

Sustainable tea at unilever

[Business](#), [Company](#)



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FREDERIK NELLEMANN Sustainable Tea at Unilever op yo To survive and prosper over the long term, learn how to adapt your business model by making it servant to society and the environment. Not the other way around.

— Paul Polman, CEO, Unilever In 2010 Unilever announced its commitment to a new “ Sustainable Living Plan”, a document that set wide-ranging company-wide goals for improving the health and well-being of consumers, reducing environmental impact, and, perhaps most ambitiously, sourcing 100% of agricultural raw materials sustainably by 2020.

Such a goal implied a massive transformation of a supply chain that sourced close to 8 million tons of commodities across 50 different crops. Unilever CEO Paul Polman believed that the company’s ambitious goals could drive savings, product innovation, and differentiation across the company’s portfolio of products. But more importantly, it would create a company better suited to survive in the future which Polman envisaged: tC This is a world that is challenged. When you look at the interdependent challenges that we face on food security, poverty reduction, sustainability of resources, climate change, and social, economic, environmental development, these challenges have never been greater. And I believe that these pressures will only increase as 2 billion more people enter this world and many aspire to increase their living standards. 1 No The changes happening at Lipton, Unilever’s €3.5 billion tea brand, were an important cornerstone of Unilever’s plan. For over five years, Michiel Leijnse, the global brand director for Lipton Tea, and the Unilever Procurement team had led the transformation of the Lipton brand and its supply chain towards a goal of 100% sustainable sourcing.

Approximately 25% of all Unilever tea now came from Rainforest Alliance Certified farms and real gains had been made in the social, environmental and economic sustainability of tea production. The scale of Unilever's mainstream partnership approach was unprecedented in the beverages industry, where "ethical" brands had failed to grow beyond niche market positions. Unilever's goal was to have all of the tea in Lipton teabags sourced from Rainforest Alliance Certified farms by 2015, and to have every kilogram of Unilever tea sustainably sourced by 2020.

Michiel Leijnse was confident that these goals could be achieved but the business faced two critical issues as they worked to make them a reality. Do The first issue was how Unilever could transform a supply chain that was not only geographically very diverse but also highly fragmented. Unilever bought tea from all producing regions, and in many markets the majority of production was controlled by smallholders who sold their tea at open auctions.

Unilever and the Rainforest Alliance had successfully certified Unilever's own tea estates

_____ Professor Rebecca M. Henderson and Research Associate Frederik Nellemann (MBA 2011) prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management. Copyright © 2011, 2012 President and Fellows of Harvard College.

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Sustainable Tea at Unilever reports that 712-438 and those of many large plantations, but the firm now faced the increasingly difficult task of convincing smallholders in markets across the world of the benefits of changing agricultural practices and pursuing Rainforest Alliance certification. India, for example, was a major tea producer and consumer, but the small scale of many of the farms and the nature of local farming practices made certification a significant challenge. What should Unilever do in such markets? Should Unilever hold fast to Rainforest Alliance certification or instead work to implement incremental change through standards better suited for Indian practices?

How could they persuade hundreds of thousands of smallholders to adopt new farming methods in markets where most tea production and consumption was local and Unilever was far from the dominant buyer? The second issue was whether and how Unilever could gain market advantage from its move to sustainable tea. While the adoption of Rainforest Alliance certification appeared to have led to market share growth in some Western markets, it was not clear either that this would continue or that the

concept of a sustainability message would resonate with consumers in developing markets like Turkey, India, or Russia.

How should Unilever market its sustainability efforts in emerging markets? Beyond these two key issues several other smaller but also potentially important questions also consumed Unilever's attention. The Unilever Sustainable Living Plan committed the company to sourcing 100% of all agricultural raw materials sustainably by 2020. Did this mean moving to sustainable paper in tea bags and packaging or to sustainable ingredients sourced in very small amounts—such as chamomile—where there was currently no sustainable supply?

If so, what was the best way to approach such moves? And more broadly, were there lessons in Lipton's experience for the rest of Unilever's agricultural supply chain and for the power of sustainability as a source of consumer differentiation? Unilever tC Unilever and Lipton Tea No In 2011 Unilever was one of the world's leading consumer goods companies, selling everything from food products to personal care and home care goods. It was a company with a global reach, with sales coming from more than 180 countries, over half of which were in the developing world.

Worldwide, over two billion consumers used Unilever products each day, and 2010 revenue was over €44 billion (\$59 billiona). 2 Just over half of these sales came from foods and beverages, with 31 % of sales in personal care and 17% in home care (see Exhibit 2 for breakdown by segment). The company employed 167, 000 people globally. Much of the company's success was due to its portfolio of strong brands. The company had 12

brands with individual sales over €1 billion per annum, including such widely recognized products as Lipton, Dove, and Axe . Do

The company faced competition from a number of other large consumer goods companies , including Procter & Gamble, Nestle, and Colgate-Palmolive. (See Exhibits 3-5 for further comparison financial figures). a Using exchange rate of €1 = \$1. 35 as of December 2, 2011. 2 This document is authorized for use only by LINDA KELLY-HAYES until June 2011. Copying or posting is an infringement of copyright.harvard. edu or 617. 783. 7860. 712-438 rP os t Sustainable Tea at Unilever Unilever Tea Lipton Tea was the largest tea brand in the world with annual sales of approximately €3. billionb. Unilever's tea portfolio contained a number of other strong regional brands such as PG tips in the United Kingdom (U. K.), Lyons in Ireland, and various other brands in countries around the world, including India, Pakistan, Russia, and Poland. Lipton's global market share was nearly three times that of its nearest rival, Tata Beverages, the owners of Tetley Tea. Lipton teas were sold in over 130 countries, with particular popularity in Europe, North America, the Middle East, and parts of Asia.

Growth in the developed world was in the order of 1%-2% a year, but the markets of the developing world—specifically India and China—were seen as particularly promising, with anticipated annual growth rates of close to 10%. op yo In 2010, Unilever sold nearly 350, 000 tons of tea. Approximately 90% came from external suppliers, with the remainder coming from Unilever's own estates in East Africa, including its flagship estate in Kericho, Kenya. Every market had a distinct taste in tea, making it to some extent reliant on supply from particular countries.

