Building a business through brands

You will see the normal disclaimer as to forward-looking statements. I will not read it out but will take it as read into the record for the purpose of this presentation and subsequent discussions.

Chart 1: The foundations of branding

William Lever was one of the principle architects of brands and through this statement he was powerfully conveying the strong sense of purpose underpinning his brand.

And all this from a bar of soap!

He understood what consumers wanted and he built on this to create a long term relationship.

This relationship is not a simple, rational thing like gross margin or return on invested capital. It is complicated, slippery and elusive - it requires hard work.

Sometimes, as you see in our current top-line performance, that means the hard work is in defending like mad. But we also continue to build for the long term because that is what brands require. Indeed the importance of the long term can be seen in the way we have successfully built on Lever's legacy for more than 70 years.

For this reason alone I feel some justification for being here with you today to discuss brands.

But why have brands at the heart of your business?

What alchemy did Lever perform and why did we invest some $13 billion in 2003 - through R&D, in advertising and promotions and in store - to further build our brands.

The reasons are pretty straightforward:

- Firstly, brands exist because they are useful to consumers. They provide certainty, reliability, another satisfying experience in a chaotic, confusing and cluttered world.

- Secondly, for businesses like ours, the only sustainable source of robust value growth is via consumer demand driven growth built on a value creating margin and capital structure. Brands are the engine of consumer demand driven growth.

- Thirdly, brands create a powerful bond with their users, a sort of monopoly by permission. Often based initially on functional superiority, the great brands go on to connect to a deeper emotional chord in the consumer. The brand allows you to attach to it something that has enduring value because it sets up a contract with the consumer and turns your intellectual capital into a business asset.

Of course we all know the theory and what I have just said I could have copied from a dozen textbooks – I didn’t, but you will just have to take my word for it.

Naturally, the practice of managing brands isn’t quite so simple. There are determined competitors out there. Consumers reassess our brands every day choosing whether to stay in a relationship with us or not. The world is in continuous flux and unless you change you die!

So recognising that change is painful, what did the world look like to us in 1999 and what did the future hold?

Chart 2: A world of challenges and opportunities

We knew that we would see continuing trade consolidation – after all we had fifteen years of experience of managing it in different parts of Europe, and in countries like Switzerland where two retailers represent 90% of our business.

We knew that this would lead to a strong push on retailers' own brands.

We knew that a number of retailers were extending their geographic footprint.

We knew that mass retail channels were growing significantly more slowly than out-of-home and convenience formats.

We knew that traditional channels of communication were fragmenting – after all the market said there had to be a .com with everything!

We knew that categories become commoditised if you failed to innovate and satisfy the consumers continual quest for greater value.

We knew that there was a growing trend for manufacturers' brands to proliferate with the creation of multiple umbrella brands and random brand extensions. Across our industry up to 85% of new product launches fail.

We knew that the service/information content of the economy was going to grow faster than product alone.

We knew the world was becoming a smaller place giving access to potential scale advantages.

I could go on.

So how were we going to compete in the world I have just described?

Chart 3: Global Scale - Local Touch

We had a business fabulously strong in its local roots.

We had real, deep insight into the local consumer, the local trade environment, the local suppliers.

But we had also created a business with over 1600 brands, each with its own A&P budget, each with its own space on the retailer's shelf, each with its own supply chain, each with its own innovation funnel. I exaggerate, but only to make a point.

We certainly had a weakness in our foods portfolio both in terms of category presence and geographic reach, particularly in D&E markets.

In short we were too fragmented in our approach and we were not effectively using the scale advantages of our business. We were at the 'hopelessly local' end of the scale.

But we did not admire the other extreme either – the 'mindlessly global' – after all I have yet to meet a global consumer and it is consumers whom we set out to satisfy every day and everywhere. And each consumer is local.

We needed a plan that married our strong local heritage with access to the scale benefits of Unilever delivered in a consumer relevant way.

We called it Path to Growth.

Chart 4: Path to Growth with brand focus at centre

At this point in time it would have been really useful to have access to the book on how to implement this major change programme – unfortunately we were going to have to write it ourselves.

At the heart of our plan were brands with brand focus being the catalyst for a step change in our ability to generate robust, sustainable value growth and meet our overarching ambition of top third TSR.

With brands at the heart of our strategy I'm going to share some insights on their management and how our book on change is coming along.

Of course we are not perfect and not everything has yet worked as it should and will. Whilst we still have some areas of work in progress we know we are on the right track and brand focus is the right strategy.

Portfolio choices have been made and we have selected the categories that we want to be in – reducing from over 50 to 12.

