturers, and a host of other organisations that touch consumers' lives.

Finally, we need to get the message across to consumers more clearly than ever before that we really do want to give them value in every aspect of their lives, and to highlight the ways in which we do it.

I'm talking about a transformation - covering what the industry does, how it does it, and what it says about it. The hurdles to achieving this boil down to three key challenges.

First, we need not just to listen to consumers' needs, but to absorb those needs more acutely. This means understanding their household choices, constraints and pressures, and how important a part we play in their lives. Only then can we create more value for them through our brands.

And we need to do this at a time when the pyramid is evolving into a more fragmented and segmented model. One size will not fit all. Consumers' simultaneous trading up and down in different areas is driving a polarisation between quality and value - forcing companies to choose between the two rather than trying to combine them. We have to feed this more targeted sense of consumer need into our rethink of what laundry is all about.

The second challenge is around resources. As these become costlier and scarcer, we have to identify exactly how much we need to get the job done. Then, by applying new design principles, we can progressively drive down our usage of resources and move towards ever more sustainable consumption. True, we've made progress on reducing the chemical load and improving low-temperature washing. Yet our industry's environmental impact remains unsustainable if we all continue to do what we do now, but end up doing it for nine billion people. China and India are hungry for more sustainable solutions - and they may be good places to start.

The third challenge is execution: putting this transformation into effect. The perception of our 'mature' industry is based on first-world oriented thinking. We have traditionally thought of the world in terms of West to East and North to South. We need to change our view of the world, and that of our collaborators. To get a sense of the scale of this transformation, ask yourself this: will we still be selling individually-packed products around the world a hundred years from now? If not, isn't this a huge opportunity for us all?

I've raised a number of questions in this presentation. I make no apology for that - open questions are a function of the fast-changing world we live in and will be for many years. None of us has all the answers - so we must work differently and smarter to find new and better solutions if we are to grow successfully in this increasingly complex and globalised world.

So, what does all this mean for us here today? I'm looking to this conference for a reality check on where we are heading as industry. I hope we will use the speakers and events to stimulate ideas and engage in finding answers to the bigger environmental questions and issues I have raised. So when we leave, we will leave with fresh ideas and new motivation and excitement to act on them. Then, when we next meet in four years' time, we will be able to say we are living the future we all want.

Thank you.

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For more details of our environmental & social initiatives see www.unilever.com/ourvalues/environmentandsociety