For example, the North American market sourced much of its tea from Argentina, since its tea was particularly well suited for iced tea, which was popular in the U. S. The Global Tea Market tC Tea was the world's most popular beverage after water. In 2009, approximately 4 million tons of tea was produced in 46 countries, with China, India, Kenya, and Sri Lanka accounting for 70% of global production. 3 Kenya, where much of Lipton's tea was produced, accounted for approximately 8% of global production, 4 but was the world's largest exporter of tea (see Exhibit 14 for a breakdown of global tea production). No Russia, the U. S. , and the U. K. were the biggest net importers of tea, accounting for nearly 30 % of global imports. 6 Tea was consumed for a variety of reasons and in a wide variety of blends. For example, Japan with its strong preference for green tea consumed approximately a fifth of all global green tea supply. Tea was an ingrained part of daily life in many countries for cultural and historical reasons. In other parts of the world, tea was becoming increasingly popular due to its perceived health benefits. 7

Historically, global tea markets had suffered from over-supply. The resulting price pressure was exacerbated by tea's high degree of commoditization, low switching costs for consumers, and tea's perishability, which meant prices were often cut drastically to clear stocks. 8 As seen in Exhibit 6, despite moderate gains in the price of tea since 2000, the price of tea in real terms in 2010 was still 35% lower than its peak in the mid-1980s. 9 Tea Production and its Consequences Do Tea production was a very labor-intensive activity.

With a few regional exceptions, tea production occurred year-round, as the top two to three leaves of the plants were carefully hand- b This figure included some sales realized through the joint-venture with Pepsi on ready-to-drink products. These sales are not included Unilever's total turnover. 3 This document is authorized for use only by LINDA KELLY-HAYES until June 2011. Copying or posting is an infringement of copyright. harvard. edu or 617. 783. 7860. Sustainable Tea at Unilever rP os t 712-438 icked every 7 to 21 days, depending on the altitude and climate. 10 Tea plantsc could grow to a height of 30 feet or more, but were usually cropped at about 2 to 3 feet and then pruned regularly in order to make them easier to pick. 11 The leaves were plucked by hand and then processed immediately either on-site at the plantation or at a bought-leaf factory. 12 During processing, tea leaves were withered, macerated, oxidized, dried and sorted on site. The processed tea was then transported to a broker or auction, after which it was blended, sometimes flavored, and packaged.

Finally, it entered the relevant retail sales channel before ending up with the consumer. op yo Inappropriately managed, tea production could raise a number of social and environmental concerns. The industry contained a mix of large-scale estates and smallholders, each with their own challenges. Over the years there had been reports of bad working conditions on poorly managed plantations that damaged worker health through exposure to harmful pesticides and agrochemicals. In certain cases, the workforce included migrant laborers with no protection in case of illness, pregnancy or other factors. 3 They generally received low wages and were not always

given medical care, housing, education or pensions. Further, in some cases independent trade unions, when they existed, had been accused of corruption or ineffectiveness. 14 tC For some smallholders who grew tea as a cash crop, tea production implied the conversion of tropical forests into agricultural land which could lead to reductions in local species diversity and to soil degradation. 15 However, for most farmers unsustainable practices were a result of focus on increasing yields and not acreage.

Logging for the firewood needed to dry tea could lead to local deforestation, which could in turn lead to problems in water retention. Some farms used excessive amounts of fertilizers and pesticides, which could negatively affect soil quality and pollute local soils and waterways. Years of commoditization had contributed to a downwards price spiral that put pressure on workers and the environment as farmers tried to safeguard their income. Unilever's Commitment to Sustainable Tea No Unilever first established a set of good agriculture practice guidelines in 1998.

The guidelines outlined sustainable farming practices for the suppliers of its major crops, including tea, palm oil and tomatoes, and included 10 key indicators of environmental, social, and economic performance, each with their own sub-parameters (see Exhibit 7b for more details). The guide was not imposed on external suppliers, but it was shared with them and with the broader public. This was the first move of this kind in the industry. Do In 2006, Michiel Leijnse began the process of transforming this internal commitment into a major consumer-facing initiative.

He believed that many Western consumers had become sufficiently concerned about sustainability that it might help drive product

differentiation. More importantly, he saw this as an opportunity to transform the entire tea industry, benefiting not only tea workers and the environment, but also purchasers of tea who were reliant on a healthy supply chain. Aware that such a transformation was not costless, Leijnse explained the initiative's rationale: If we didn't do something to transform the industry, at some point we just wouldn't be able to get the quality and quantity of tea we need.

While we might see market share gains in c There are two main varieties of the tea plant: China and Assam. The Assam variety, which is used in India and Kenya, is the most common. All varieties can and are used to produce green and black tea. There are many kinds of hybrids between the varieties, and other factors like soil, climate, altitude, picking time, and processing all affect the flavor. 4 This document is authorized for use only by LINDA KELLY-HAYES until June 2011. Copying or posting is an infringement of copyright. harvard.edu or 617. 783. 7860. 712-438 rP os t

Sustainable Tea at Unilever some markets, it won't always be the case. It is a challenge to properly align the short-term and long-term interests of the brand. Tea Certification and the Rainforest Alliance op yo Leijnse and his team decided to pursue certification for the brand, and chose the Rainforest Alliance, a founding member and secretariat of the Sustainable Agriculture Network (SAN), as its certification partner. There was significant overlap in both Unilever's and Rainforest Alliance's approach to sustainable agriculture practices, in that both focused on environmental, economic, and social factors.

Further, the Rainforest Alliance focused on market-based premiums rather than fixed price supports (characteristic, for example, of FairTrade products) as the best way to create change. The Rainforest Alliance had some consumer recognition from previously successful campaigns certifying a range of other commodities, including bananas, coffee, and cocoa but had no prior experience with tea certification or on the African continent, where Unilever had decades of experience from its tea estates. Unilever set ambitious targets for the implementation of Rainforest Alliance certification.