The categories are those where we have leading market positions, strong consumer insight, and leading technology to give a steady stream of innovation.

We have selected brands in those categories that give us a focused portfolio comprehensively underpinned by relevant capabilities and which address key consumer needs via an appropriate segmentation of the market.

We have designed and implemented an operating framework that marries our local heritage with the scale benefits of Unilever and we have done that without compromise to the local consumer.

In fact competitive advantage comes not from brand or category or geography or the understanding of consumer needs.

Chart 5: Brand and category and geography and consumer needs

It comes from the combination of all four elements: brand and category and geography and the understanding of consumer needs.

However, it is the brand that is in the vanguard, with whom the consumer builds a relationship and like all relationships they need to be worked on. And waiting round every corner there is a brand assassin – and all companies have such a person lurking in the shadows eager to commit the perfect murder.

So how do we nurture, build and protect brands? How do we get them to the point where the emotional bond is strong and how do we beat the brand assassin?

One sure way is through strong discipline in the management of brand equity. We approach this through what we call Brand Key.

Chart 6: Brand Key

Brand Key is our preferred brand positioning tool. Like most brand positioning tools it deals with the target, the insight into their lives, the brand benefits, values, personality and discriminator.

At its heart is what we call the brand essence in which we distil the brands genetic code - its DNA - into a few simple words. We use this brand key in thinking about plans for the brand including brand extension. It governs the brand's life and how it can develop. Let me give you an example of how we use it in one of the most difficult areas - brand extension.

We write a key for the proposed extension including all the imperatives and constraints that will be imposed by us entering a new category and the "rules of the game" of that industry. Then we put it alongside the definition of the mother brand and its relationship with its users. And we worry about the difference.

We articulate what it will build on the brand and what it will borrow.

Now borrowing isn't bad: it leverages the consumer relationship. But too much borrowing and we end up with a hollow brand - in cosmology terms a kind of red giant - with all the activity going on at the periphery and little at the centre.

But let me return to our lurking brand assassin and look at one of their most successful approaches. Arrogance.

Chart 7: How to commit the perfect murder - Arrogance

How do you kill a brand by arrogance? Quite simply, you forget the fundamental truth about brands: that ultimately they belong to consumers.

You persuade yourself that brands belong to brand managers and forget what it was that made the brand useful to the consumer in the first place.

You lose sight of the fact that it is consumers, not companies, who invest a brand with its value.

Losing sight of this, companies soon start to impose values on a brand that are incompatible with those that matter to the consumer.

Inevitably, brands start to lose their coherence - and nothing wounds a brand more than lack of coherence. Consumers love brands for their consistency.

Deny them consistency and they're soon drifting away in their thousands.

To be blunt, arrogance is not listening to the consumer because you think you know better.

There are two common manifestations of arrogance. The first is rolling a brand out across the world with no real understanding of the local consumer - you get too far over towards "mindlessly global". The second is extending your brand into new categories which do not build on the essence of the brand as the consumer sees it.

Chart 8: Global scale - local touch

So how have we sought to avoid this through Path to Growth?

Global brands need to understand and adapt to consumers' needs which still differ greatly, market to market, even if they may share fundamentally similar values. So the international team for Knorr need to consider the following.

In the USA an average of 7% of household expenditure goes on food. In Brazil it is 12% and in China almost 30%. And across the world they use a variety of means to cook - oven, fire, microwave. Tastes also vary - surprise surprise!

All this may seem pretty obvious but you need to be very sensitive to local needs when you're designing food products.

But then on a global scale you need world class understanding of nutrition, bioavailability - the uptake of goodies in the body, Chefmanship - how taste and flavour work together - and quality manufacturing. In a nutshell, how global knowledge is applied to solve local problems.

Just because someone cooks on a fire, there is no reason why they shouldn't eat food that the best nutritional scientists have worked on. Poorer consumers are often the most discerning because they can't afford not to be. They have one chance to spend the $ - in fact in most cases they only have one dollar.

Knorr is a great example. Consumers across the world want variety and great taste in their food, how to provide variety differs according to local consumer taste. Take a look at these:

KNORR LATIN AMERICA, CHINA PLUS PANDA UK

Of course, this is not just a Foods thing.

Chart 9: Sunsilk

In the hair market, arrogance is rolling out classic Caucasian shampoos to non Caucasians using stereotypical supermodels to lecture the consumer on how they should look.

Incidentally, in terms of consumer understanding did you know that in Iceland, 70% of people use a bath to wash themselves. In Israel, 82% use a shower. In Iran, two thirds use a shower too, but another third use a mug. Yes. A mug. And when we get to Cambodia, half of them use a klong jar, and the rest use the river. So the first thing an international marketeer in Cambodia has to do is find out exactly what a klong jar is.

