

# Bringing our European business back to growth

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- Thank you very much Rudy.
- During the rest of the day, we will take you through the details of the European change agenda as we have been driving it since April of 2005. We will start-off with a general overview, where we will first take a look at the case for change, before we then move on to see what measures we took to bring our business back to growth.
- After that, we will take you through a series of case-studies, where we will offer you 'deep-dives' on some of the elements of our change agenda and/or certain specific parts of our business.
- I will then come back to you to talk about the progress so far and the key messages for the near future, before we round-off with a Q&A session with Rudy, myself and some of our colleagues.

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## Bringing our European business back to growth

### ① Setting the scene

- The challenges facing our business
- Unilever's strengths

### ② Europe's change agenda

- The case for change
- The European change program

### ③ Progress to date and Key actions



- Let me now move on and give you a perspective on where we found ourselves as a European business in early 2005 and the key issues we needed to address.

## Europe at a glance

- 41% of Unilever's total turnover
- 43% of Unilever's total operating profit
- 32 countries
- 82 factories
- 725 million potential consumers

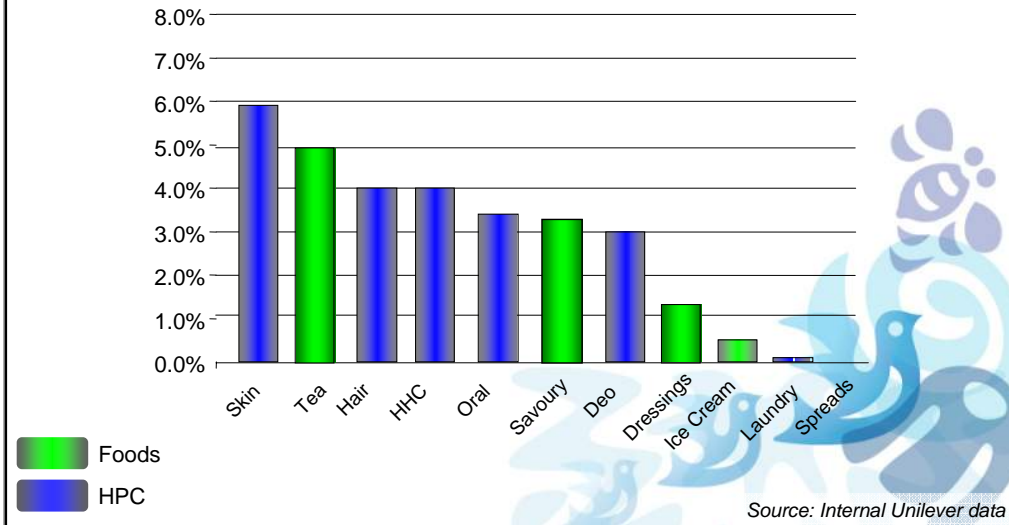


*As at end 2005*

- Rudy has already talked about our European business within the perspective of total Unilever.
- As said, Europe is significant for total Unilever. Not only is the heartland of our business in historical terms, it also represents more than 40% of our turnover and our operating profits. Unilever's success as a total business is closely linked to the performance of its European business.
- Some key numbers; we operate in 32 countries, we currently have 82 factories and we serve a potential consumer base of well over 700 million people.

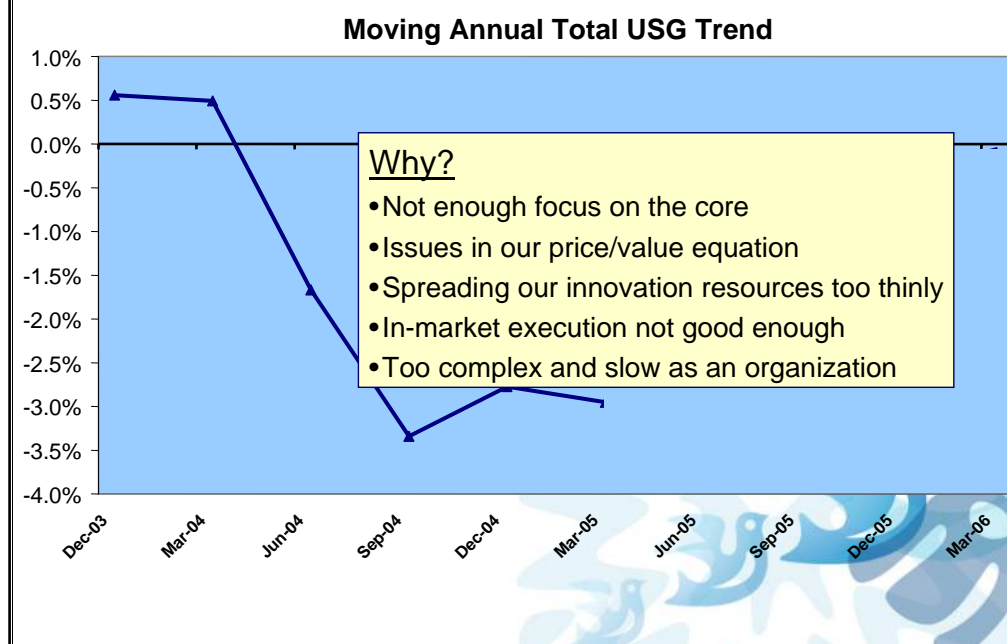
# Our markets are growing ....