By 2011, its initial target of having all Lipton Yellow Label and PG tips tea bags in Western Europe certified by 2010 had been successfully achieved. Lipton had committed to sourcing all the tea in Lipton tea bags from Rainforest Alliance-certified estates by 2015, approximately a third of all Unilever tea volume. And if Lipton were to meet the commitments of the Sustainable Living Plan, by 2020, 100% of Unilever's tea would need to be sustainably sourced, although the Plan did not commit Unilever to using tea from Rainforest Alliance certified farms. tC

The certification process Rainforest Alliance certification evaluated farms according to 10 principles covering issues such as worker welfare, farm management, and environmental protection, each with its own criteria. 16 The Rainforest Alliance certified entire farms, so that in order for any of a farm's crops to be certified, the entire production area for all crops had to meet the standards. In order to obtain and maintain certification, a farm had to be in compliance with at least 50% of the applicable criteria associated with each principle and with at least 80% of the total set of applicable criteria.

Further, there were fifteen critical criteria which were mandatory for certification, regardless of overall compliance (see Exhibit 7a for information on certification standards). 17 Do No While independent farmers bore the costs of complying with the Rainforest Alliance standards (for each estate or group being certified covered, there was a certification cost of approximately €3, 000 to €4, 500, or \$4, 000 to \$10, 000, depending on farm size¹⁸), Unilever also incurred costs in choosing to buy certified tea. First, Unilever paid a premium for the tea. In 2011, this was approximately €0. 08 per kilogram of tea.

In 2010, the average market price per kilogram of tea was €1. 69 (\$2. 28).¹⁹ In the market for certified coffee, price premiums of 15% had been seen. From 2011, Unilever had to pay the Rainforest Alliance a participation fee in order to carry the organization's frog logo on its pack.. This fee was €0. 0089 (\$0. 0125) per kilogram of tea. Unilever's Procurement organization devoted six full-time equivalent people to work on the roll-out of global certification education and spent approximately €200, 000 per year on the development and deployment of farmer training in conjunction with the Rainforest Alliance.

Scaling Certification in the Supply Chain Unilever had to certify almost a quarter of its tea volumes to meet its 2010 goals. Given the lack of any pre-existing certified sources, Unilever and the Rainforest Alliance faced a significant challenge in developing large volumes of certified tea in a relatively short time period. To address this, 5 This document is authorized for use only by LINDA KELLY-HAYES until June 2011. Copying or posting is an

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Unilever's efforts initially focused on certifying Unilever's own production in Kenya and Tanzania as well as some of its larger and better-managed tea suppliers. Achieving the firm's 2015 and 2020 goals would require working further down the supply chain with smaller, less organized suppliers operating in a wide variety of different countries, each of whom had different agricultural practices, government support, and institutional capacity. Unilever had been successful in building a certified supply chain in East Africa. Could this be replicated across the entire supply chain?

The Certification of Unilever's Own Estates in East Africa op yo The Unilever estates in Kenya and Tanzania were the first sites to be certified. Unilever had actively worked to maximize long-term yields and to control costs ever since planting commenced on the 13, 000 hectare estate²⁰ in Kericho, Kenya, in 1928. For example, tea bush prunings were left on the field to rot, rather than being removed as waste or for use as firewood or cattle food, a practice that maximized soil fertility and water retention. The estate also carefully managed its fertilizer use.

Fertilizer was not only expensive but also a potential threat to soil quality if mismanaged. On-site hydropower provided reliable electricity at one-third the cost of power bought from the Kenyan grid , and the tea was dried using wood sourced from fast-growing eucalyptus forests planted on the edge of the estate. In contrast to estates in Asia, Kericho made only minimal use of agrochemicals and other pesticides, both because of the favorable climate

and also through appropriate management of the surrounding land which was home to natural predators of many pests. tC

The Kericho estate also invested in the health and well-being of its 16, 000 employees and their dependents. The employees, who were paid a fixed sum per kilo of tea plucked, typically earned two-and-a-half times more than the local agricultural minimum wage. In addition, Unilever provided them with free access to company housing and health care, including the company's hospital and pharmacies and the employees' children were educated in company-owned schools. 21 The company had recently invested €1. 2 million to update many of these facilities. No The Kericho estate achieved some of the highest yields in the world , with annual yields of 3. to 4 tons per hectare, compared to an average of 2 to 3 tons per hectare in India. At the Unilever estate in Tanzania, which followed similar practices, the yields were 3 tons per hectare compared to less than 2 tons per hectare in the rest of the country. “ The sustainability work we did at Kericho made good agricultural sense, and in the long run it also made good financial sense,” explained Richard Fairburn, former managing director of Unilever Tea East Africa. “ We understand that this is simply the way the industry needs to operate in order to survive and thrive. To further increase the supply of certified tea, Unilever identified a priority list of its larger suppliers in Africa, Argentina and Indonesia. Many of these estates were already professionally managed and were certified following adjustments to existing practices using available tools. 22 Working Down the Supply Chain Do Initial success with small-hold farmers in East Africa Certifying the 500, 000 Kenyan smallholders from which Unilever purchased tea was a critical component of

the Rainforest Alliance roll-out since East Africa alone accounted for nearly one third of Unilever's total tea requirement.

Fortunately, Unilever was able to work with the Kenyan Tea Development Agency (KTDA) and with the IDH, the Dutch Sustainable Trade Initiative, to design a program that "trained the trainers" and led to the rapid diffusion of sustainable farming practices across the country. ⁶ This document is authorized for use only by LINDA KELLY-HAYES until June 2011. Copying or posting is an infringement of copyright.harvard.edu or 617. 783. 7860. 712-438 rP os t Sustainable Tea at Unilever

The KTDA was a highly respected farmer's cooperative covering 62% of all Kenyan production through 59 factories. Its goal was to help local farmers receive better prices as well as to provide training and other extension services. In 2011, Unilever bought approximately 40% of KTDA's production. ²³ Unilever worked with the Kenyan Tea Development Agency (KTDA) and the Rainforest Alliance to educate the locally-elected lead farmers who did the bulk of the smallholder training. Each factory elected 30 to 40 lead farmers, each of whom received approximately three days training.