Our Sunsilk brand is a good example of where we have taken a global brand and remained very close to the local consumer.

Sunsilk's global insight is that women have hair dramas. Not that much of a revelation you may think, but team it with the local insight that the dramas are different depending on what type of hair you've got - whether that be mulatto hair in Brazil, or flat or coloured hair in Europe and straight, thicker hair in Asia and you have got that precious fleeting advantage, which if managed well will deliver years of value.

SUNSILK ADS FROM ASIA, LATAM AND EUROPE

Lets now consider the second manifestation of arrogance - mindless extension.

Axe is a brand that I'm sure you have all heard of…

Chart 10: Axe

…It understands the preoccupations of pubescent boys obsessed with the mating game.

The essence of its promise in our words is "gives you the edge in the mating game".

Now we understand this brand very well and we have been able to keep it contemporary as you can see.

ADS - 1983 AND 2003PULSE

Quite a feat to keep a brand which is owned by 16 year old boys fresh and relevant to each new generation.

We have also been able to extend Axe very successfully from fragrance to deodorants and shower gels.

But we've also fallen on our face a couple of times.

We developed a really great marketing mix with excellent advertising for shaving products. But we didn't have the credentials for razors. Similarly when we looked at hair care, what the brand brought to the category wasn't what the category demanded.

Working in an expert brand silo we were producing mixes that were good for Axe, but not good for the category we wanted to enter. In reality, you need to be absolutely certain that there is overlap between what your brand stands for and what people expect from each category.

Through our Brand Key approach we have not lost sight of the importance of categories as the building blocks of competitive strategy - but equally you must not be frightened to experiment.

…And experiment we have.

It is worth remembering that Axe is one of our biggest and most successful brands and did not get there through arrogance.

SPRINKLER.

Axe has remained contemporary indeed as a brand it has lived on the edge, consistently delivering on its promise to consumers. There have been successful extensions because these have re-enforced the core promise of the brand and the consumer is not distracted from what the brand stands for.

Lets look at a brand within our household care portfolio.

Chart 11: Domestos

Domestos back in the '90s was a brand that did what it said in the adverts, let me remind you:

OLD DOMESTOS ADVERT "KILLS ALL KNOWN GERMS DEAD".

In 2001, we launched a number of innovations which extended the brand's footprint into different product sectors, such as floor cleaners and surface wipes. Each had a different proposition and benefit until the consumer forgot about the core promise. Growth through proliferation is seductive but more often than not proves unsustainable.

We spent a painful year in 2003 refocusing on the core of the brand - taking a good look at the brand key and rebuilding the brand's credentials in the eyes of the consumer by getting back to its fundamental core DNA.

I am pleased to say that whilst it is early days, the benefits are starting to show.

Let me bring the idea of DNA to life by looking at Bertolli, a brand whose sales we have more than doubled over the last four years.

Chart 12: Bertolli

In 1865 Francesco Bertolli's vision was "Pure and natural ingredients prepared in all their simplicity is the essence of great tasting Italian food". In today's language we call it "the Italian zest for life".

Bertolli is authentic, simple and naturally good for you - like the food Italians enjoy every day.

And we've found that the way this is demonstrated in olive oil can be extended to cover pasta sauces, bruschetta toppings, olive oil based spreads, salad dressings and so on.

Anything where Italian and food is the focus.

BERTOLLI ADS FOR PASTA SAUCE, DRESSINGS AND SPREADS

Talking of food, the next tool of the brand assassin is **Greed.**

Chart 13: Greed

Over the years, plenty of brands have been destroyed by creeping greed. Numerous companies have sought to make their prized assets more and more profitable, only to wake up one day to discover that they've killed the goose that laid the golden egg.

Taking cost out of a product formulation sounds an efficient thing to do - and sometimes it is. But more often it's the most effective way to starve a brand to death.

We're not talking about dramatic, overnight reductions in standards or delivery, but shaving a thin slice here, another in six months, a third by the end of the year.

Each reduction is so insignificant that no-one will notice. Except of course, consumers notice - and they always will.

Chart 14: Cornetto Unplugged

Incidentally, did you know that there is a chocolate plug at the bottom of every Cornetto. Cost saving opportunity or brand killer? Let me just say that the number one chocolate bar in the UK changed its distinctive foil wrapper - and it's now no longer the market leader.

