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Redefining Business Success

After Copenhagen: How can business face the Climate Change Challenge?
Economist Third Annual Sustainability Summit
London
25 February 2010

The question as to whether historians will look back on the Copenhagen Conference as a wasted opportunity or a useful step forward is one that I will leave to experts like Tim Smit and Jonathon Porritt.

All I will say is that the failure of governments to produce a comprehensive agreement should not be taken as an excuse for inaction. A political framework will emerge at some stage.

In the meantime business can do a lot without help from the politicians – whether in their supply chains, factories, in the design of their products or in using their brands to educate people about more sustainable living.

Tackling this with urgency and priority makes good business sense.

Companies that embrace it and make it part of their strategy will be rewarded with higher rates of growth and lower costs. Those who wait to be forced into action or who see it just as reputation management or CSR, will do too little too late – and may not even survive.

The problem is essentially one of resource scarcity.

One planet living

The starting point is the 'inconvenient truth' that with global population approaching 7 billion we are already consuming resources at a rate greater than nature's ability to replenish them.

And as population rises to nine billion over the next four decades the problem will only become greater.

According to the World Wildlife Fund, if everyone consumed like the average Briton we would need three planets. Unfortunately, we only have one!

Some of the problems we know how to fix.

To feed a growing, and more prosperous population, for example, world food production will have to increase by 50% by 2030. Better land use will help us to do this, improved yields, better use of water and fertilisers and less waste.

Other problems are more difficult:

- Water – particularly in the D&E world – is becoming scarce.
- CO2 levels are rising. Advances in technology may help to decarbonise the energy sector, but they will take time, political will and massive resource to implement. Meanwhile the poorer countries of the south will suffer from rising sea levels, shortages of water and the desertification of their land.

Why is it important to business?

If we, as consumer goods companies, ignore these trends we will suffer.

According to AT Kearney and the World Resources Institute, in a world of tougher climate change regulation, stricter policies on forestry and growing water shortages, food companies face a reduction in earnings of between 13 and 31% by 2013.

So even if a company's moral compass is not sensitive enough to trigger action, self-interest should. In my view, food and consumer goods companies like Unilever have a responsibility to act – not just for the common good but in the interests of shareholders.

So, what do companies have to do? How can the challenges of climate change be turned into opportunities?

Let me share some thoughts based on our experience at Unilever.

Decoupling growth from environmental impacts

First, you have to decouple business growth from environmental impacts. That means a new business model.

Business as usual no longer applies. Companies have to find ways to grow with fewer resources.

- How you operate
- What you make your products with
- How you market them
- How you sell them
- How you ask consumers to use them.

Everything needs to be re-thought. The rules of the game are changing.

But new ways of working require new ways of thinking.

That's why, at Unilever, we have set out a new vision for the company – the challenge of doubling our size whilst reducing our environmental footprint.

It starts with putting our own house in order. That's why over the last 15 years we have reduced:

- CO2 from energy by 41%
- Water use by 65%
- Total waste by 73%.

Value chain thinking

Of course we will go on doing this.

But our factories and operations only account for about 3% of our total carbon footprint.

Around a quarter comes from upstream activities by our suppliers.

70% is generated by consumers when they use our products to cook, to wash their clothes and clean their homes.

Measuring the total footprint in this way – right across the value chain – helps to sharpen priorities.

For Unilever it has meant:

- a focus on agriculture, from where half of our raw materials come.
- a bigger emphasis on helping consumers to use our products in a less resource-intensive way.

Sustainable sourcing: tea

It's important not to see the two ends of the value chain as separate entities.

Meeting a supply chain challenge can create a marketing opportunity.

Take tea.

I hope you all woke up this morning to cup of PG Tips.

If you did, you should feel good.

Because three years ago we committed to source all the tea for our Lipton and PG Tips tea bags from Rainforest Alliance Certified™ farms by 2015.

It's a big job. Ultimately, it means ensuring around 500,000 tea suppliers manage their land sustainably.

But we are well on the way. Already, 80% of the PG Tips and Lipton Yellow Label tea sold here in Western Europe is certified by the Rainforest Alliance.

- Good for the environment.
- Good for the livelihoods of the 2 million people and their families who grow and pick the tea.
- And good for consumers, who tell us they can taste the difference. They believe that sustainably grown PG Tips is a better quality product and are drinking more of it. In the UK our market shares have increased and in Australia sales of Lipton have grown double digit.

Sustainable sourcing: palm oil

Palm oil is a tougher nut to crack.

The global market for palm oil has doubled over the past ten years and will double again by 2050.

Much of this increased demand has been met by Indonesian and Malaysian growers expanding onto peat lands and into high conservation value forests. An area the size of Greece disappears every year.

Deforestation accounts for around 20% of global greenhouse gases. Indonesia is the third highest emitter behind the USA and China. Much of it is due to the cultivation of oil palm – a crop which if grown correctly should be totally sustainable.

As one of the world's largest users of palm oil Unilever has a clear responsibility. Working with Greenpeace, Oxfam, World Wildlife Fund and others we are using both carrot and stick to transform the palm oil industry.

The incentives we are holding out for growers are partly financial. We are buying, at a price premium, the certified sustainable oil which is coming on stream. In 2009 we purchased GreenPalm certificates covering 185,000 tonnes of oil – representing 15% of our needs and over 80% of the total volume traded.

The stick we are using is to suspend purchases from growers whose environmental practices don't match our standards. In December we suspended trading with Indonesia's largest producer.

Through an industry coalition we have built we have persuaded over 20 global retailers and manufacturers to make similar public commitments to our own – which is to draw all our palm oil from certified sustainable sources by 2015.