Most of the training costs were covered by international donors like IDH but it was expected that the KTDA would ultimately take over this responsibility, estimated to be about €1 to €2 (\$1 to \$3) per tea farmer. ²⁴ op yo Each lead farmer was expected to train approximately 300 other farmers through group and individual training, with the focus of the training being hands-on demonstration of sustainable agricultural practices. The meetings could also be used as a way to increase awareness of the potential price premiums paid for Rainforest Alliance certified tea.

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The certification criteria were broken down into actionable activities that could be easily communicated and the Rainforest Alliance helped develop simple posters and check lists that the lead farmers could distribute (see Exhibit 9 for an example). The process was designed to be very participatory, and further technical support was provided by the KTDA's extension officers, who also received training. Certification was organized at the factory level. For the external audit, the Rainforest Alliance or an authorized third party checked compliance with a sample of farmers at random.

Prior to this, each farmer was also internally audited by a lead farmer, but never by the same lead farmer who trained them. Lead farmers received some modest financial support in the first year to cover the costs associated with their efforts. Most of the changes asked of farmers did not require huge changes in practice or much investment. For example, getting farmers to leave their pruning in the field (to improve soil quality) rather than removing them for use as firewood required persuading farmers to plant trees for fuel. Tree seeds were very cheap and Unilever subsidized the cost.

Farmers were also encouraged to make compost from organic waste rather than burning it, as well as making better use of waste and washing water. No Some changes were expensive. For example, the Rainforest Alliance standards required the use of personal protective equipment for the spraying of (approved) pesticides. This could cost up to \$30, half a month's salary for a smallholder. However, the KTDA set up its own micro-credit scheme to assist farmers with these kinds of purchases, and in some places, the local smallholders had pooled money to buy a single set which was shared. A pilot

study done by Unilever in 2004 showed that total net investments were less than 1% of total cash farm income for the first year. Do Many of the farms saw yield gains of 5%-15% from the implementation of more sustainable practices, improvements in the quality of the tea, and reductions in operating costs as well as higher prices for their tea. Average income increased by an estimated 10%-15% and Unilever also felt that sustainable practices would help farmers better adapt to the climatic changes, like abnormal rainfall patterns, that many locals were already witnessing. ⁸ But according to Richard Fairburn, the most salient benefit to farmers was in their personal empowerment: “ The Kenyan smallholders are ultimately interested in creating a farm in good health that can be passed on to future generations. That was the ‘sustainability’ that resonated with them. ” By 2011 the Rainforest Alliance had successfully certified over one-third of the smallholder farmers in Kenya, and Unilever was confident that eventually all Kenyan smallholders would gain certification.

One encouraging sign was that some of the first groups to become certified had since ⁷ This document is authorized for use only by LINDA KELLY-HAYES until June 2011. Copying or posting is an infringement of copyright. harvard. edu or 617. 783. 7860. Sustainable Tea at Unilever rP os t 712-438 independently renewed their certification. ²⁹ Whether this model could be rolled out to other tea growing regions like Turkey and India was, of course, still in question. Marketing the Sustainable Message to Consumers op yo

While Unilever’s procurement organization took the lead on sustainable sourcing, Leijnse’s major task was to explore whether and how the

company's commitment could be translated into increased sales or market share. This effort was complicated by the fact that Unilever had a portfolio of tea brands, each with its own distinct brand proposition. Leijnse had responsibility for Lipton, the largest of the brands, but he needed to work closely with his fellow brand managers across the category to frame appropriate messages and to communicate them well.

His research suggested that an increasing number of consumers were interested in a brand's ethical position and that credible action could change consumer preferences, but no one believed that any of Unilever's tea brands should become "green" brands. "Certification was never approached as green marketing, but rather as a new marketing message for consumers," explained one manager involved with the U. K. campaign. "Consumers aren't choosing our product because it's green, but because this new message was aligned with their expectations for our brand."

Retailers were very supportive of the certified tea—some even demanded it—since the product was well aligned with the retailers' own sustainability initiatives for their businesses and supply chains. Despite this, none of the brand managers wanted to charge a premium for sustainable tea. Instead they hoped to use certification to boost brand equity and, possibly, market share. The Early Successes of the Rainforest Alliance Initiative tC Rainforest Alliance certification was launched with full-scale marketing campaigns for all of Unilever's biggest Western European and Australian tea brands, including Lipton Yellow Label, PG tips, and Lyons.

In some markets the campaigns met with significant success. In others, however, the impact was much more limited. No The PG tips success The U.

K. market was a large and important one for Unilever, representing just under 10% of the firm's tea production. The almost €990 million (€ 850 million) market was dominated by two major brands, PG tips and its rival Tetley Tea, who each had roughly a quarter of the market. PG tips was a classic black tea blend, with few line extensions. The U. K. was broadly seen as a progressive country when it came to environmental policies.

However, while Unilever's research suggested that the mass-market consumer was aware and concerned about "sustainability issues," broadly defined, they were not interested in paying more for green products. The PG tips brand was a mass-market, working class brand that held a place in the everyday lives of its consumers, who were in general middle-aged and middle-income. The brand proposition was one of sociability, family, and light-heartedness. This was captured in its ad campaigns which were infused with off-beat British humor. In 2008, PG tips was the only brand on the market proposing any sustainability differentiation.

The marketing team treated the initiative as a major brand innovation and devoted the entire €12 million (€ 10 million) marketing spend in the launch year 2008 to promoting the efforts. Previous U. K. experience found that it took 12 to 18 months to address mental barriers and fully land a message with consumers. The challenge for the PG tips team was to find a message that would resonate with consumers. Using exchange rate of €1 = \$ 0.86 as of December 2, 2011. This document is authorized for use only by LINDA KELLY-HAYES until June 2011.

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consumers while maintaining consistency with the brand's core proposition. "It was a huge challenge," explained Neil Gledhill of the PG tips campaign. "We had to talk to mainstream consumers in a way that explained a complex topic without preaching, all in a language aligned with the brand." The chosen message, "do your bit: put the kettle on," emphasized the positive action that consumers could take by drinking PG tips.