European Market Growth (CAGR 2001 - 2005)



- As said yesterday, our markets are indeed growing. Percentages differ from category to category, but we are not working against declining markets.

## However .....



- However, in spite of the market growth and all inherent strengths of our business, our topline momentum was not where we wanted it to be. Early 2005 - when we shifted to the new Unilever operating model and we started to manage Europe as 1 integrated business with the new team - we had lost momentum vs. the start of the decade. As a European business, we found ourselves in a position of overall negative growth and we were losing ground vs. our competitors in many of our categories and markets.
- Needless to say that this was a situation which was not acceptable to us as a new team in charge of the business! Our clear ambition was (and is and will continue to be) to grow this business. When – early '05 - we looked at the root causes for the decline, we came to some clear conclusions:
  - First, we had lost the edge on the core of our portfolios; we had not brought enough news in our core ranges of for example Spreads and we had not sufficiently supported them.
  - Second - and related to the first item – we found a dis-balance between price and value in some of our ranges and products. This took multiple forms; sometimes the price was simply not competitive, sometimes we found quality issues, or examples where we were too narrowly focused on just the premium segment in a category, rather than 'playing the full price piano' and covering multiple price-points with multiple offerings.
  - Third - in terms of our innovation performance - we had spread our resources too thinly behind too many innovations, rather than focusing behind fewer, bigger activities.
  - Fourth, we came to the conclusion that – in today's world, where winning at the point-of-purchase and building categories together with our retail-customers are key – our in-market execution had simply not been good enough.
  - Last, and certainly not least, we had become too bureaucratic and slow as a European organization; apart from the associated costs, we were not reacting quickly and decisively enough to challenges and opportunities in our business environment.

## Where we were early 2005

Our brands and our positions do give us the potential for profitable growth in Europe

But ...

We needed to

- Rejuvenate and support the core
- Rebalance our price-value equation
- Focus behind fewer, bigger innovations
- Build excellence in customer development
- Simplify our European organization

- Summarizing where we were early 2005, I would say that:
- Our brands, our category positions, our scale and our geographic reach do give us the potential for profitable growth of our European business. We however needed to:
  - Focus back on our core, rejuvenate it and support it properly.
  - Re-balance our price-value equation, whatever form that might take, e.g. lowering the price, improving the quality, extend our offer to cover more price-points etc.
  - Make choices and focus our energy and our resources behind fewer, bigger innovations.
  - Significantly up our game in Customer Development and build and improve the capabilities in this area. This is a theme that you will see coming back throughout the presentations and case studies today.
  - The new Unilever operating model and the resulting integrated management of our European business, was of course a major step forward in terms of simplicity, transparency and clarity of responsibility and accountability. This was however just a beginning and further simplification of our European organization was clearly identified as a priority.