This alliance of business and NGOs is transforming an industry which, up until now, had been resistant to change.

Of course government-led solutions like REDD are welcome, but whilst waiting for government to act there is still a huge amount that industry can do on its own.

Sustainable living

However, the big prize comes from changing consumer habits and behaviours.

We know that consumers will not compromise on price, quality or convenience for "greenness". So sustainability has to be built in to the design of the product.

Occasional disruptive innovation can help – like shampoos that don't need water.

But breakthrough innovations like this are few and far between.

The biggest opportunities come not from technology or legislation, but from incremental improvements. These small changes, when multiplied by billions of consumer usages, add up to something substantial.

Take the UK. Directly or indirectly consumers here influence around 75% of all greenhouse gas emissions. So the potential for tackling climate change by harnessing the collective efforts of individuals around the world is enormous.

Consumer action is a lot less expensive than technology, and a lot quicker to take effect than legislation.

What is more, simple, everyday actions, such as always doing the laundry at low temperatures, and taking a shorter shower can actually save money – an attractive incentive at the best of times and especially during an economic downturn.

How people consume is key, but it is important not to attack consumption itself.

The daily act of buying and selling consumer goods drives the economic and social development of billions of people. In tackling climate change, we mustn't undermine business growth itself. There are billions of people around the world who have yet to become consumers and who justly deserve the better quality of life that simple products like soap, shampoo and tea can provide.

What is not acceptable – if it ever was - is excessive consumption or mindless materialism.

What we need is:

- a more considered approach to consumption
- smarter ways of consuming
- more sustainable lifestyles - or 'sustainable living' as we prefer to call it.

Consumers want to do the right thing for the planet. But they feel confused by the many different, often contradictory, claims that are made. They find it hard to work out which products are better for the environment, because they have no easy or independent basis on which to judge.

Most use proxies to help them choose, such as products that say they are 'natural' or 'organic', or ones that simply come in green packaging.

Clearly this is open to abuse or "greenwash" by the unscrupulous. What's needed is greater transparency by companies and more impartial advice to help consumers make the right choices. Brands that have trust will benefit.

One of the most effective ways to change consumer buying habits is through 'choice editing'. Retailers can play an important role here.

When Unilever launched concentrated laundry detergents in the US, Wal-Mart got behind the initiative. They did so because they understood that the innovation would save packaging, water and greenhouse gases. They supported it aggressively in their stores and then de-listed the dilute variants.

Four years later the US laundry market is transformed. The consumer gets the same performance at the same price but with a third less packaging, a third less water and a third fewer trucks on the road.

In Europe, by contrast, take-up of the innovation has been slower because retailers decided to keep concentrated and dilute products side by side on the shelf.

Yet if everybody in Europe switched from dilutes to concentrates it would reduce carbon emissions by thousands of tonnes a year.

The good news is that many consumers recognise they have a role to play in tackling climate change.

And the motivations for wanting to do so are the same around the world – concern for family; a desire to make the world a better place for children and grandchildren; a desire to be a good citizen.

This is where everyday consumer brands can play a role. They are an ideal vehicle through which to help people take action and feel that their collective efforts really do add up to make a big difference.

But behaviour change achieved through persuasion and choice rather than mandatory change does not happen overnight. Look how long drink driving and no smoking campaigns have been running.

So it is important to go with the grain rather than force change.

We have to make sustainable living a positive, must-have, lifestyle choice, not a negative, finger-wagging, leisure-spoiling chore.

We are committed to doing this at Unilever.

Our laundry brands, such as Persil, Omo, Surf and Comfort, have a behaviour change programme called the Cleaner Planet Plan. This encourages consumers to wash in a more resource-efficient way.

Cleaning clothes uses a lot of energy and water. For the millions of people who use our brands in their washing machines every day, simple actions such as washing on lower temperatures, avoiding the pre-wash programme, using shorter cycles and always doing full loads can save time and money, and reduce greenhouse gas emissions.

This theme of small actions adding up to make a big difference has been taken up by brands like Persil.

Let me show you an advertisement which we have been running in the UK.

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This is not just the right thing to do. There's also a big prize for brand owners.

Brands that genuinely show consumers they are helping them to reduce their impacts will be seen to offer added value. And, as tackling climate change becomes more and more a part of our daily lives, consumers will learn to separate out the green from the greenwash, and will vote with their wallets for those brands who are addressing the issue with transparency and authenticity.

The business benefits from doing this are not soft ones about reputation or image. They are hard measures of growth and margin improvement.

Wherever you look, it's a no-brainer.

Innovation: Think of the marketing power of detergents which wash with less water, margarines that have less fat, and soaps that help prevent the spread of common diseases.

Consumers: If you can keep quality and price constant and offer an environmental or social benefit on top, you win preference and loyalty.

Customers: Sustainability is important to Wal-Mart, Tesco and Carrefour too. They want partners who can bring deep knowledge and experience.

Growth: The biggest opportunities for consumer goods companies lie in the developing and emerging world – the very markets first to feel the effects of climate change. Products that address those challenges today will lead to further sales in future.

And Cost: Using energy, water and packaging more sustainably often leads to less usage or more recycling - reducing costs and improving margins.

Conquering climate change is a responsibility for all of us. But for business it also represents a huge opportunity for those companies that get it right.

A political agreement in Copenhagen would have been helpful and must still be striven for.

But even without a formal framework, business can still do a great deal. In Unilever we are confident that we can both meet our growth objectives and reduce our environmental footprint.

Inspiring consumers to switch to a more sustainable way of living through the brands they choose to buy is the key to making it happen.