The campaign tried to keep the light-hearted spirit of the brand's previous campaigns and used its well-established characters: a talking monkey called Monkey and a working class man named Al. In one of the ads, for example, Monkey, presenting a slide show in the kitchen, explained to Al what certification meant, and how easy it was for him to do the right thing (see Exhibit 11). The campaign used TV and print, as well as a short movie that was shown as a preview in cinemas and ultimately included as a DVD in special promotion packs along with a tea towel.

Packaging was also changed to include the certification seal and a description of the alliance. Prior to the campaign, PG tips and Tetley Tea were battling hard for the top spot in the British market. However, following the campaign, PG tips developed a significant lead in market share, with its market share increasing by 1.8 points, while Tetley remained relatively flat; and the purchase repeat rate increased from 44% to 49%. Sales of PG tips increased by 6%. Surveys suggested that there had been a steady increase in the perception of PG tips as an ethical brand following the launch of the campaign. No tC Project Sunshine": the Australian success Like the U. K. , Australia was a relatively straight-forward tea market with only a handful of available products, and most sales in black tea. Prior to the launch of the

campaign in 2009, the Lipton brand held nearly a quarter of the €260 million (A\$345 million) market. Unilever's other brand, Bushell's, had an approximately 13 % share of the market. The local team chose the phrase "Make a Better Choice with Lipton, the world's first Rainforest Alliance Certified tea", and because of the relatively small portfolio, it was implemented across the majority of the products.

They felt that it was aligned with the existing brand vision, which had been "Drink Better, Live Better", an attempt to increase the perceptions of quality and health benefits of the Lipton brand. The €1. 1 million (A\$1. 4 million) campaign covered television, print, and public relations. Unilever also supported the initiative with in-store promotions. Packaging was changed to include the Rainforest Alliance seal on the front of the pack, with further explanation of the initiative and its benefits placed on the back and sides.

Customers were not charged a premium for certified tea since surveys had found that higher prices were a perceived barrier to sustainable consumption. Relative to the same test period the year before the campaign, sales were up 11 % and Lipton's market share rose by 158 basis points from 24. 2 % to 25. 8%. Average purchase value per occasion rose from €3. 11 to €3. 23 (A\$4. 10 to A\$4. 25). The only area where the Lipton brand did not improve was on perceptions of quality, which decreased slightly during the campaign. Do Full activation in Italy The Italian tea market was estimated to be approximately €285 million in 2010.

Unilever had an approximately 12% share. 31 The Italian marketing team supported the certification with a €3 million mixed campaign of television, press, online, public relations, in-store promotions, and packaging updates.

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The message chosen was “ your small cup can make a big difference”. Following the first year of the campaign in 2008, Lipton saw sales of its Yellow Label brand increase by 10.5% and market share increase by over 2 full percentage points. It also witnessed an increase in its buyer base, which came mostly from younger and more upmarket consumers. The Using exchange rate of €1 = A\$1.31 as of December 2, 2011 9 This document is authorized for use only by LINDA KELLY-HAYES until June 2011. Copying or posting is an infringement of copyright.harvard.edu or 617.783.7860. Sustainable Tea at Unilever rP os t 712-438 team continued to support the campaign with in store promotion in 2009 and a web and editorial partnership with Italy’s National Geographic magazine in 2010, all of which cost €250,000. The French market disappointment In 2010, Lipton had a 37% market share in the €430 million French tea

Lipton’s main competition came from retailers’ private label brands, which accounted for 30%-40% of sales. In France, Unilever’s portfolio was more diversified: Lipton sold over 40 different tea products. Whereas in the UK and Australia Unilever had been able to carry the certification message on the majority of its products, in France it was initially only linked to the Lipton Yellow Label black tea product, representing only about a fifth of sales. market. 32 op yo The first wave of the campaign in France relied heavily on a significant public relations effort to educate consumers and customers (i. . , the retailers) to inform them of Lipton’s certification efforts. The team focused on engaging key opinion leaders and journalists with press releases, media and press conferences, and trips to the Kericho estate in Kenya. The brand’s efforts were widely covered in the press and the team felt that they

had made significant inroads attracting attention. Print ads with the message “ your tea can make a difference” were placed in travel and cooking magazines and were primarily focused towards current consumers, who tended to be female and over the age of 50.

The team’s research had suggested that French consumers were less likely to buy with a Rainforest Alliance seal on the box. This reluctance appeared to reflect a dislike of packaging change rather than any lack of concern for environmental issues, but as a result the team chose a staggered approach to package change, whereby certification was initially only announced on the inside of packs, before being added to the back of packs. Only in 2010 did the seal start to appear on the front of packs. This made it harder for consumers to link advertising support to the product they were seeing on shelves.

No tC The campaign received TV support in 2009 and 2010 as well as an online competition , where the winners won a trip to Kenya, intended to engage consumers and bloggers. The limited television advertisements ran Q4 2009 and Q1 2010 and contained scenes of sustainable farms in Africa, as well as information about the Rainforest Alliance (see Exhibit 11). In total, only 10% of the team’s marketing spend went towards supporting the Rainforest Alliance message, with the remainder going towards more conventional promotion and support of other innovations.

Lipton market share remained flat and awareness of the brand did not increase. Further, the campaign was not successful in linking Lipton to Rainforest Alliance, and Lipton was not seen as more ethical than other tea brands. Do The United States experience The U. S. tea market was an almost

€1.5 billion (\$2 billion) market in 2010. Unilever's U.S. campaign was launched in the summer of 2009 with a particular focus on the brand's green tea line, where Lipton was second in the market. The mainstream black tea range was not linked to the Rainforest Alliance initiative.

Company research had shown that 80% of U.S. consumers wanted to buy eco-ethical brands, although without sacrificing on cost or quality. Only 5% were willing to pay a premium. The message used was "Your Small Cup Can Make a Big Difference," although Unilever also had other messaging for its ready-to-drink beverage line running concurrently. To generate credibility, Unilever allowed National Geographic to create independent TV, print, and online content about the certification, which was published between June and September of 2009.