# Bringing our European business back to growth

## ① Setting the scene

- The challenges facing our business
- Unilever's strengths

## ② Europe's change agenda

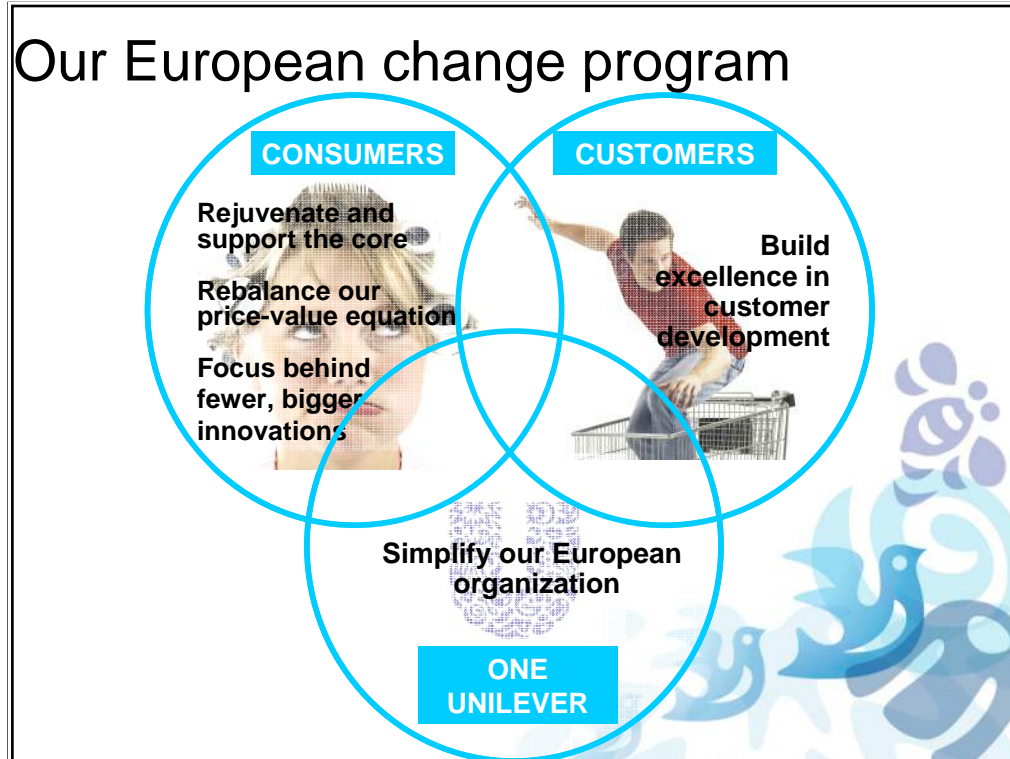
- The case for change
- The European change program

## ③ Progress to date and Key actions



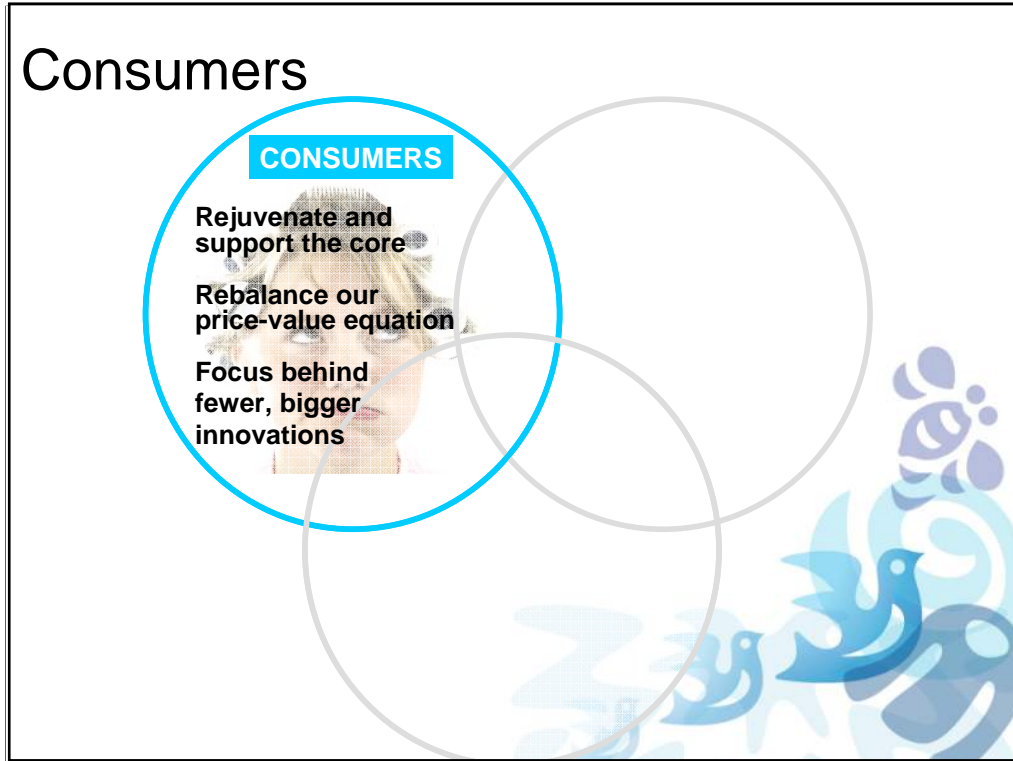
- So, how we are tackling the issues we found in our business as I just shared them with you?