The flip side of greed is a virtuous circle of focus, scale, margin improvement, investment in science and research, product improvement and more efficient processes resulting in higher value to the consumer. You can improve and change the product whilst cutting costs as much as you like as long as you deliver on the expectations embedded within the brand and never undermine consumer value .

Our deodorant business provides a good example and shows how brand focus has allowed us to integrate all aspects of the business to deliver superior consumer value.

Chart 15: Rexona

We wanted to improve the overall coherence of the Rexona brand. Within this we identified opportunities for harmonisation and simplification that were going to both help consumer communication and also release resources for further investment behind the brand. We went from many designs to a single global livery and introduced innovative packaging and rolled it out fast in 30 countries across 5 continents in 12 months.

In roll-ons alone we reduced the average manufacturing cost by 25%.

Sales grew, margins went up, we invested in further innovation, sales grew some more. A virtuous circle of brand development re-enforcing Rexona's relationship with both existing and new consumers.

The third common reason for a brands decline is complacency.

Chart 16: Complacency

The story is a familiar one. A company or brand builds a good reputation, sits back and rests on that reputation, only to wake up one day to discover that faster, hungrier, more innovative competitors have passed them by.

The sequence of events goes like this. To begin with, you are, for example, a very technologically advanced company - and deservedly very successful. As the market becomes more and more competitive, you realise that you need both product perfromance and brand character to stay ahead. Brilliantly, you build a great image for the brand, so that users not only respect the company but feel loyal to it as well. You grow even more successful.

Then comes the critical stage. You become such an enthusiast for the notion of brand personality - and become so fixated with your own - that you come to believe that competitive product performance and differentiation is no longer your highest priority. So you neglect to innovate, you neglect to invest in R&D, you stop listening intently for those faint murmurs of discontent - and for a month or two, or even a year or two, your success continues and your profits mount. You may even be tempted to believe that you have discovered the secret of perpetual motion.

Then, with savage suddenness, your once healthy brand becomes an invalid, losing share and reputation with precipitate speed. What has happened? Your market has discovered what you have done, and suddenly realised a once loved brand has taken its users for granted. The response of its users is brutally unforgiving.

Complacency is one of the easiest ways to bring a brand to its knees, but it is also easily avoided.

Let's take a look at Dove.

Chart 17: Dove innovating the core

When Dove cream bar was launched it enjoyed a unique functional benefit, strengthened through support from dermatologists, and formed a strong emotional link through its 1/4 moisturising cream. It struck a chord with women tired of extravagant, hyperbolic transformational claims that characterise the market.

They liked Dove's qualities of simplicity, gentleness, optimism and truthfulness. A strong bond of trust was created.

Dove cream bar did well.

It also travelled well…

…and extended into other simple and gentle skin cleansing formats, underpinned by the moisturising credentials of the brand.

At this point we could have said, "well done everybody, we are the kings of skin cleansing" and then rested on our laurels.

What has actually happened is that, whilst rolling out globally and extending into new categories, we have continued to innovate in the core of the brand with new added value variants, the most recent of which was Exfoliating bars. Last year, Dove cream bars grew at 4%.

FIRST DOVE CREAM BAR AD, SENSITIVE SKIN, EXFOLIATING BAR

<u>Chart 18: Dove - real girls with real curves</u>

Dove's Brand Key is expressed as "Beauty without artifice" by which we mean beauty without stereotypes, without overpromising - Dove is real. Dove is beauty from lasting thoughtful care. This expression is so powerful that Dove is now starting to have a point of view about women and beauty.

In the UK, our Dove firming product uses real girls with real curves as models. They have had such an impact it has become a national news story.

So much for Dove.

Complacency can also come in different guises. Market leaders need to lead and if categories don't grow then they only have themselves to blame.

<u>Chart 19: Flora/Becel</u>

In the early 1960s we redefined the Spreads category in the eyes of the consumers and expanded the market through our Flora and Becel brands. With no change to diet, except of course giving up butter, consumers could choose a product that was clinically proven to be more healthy for their heart. The brand was successful as it combined functional benefit with strong medical backing from doctors and nutritionists which created a strong bond of trust with consumers.

In the mid-1970s the American Heart Association published a report advising people to eat more polyunsaturated fat and the Flora and Becel brands took off.

Since then Flora and Becel have kept at the forefront of heart health science.

However, for our Spreads category as a whole, management had trapped themselves in a box – with good margins they became paranoid about investing in growth.

We led the market but we were not leading it.

Prior to Path to Growth we had accepted maintenance of market share in a declining market segment albeit that the broader market of products that consumers were using for spreading was growing at a rate of between 3 and 4% per annum.