The campaign was also supported by a sponsored trip to the Kericho estate for three online bloggers and journalists, as well as advertising in online and social media. The packaging was changed to include the Rainforest Alliance seal on the front of the pack and information about certification on the pack side and flap. A retail partnership with Walmart and Sam's Club provided information and positive images at the point of purchase, which helped

10 This document is authorized for use only by LINDA KELLY-HAYES until June 2011. Copying or posting is an infringement of copyright. harvard.edu or 617. 783. 7860. 712-438 rP o s t Sustainable Tea at Unilever reinforce perceptions of health and quality benefits (see Exhibit 13). Analyses done by the marketing team indicated a strong ROI for the €740,000 (\$1 million) dollar campaign; however given the size of the business, the investment was relatively small. Unilever did not see any

significant effect on overall market share for Lipton or the Rainforest Alliance certified -green tea. Challenges Going Forward op yo A few years after the launch of the certification scheme many of Unilever's major competitors responded with their own certification programs.

Tetley, Twinings, and Yorkshire Tea all made arrangements for some or all of their tea suppliers to obtain Rainforest Alliance certification, while Pickwick and Carmien Tea opted to use UTZ, a certification scheme originating in The Netherlands. Yorkshire Tea announced a goal of selling 100% Rainforest Alliance certified tea by 2015 . 34 Twinings had goals of 100% certification by 2015 for its Everyday brand tea. 35 Tata's Tetley Tea vowed to have 100% of its branded tea certified by 2016, a year after Lipton. 6 The surge in demand placed pressure on the Rainforest Alliance, who expected to be certifying close to 20 %-25% of the world's tea supply by 2015. 37 The Emerging Market Challenge tC With competitors committing to third party certification, sustainable tea at Unilever faced a number of challenges going forward. On the supply side the company had to improve farming practices in some very difficult markets in order to meet the company's targets. On the marketing side, Leijnse and his colleagues had to decide how to proceed in emerging markets. Could consumers in countries like Turkey, Russia or India be persuaded to value certified tea?

If so, how? And how could Lipton maintain a point of difference in countries where competitor brands had followed suit? Reaching 100% Sustainable Sourcing No In 2011, Unilever sourced approximately 25% of its global tea requirement from India; most of it was consumed domestically. Some Indian tea growers had already achieved Rainforest Alliance certification, but they

were generally exporters and Unilever purchased a significant share of their production. Converting smaller domestic producers to sustainable practices presented (at least) two tricky challenges.

First, developing an organizational model that could handle training and roll out seemed likely to be difficult. A large proportion of India's tea was grown by smallholders who sold to local tea factories. However, in contrast to the situation in Kenya, there were no government sponsored tea-cooperatives, and farmers were free to sell to any factory. Some factories did provide extension services and training for their farms, but the quality of these services varied dramatically. Do Second, farming practices in India were in conflict with the Rainforest Alliance over two main issues, child labor and pesticide use.

The standards did not permit certified farms to employ anyone under the age of 15, but Indian law and the United Nation's International Labor Organization permitted the employment of 14 year olds in developing countries. Moreover in India the pesticide paraquat was widely used in tea production. It was quick and effective but it was also highly toxic when ingested or absorbed without protective equipment³⁸ and it was implicated in many suicides in the developing world due to its low cost, potency, and widespread availability. Paraquat was banned by the European Union but allowed under restricted use in the U.

S. 39 Rainforest Alliance standards did not permit its use, and as paraquat use was one of the critical criteria; exceptions could not be made by country.

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rP os t 712-438 Unilever could potentially address these issues by introducing an alternative standard tailored to India's local practices. This standard could act as a stepping stone towards future certification.

Unilever would almost certainly need partners to transform Indian tea growing. One option was to work with local NGOs, as they had in Kenya, but another was to consider working with industry wide initiatives. Marketing in India and Other Emerging Markets op yo Getting the messaging right in India would be another important challenge. Tea was the traditional hot beverage of India and the market was estimated to be €1 billionf (RS 64. 6 billion) in size, with Unilever the market leader with a share around 30%. Demand for tea was robust, with the market growing an estimated 12% per annum by value and 3% per annum by volume from 2005 to 2010.

The demand for tea had actually outstripped the growth in national tea production, resulting in tea price increases in 2010. 41 Approximately two-thirds of the market, by volume, was sold as unbranded loose black tea (in bulk). Only one-third of the market was branded tea, which was almost exclusively loose black tea in packets. Tea bags represented less than 2% of the market, but were a growing segment. G reen tea was another high-growth category, particularly in urban areas, because of its perceived health benefits. 2 Almost three-quarters of all tea was still sold through independent small grocers, but supermarkets and hypermarkets had begun to slowly increase their share as rising incomes began to shift consumer buying behavior. Brandedcoffee shopchains had also become popular, particularly with young Indian consumers, who increasingly viewed tea as an

old-fashioned beverage. 43 tC Unilever's Indian subsidiary, Hindustan Unilever, sold mostly through two major brands, Brooke Bond and Lipton, who had market shares of 19 and 6% respectively in the branded tea market.

Its main competitor was Tata Global Beverages who had a market share of 26%, mostly under its Tata Tea brand, which had almost 20% of the market by retail value. 44 But Unilever also faced competition from regional tea companies who took pride in tailoring their blends and preparation methods according to local preferences and who often competed aggressively on price. No Under the Sustainable Living Plan umbrella, Hindustan Unilever had begun to introduce products designed to improve the quality of life of India's poorest consumers, including new, highly effective hand soaps and a range of water purifiers.

The company had also been marketing Surf Excel, a concentrated laundry detergent, which required up to two fewer buckets of water for washing than competing products. 45 The company believed that if the environmental issue was tangible and had an immediate local impact, awareness and appreciation of the issue was generally high. But it was less clear if Unilever could communicate the comparatively distant benefits of sustainable tea farming. Do Michiel Leijnse wondered whether the company's recent experience in Turkey could provide any lessons.

In Turkey, the tea growing industry played a prominent role in national cultural identity, and the Turkish team had chosen a message that suggested certified tea offered national benefits, highlighting gains to domestic producers, as well as to the country's tea crops (see Exhibit 8).