## Our European change program



- In order to improve our performance in the 5 key turnaround areas, we have constructed an action plan which is centered around three main building blocks of our business, our consumers, our customers and our organization.
- These three building blocks of course do not exist in isolation. They are interrelated and partly overlap. There were they touch and overlap, specific ambitions and deliverables can be identified; for example, the combination of the action programs in the Consumer and the Customer areas should ultimately lead to Category leadership and captancy. And the joint efforts in the area of Customer Development and 1-Unilever have already resulted in 1 sales organization per country.
- We drive and cascade this European change agenda in a structured way and measure progress vs. our objectives on all different element and levels by a set of scorecards. All programs and actions have clear owners and deliverables are directly reflected in individual workplans and the personal targets that drive variable pay.
- This slide shows you where each of the 5 key actions fits into this overall framework. Let me now highlight each of the building blocks separately and share with you the action programs we are implementing to improve our business performance.

# Consumers



- First, consumers and our efforts and actions to bring them more exciting propositions and offering the functional benefits and the value they are looking for.

## Rejuvenate and support the core

### Target new consumers



### New variants to excite the consumer



Light



Olive



Omega 3+

- As said, rejuvenating the core of our portfolio's was and is one of our main priorities. The core represents the bulk of our business and we need it to grow if we want to grow as a total European business.
- Here you find some examples of initiatives we took in several parts of our business.

### Fabric Conditioners

- An example of how we are growing the core by attracting new consumers to our portfolio. Penetration in the fabric conditioner category drops significantly amongst women, 45+. This is mainly due to the fact that the category has historically only targeted 'Mums with Kids' and, as a result fabric conditioner is no longer a relevant proposition when women get older. Comfort Crème has been especially developed to re-engage this group
- We launched this product in the UK in the beginning of the year; it has been a great success for us and has resulted in our Comfort brand gaining market share.

### Spreads

- In our Spreads category, you can find many examples of things we are doing to grow our core. Antonie Stal will talk to you in more detail about this in the case study later today, but the basic principle is about bringing more excitement to the category by new propositions and new benefits through different taste and different ingredients. The application of this general idea to our Western European Foods business has resulted in good progress and improved performance.

# Rejuvenate and support the core



## Ice Cream

- Magnum, a core product in a core category. This year, we are completely re-launching the range, with a completely new marketing mix; an improved product, new communication and a completely integrated 360 approach on activation.