We had powerful brands, outstanding technology but we weren't using either of them – a brand assassin was at the door.

We launched pro-activ – a brand clinically proven to reduce cholesterol levels by up to 15% and sure enough we saw growth <u>and</u> improved margins. Pro.activ is a classic example of good brand extension. Pro.activ borrowed core qualities from its Flora/Becel mother brand: trust, medical credentials and heart health benefits. But, at the same time it enhanced the Flora/Becel brand by making it more modern and innovative. A win win for all.

2003 saw a pause in innovation behind pro.activ when we became embroiled in a regulatory clearance process. New yoghurts and milk products under the pro-activ name are now on the market and should drive growth again.

ORIGINAL FLORA, PRO.ACTIV, PRO.ACTIV YOGHURT & MILK

Finally, we move to **Myopia.**

Chart 20: Myopia

Myopics usually can't see change until it hits them and those suffering from myopia fail to understand the consequence of change for their brands.

We saw one such change in 2003 and our Slim.Fast business was not ready for it – indeed for a while they denied its existence.

The Slim.Fast management had nurtured the brand through many years of double-digit growth by developing real functional benefits underpinned by strong medical and scientific approval for its weight management approach.

Along came the upstart – no science, lots of glitz from the stars and a brilliant PR campaign.

Indeed it was a weight management system that most nutritionists believed was bad for you.

Anathema to the Slim.Fast team.

They did not immediately understand that consumers were moving in their millions to low carb diets. Perhaps more importantly, the consumer was not willing to compromise on choice even though they were seeking to manage their weight.

They didn’t see that extending the range to include low carb products whilst maintaining the medical credentials of Slim.Fast was the best solution. Action has now been taken to address this.

Now many have suggested that this was a clear indication that Unilever had lost its way, that it didn’t understand consumers. In short that we had suffered a malicious wounding at the hands of a brand assassin. I don’t think this could be further from the truth.

In Green Bay and Englewood Cliffs the management of our other Food businesses in North America were sufficiently distant from the trees to have a clear sight of the wood.

Chart 21: Carb Options and Carb Smart

The launch of Carb Smart in Ice-Cream and Carb Options in the rest of our Foods portfolio are outstanding examples of us leading the market and gaining the first mover advantage. They should deliver over $200 million of sales in 2004.

Chart 22: Omo

At the beginning I mentioned that great brands go on to connect to a deeper emotional chord in the consumer. We believe that building such a bond is one of our particular strengths.

Let me give you an example from our laundry business.

There are many laundry brands that totally focus on functionality. However, having never met a consumer who likes doing the laundry we believe that the opportunity for differentiation via functional performance enforced through the emotional tie is high.

Look at this ad.

OMO BEACH AD

Chart 23: Omo

I think “dirt is good” is likely to become one of the great catch phrases – it certainly deserves to. Equally compelling is the thought expressed in another piece of advertising based on the same insight and with the memorable line “It’s only the Dirty Kids that Shine”.

I hope through the examples I have used that you can see that we have found a disciplined approach to defeating the brand assassin. Path to Growth was never going to be a journey without risk and the book we are writing is not yet finished.

My prediciton is that brands will become even more valuable. In our industry there will be fewer of them but the survivors will be bigger, as the weak succumb to the pressures of competition.

In our case, with Path to Growth we have made our choices and brand focus has allowed us to significantly step up our performance on all the other levers of value creation. Let me show you what I mean.

Chart 24: Brand Focus drives Value Creation

We are a more robust and flexible business than we were in 1999. Through our focus on brands we have created the flexibility to manage the challenges of the market place and still invest in the long term health and development of our business. We can now make choices about where and how to place the emphasis for sustained value delivery. This is a freedom we did not have prior to Path to Growth.

But let me finish back on brands and talk to you very briefly about our largest brand, one with sales of nearly $50 billion, with 240,000 people managing it and which you can meet in more than 150 countries around the world – of course I mean the Unilever brand.

Chart 25: Unilever Brand

Trust in institutions, especially big business and its leaders, is at an all time low.

In the result of a recent poll of people's attitudes towards different professions, CEO's of big companies were trusted less than lawyers and real estate brokers.

More and more consumers who trust the brand, want reassurance that the corporation or people behind the brand are also to be trusted.

We have spent almost 75 years building and investing in the reputation of Unilever. It's values are clear and integrity is at the core.

We believe it is time to raise the profile of Unilever and to leverage the trust we have built for the benefit of our business and our brands. Thus, by mid 2005 Unilever will appear on all our packs, prominently and proudly, and as a further endorsement of the product brands.

With that, let me finish my presentation and turn to your questions.