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Should something similar be attempted in India? He also had to consider how tea could be marketed in emerging markets where there was no tea growing base. One such example was Russia, where Unilever had a 16% share of the almost €3 f Using exchange rate of €1 = RS 69. 6 as of December 2, 2011 12

This document is authorized for use only by LINDA KELLY-HAYES until June 2011. Copying or posting is an infringement of copyright. harvard. edu or 617. 783. 7860. 712-438 rP os t Sustainable Tea at Unilever billiong (RUB 115 billion) market in 2010. Tea was a traditional Russian drink consumed by almost everyone. 46 The market was led by a domestic tea manufacturer, and while volume growth had been limited, sales in the market had been growing at close to 15% since 2005, as consumers switched to more expensive varieties of tea and as the major Russian brands continued to expand the range of their offerings. 7 Could Unilever's sustainable tea platform serve as the basis for product differentiation that would drive growth and market share in Russia? Or should Unilever forego any promotion of sustainability and instead focus on other ways of competing in the Russian market? Concluding Thoughts op yo With the launch of Rainforest Alliance certification in 200 7, Unilever had started the transformation of the tea industry and improved the lives of hundreds of thousands of farmers. It had also demonstrated that in certain markets certification could increase market share.

However, with most major tea manufacturers implementing aggressive certification targets of their o wn, it appeared that sustainability might, at least in Western markets, become increasingly more a cost of doing business and less a source of competitive advantage. Unilever needed to decide not

only how to ensure that 100% of its supply chain could be sustainably sourced, but also how that message could be communicated in a diverse group of emerging markets. Michiel Leijnse also needed to decide how far he could push sustainability in the brand.

If Unilever were to reach its targets under the Sustainable Living Plan, all agricultural raw materials would eventually need to be sustainably sourced, including the paper and board used for the tea packaging and tea bags (see Exhibit 10). Could this be communicated to consumers in a useful way? Do No tC Looking across Unilever, Leijnse wondered if his experiences in tea had anything to contribute to marketing managers grappling with the potential benefits of 100% sustainable sourcing.

From a marketing perspective, tea and the Lipton brand had been an obvious choice to start talking about sustainability given the tight link between the raw material and the end product. The same could not be said for many of the other raw materials that Unilever purchased. For example, Unilever was the world's largest buyer of sustainable palm oil and it had committed to ensuring that all its purchases came from sustainable sources by 2015. Consumers did not ultimately buy sustainable palm oil, but rather products such as soap and edible fats that used it as one among many ingredients.

Unilever was uncertain whether to create awareness of its efforts among consumers. Moreover, Leijnse had experienced increased attention and criticism from activists since launching the Rainforest Alliance partnership; would the Sustainable Living Plan potentially make Unilever a bigger target for scrutiny? Were there any lessons that could be learned from Lipton? g

Using exchange rate of €1 = RUB 41.4 as of December 2, 2011
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Sustainable Tea at Unilever rP os t 712-438 Unilever Income Statements, 2006-2010 (€ Millions)

Year	Revenue	Cost of Goods Sold	Gross Profit	Gross Profit Margin	SG&A Expense	Depreciation & Amortization	Operating Income	Operating Margin	Non-operating Income	Non-operating Expenses	Income Before Taxes	Income Taxes	Net Income	After Taxes	Continuing Operations	Discontinued Operations	Total Operations	Total Net Income	Net Profit Margin	tC Diluted EPS from Continuing Operations	Diluted EPS from Total Operations	Diluted EPS from Total Net Income																																																																																			
2010	44,256	37,637	6,619	15.0%	-992	866	338	14.3%	206	97	-413	94	6,131	1,534	4,597	2008	40,519	21,340	19,179	47.3%	12,012	79	1,002	90	7,166	17.7%	361	96	-399	96	7,128	1,844	5,284	2007	40,116	20,522	19,594	48.8%	13,790	41	941	28	5,235	13.1%	646	66	-5,175	1,126	4,049	2006	39,647	20,095	19,551	49.3%	13,900	57	982	07	5,408	13.6%	181	87	-4,832	1,146	3,686	3,370	-3,370	3,370	8.5%	5,284	0	5,284	5,026	12.4%	3,801	80	3,881	3,881	9.7%	3,415	1,330	4,745	4,745	12.0%	1.46	1.46	1.46	0.86	1.17	1.17	1.17	0.69	1.3	1.73	1.73	0.69	5.12	5.24	5.24	0.72	4.6	6.4	6.4	0.45	op yo
2009	39,821	33,933	5,888	14.8%	-1,031	94	5,020	12.6%	324	98	-428	98	4,916	1,257	3,659	4,243	-4,243	4,243	9.6%	Revenue	Cost of Goods Sold	Gross Profit	Gross Profit Margin	SG&A Expense	Depreciation & Amortization	Operating Income	Operating Margin	Non-operating Income	Non-operating Expenses	Income Before Taxes	Income Taxes	Net Income	After Taxes	Continuing Operations	Discontinued Operations	Total Operations	Total Net Income	Net Profit Margin	tC Diluted EPS from Continuing Operations	Diluted EPS from Total Operations	Diluted EPS from Total Net Income																																																																

Dividends Per Share Source: Unilever income statements, via Hoover's Inc. , www.hoovers.com, accessed November 2011. Exhibit 2 Revenue and Operating Income by Divisiona, 2010 (€ Millions) Ice Cream & Beverages

Personal Care Home Care Total 14, 164 11, 318 2, 846 20. 1% 8, 605 7, 881
 724 8. 4% 13, 767 11, 471 2, 296 16. 7% 7, 726 7, 253 473 6. 1% 44, 262
 37, 923 6, 339 14. 3% No Savory, Dressing, & Spreads Revenue Operating
 Expenses Operating Income Operating Margin Source: Company documents.
 a Some of Unilever's other brands include Hellman's, Knorr, Becel,
 Heartbrand Icecream, Breyers, Axe, Dove, Vaseline, Omo,
 Do and Surf. 14 This document is authorized for use only by LINDA KELLY-
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 harvard. edu or 617. 783. 7860. L'Oreal Reckitt P Danone
 Nestle Colgate Unilever Revenue Growth by Company (%) CAGR, 1980-2009
 9. 4% 8. 5% 6. 9% 6. 0% 5. 2% 3. 8% 3. 5% Source: Company documents.
 Exhibit 4 Nestle Reckitt L'Oreal Danone Colgate P&G Unilever CAGR, 1980-
 2009 18. 6% 16. 9% 16. 6% 14. 0% 12. 6% 12. 4% 10. 2% 2000's 3. 6% 10.
 6% 7. 8% 0. 5% 3. 1% 6. 1% -2. 0% tC 1980-1989 37. 5% 24. 2% 23. 4% 31.
 1% 16. 0% 17. 1% 1. 5% 1990-1999 21. 7% 7. 6% 34. 7% 10. 3% 23. 0% 17.
 7% 10. 6% 2000-2009 3. 4% 16. 1% -3. 1% 2. 4% 0. 9% 6. 6% -3. 4% EBIT
 Margins by Company (%) 1980 11. 0% 10. 5% 9. 3% 8. 4% 7. 9% 6. 8% 5.
 7% No L'Oreal P Reckitt Nestle Colgate Danone Unilever 1990's 9. 8% 5. 9%
 4. 8% 5. 7% 5. 4% 5. 4% 2. 5% Enterprise Value Growth by Company (%)
 Source: Company documents. Exhibit 5 1980's 13. 7% 8. 9% 8. 3% 11. 5% 7.
 8% -0. 2% 8. 1% op yo Exhibit 3 712-438 rP os t Sustainable Tea at Unilever
 2009 14. 2% 20. 5% 25. 2% 14. 6% 24. 0% 16. 4% 14. 8% Margin growth
 (bps) 326 999 1591 621 1610 963 912 Do

Source: Company documents. 15 This document is authorized for use only by
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copyright.harvard. edu or 617. 783. 7860. Global Average Tea Prices, 1960-2010 (US cents per kilogram) op yo Exhibit 6 Sustainable Tea at Unilever rP os t 712-438 World databank, tC Source: Adapted from World Bank data, Global Economic Monitor (GEM) Commodities, [http://databank.worldbank.org/ddp/home.do? Step= 1= 4](http://databank.worldbank.org/ddp/home.do?Step=1=4), accessed November 2011. Do No a Base year is 2000. Prices are averages of Colombo, Kokata, and Mombasa auctions. 16

This document is authorized for use only by LINDA KELLY-HAYES until June 2011. Copying or posting is an infringement of copyright. harvard. edu or 617. 783. 7860. Exhibit 7a Ten Core Principles of Sustainable Agriculture Network Social and Environmental Management System Ecosystem Conservation Wildlife Protection Water Conservation Fair Treatment and Good Working Conditions for Workers Occupational Health and Safety Community Relations Integrated Crop Management Soil Management and Conservation Integrated Waste Management op yo 1. 2. 3. 4. 5. 6. 7. 8. 9. 10. 712-438 rP os t Sustainable Tea at Unilever

Source: Sustainable Agriculture Network, " Our Standards : SAN Principles," Sustainable Agriculture Network website, <http://sanstandards.org/sitio/subsections/display/7>, accessed December 2011. Exhibit 7b Company documents. Do No Source: Agrochemicals and fuels Soils Water Biodiversity Energy Waste Social and human capital Animal welfare Value chain & local economy Training tC 1. 2. 3. 4. 5. 6. 7. 8. 9. 10. Ten Indicators of Unilever Sustainable Agric ulture Code 17 This document is authorized for use only by LINDA KELLY-HAYES until June 2011. Copying or posting is an

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infringement of copyright.harvard. edu or 617. 83. 7860. Exhibit 8 Sustainable Tea at Unilever Rainforest Alliance Messaging in Turkey rP os t 712-438 tC op yo " As Lipton, Turkey's expert tea brand and responsible tea producer, we want to ensure that our tea will be passed on to our children and future generations. To this end, we are taking the first steps in our ' Sustainable Tea Farming Project' by combining our expertise with the passion of the tea growers in Black Sea Region. Our goal is to enhance existing agricultural practices and to generalize the use of those that conserve the ecological balance by raising awareness among more than 15, 000 tea growers in the egion about the tea planting and harvesting. We are committed to accomplish this goal in a way that will enable to gain Rainforest Alliance Certified™ status for our farmers. Remember that you support our farmers with every cup of Lipton tea you drink. " Do No Source: Company documents. 18 This document is authorized for use only by LINDA KELLY-HAYES until June 2011. Copying or posting is an infringement of copyright.harvard. edu or 617. 783. 7860. Educational Poster for Smallholders in East Africa Do No tC op yo Exhibit 9 712-438 rP os t Sustainable Tea at Unilever Source: Company documents (via Rainforest Alliance). 9 This document is authorized for use only by LINDA KELLY-HAYES until June 2011. Copying or posting is an infringement of copyright. harvard. edu or 617. 783. 7860. Sustainable Tea at Unilever Unilever Agricultural Raw Materials by Volume, 2010 Do No tC Source: Company documents. op yo Exhibit 10 rP os t 712-438 20 This document is authorized for use only by LINDA KELLY-HAYES until June 2011. Copying or posting is an infringement of copyright.harvard. edu or 617.

783. 7860. Exhibit 11 712-438 Examples of Rainforest Alliance Advertising tC
op yo PG tips (U. K.): rP os t

Sustainable Tea at Unilever Do No Lipton (France): Source: Company documents. 21 This document is authorized for use only by LINDA KELLY-HAYES until June 2011. Copying or posting is an infringement of copyright. harvard. edu or 617. 783. 7860. -22- tC No Source: Company documents. Exhibit 12 Do Unilever Sustainable Living Plan Targets op yo rP os t 712-438 This document is authorized for use only by LINDA KELLY-HAYES until June 2011. Copying or posting is an infringement of copyright.harvard. edu or 617. 783. 7860. Examples of U. S. In-Store Promotions Exhibit 14 Global Tea Production, 2009 (Tons)