Rejuvenate and support the core



## Rebalance our price-value equation

### Covering multiple price-points in Soups France



1.90 €



2.60 €

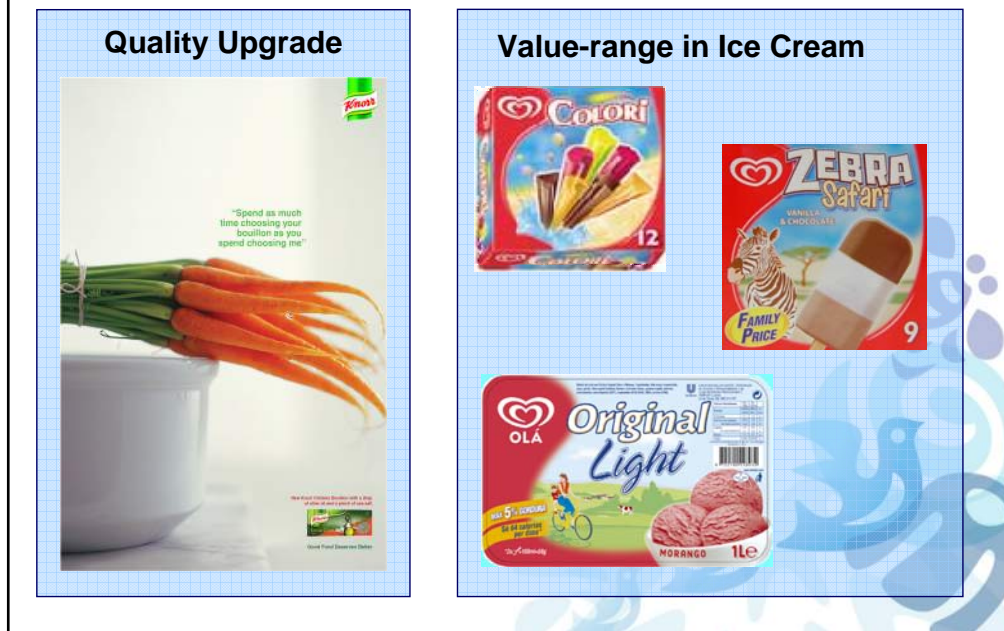
3.50 €

### Skip value-for-money Variant in Portugal



- Finding a better balance between the price of our products and the value they offer to consumers can take many forms. Simply lowering prices can sometimes be a solution, but often it is not.
- Another solution – and one that at the same time improves the choice and range of products available to consumers – can be to develop different products for different price points, like the examples you see here on Soups in France and on a value-for-money variant of our leading Skip brand in Portugal. They are both variations to the same theme, playing the full price piano and offering differentiated branded propositions at different price points.

# Rebalance our price-value equation



- A similar example is the new range of Family originals in Ice Cream. It allows us to play at the lower end of the price-spectrum, where we have traditionally not been present. The price-positioning of the Ice Cream 2-liter Family pack for example, puts it at a very competitive price vs. Private Label, but with a better quality and with the emotional benefits of our Ice Cream Heartbrand.
- Finally, value is not only about price; we know that consumers are ready to pay a premium and trade up, as long as the quality of the offer is strong enough. We are therefore deploying initiatives to improve the quality of our products wherever we feel fit or necessary. To this end, we have established a routine of regular blind testing of our products against competitive offerings in all of our countries.
- This has resulted in quality improvement initiatives like for example in our core Bouillons ranges, which we are currently re-launching across Europe. We have completely reviewed the recipes for these ranges, which has resulted in a quality upgrade, with positive claims such as better and richer taste, more vegetables and herbs and better dissolution of the product.
- Then, moving on to the third area of key-initiatives in the consumer space; focusing behind bigger and bolder innovations (FILM on next slide will start automatically and then move on to another FILM)

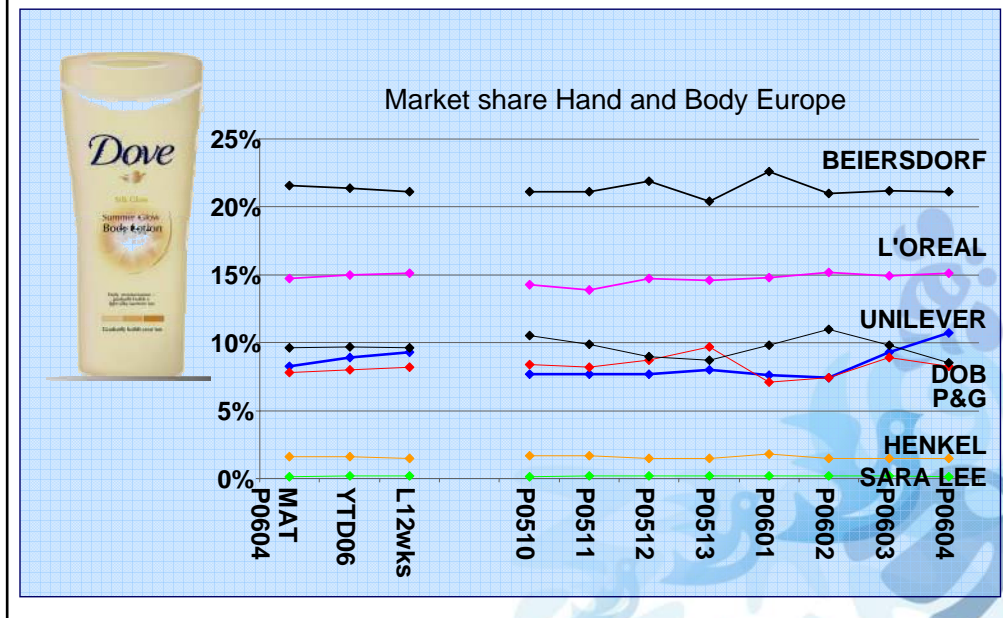
Focus behind fewer, bigger innovations  
Axe Click



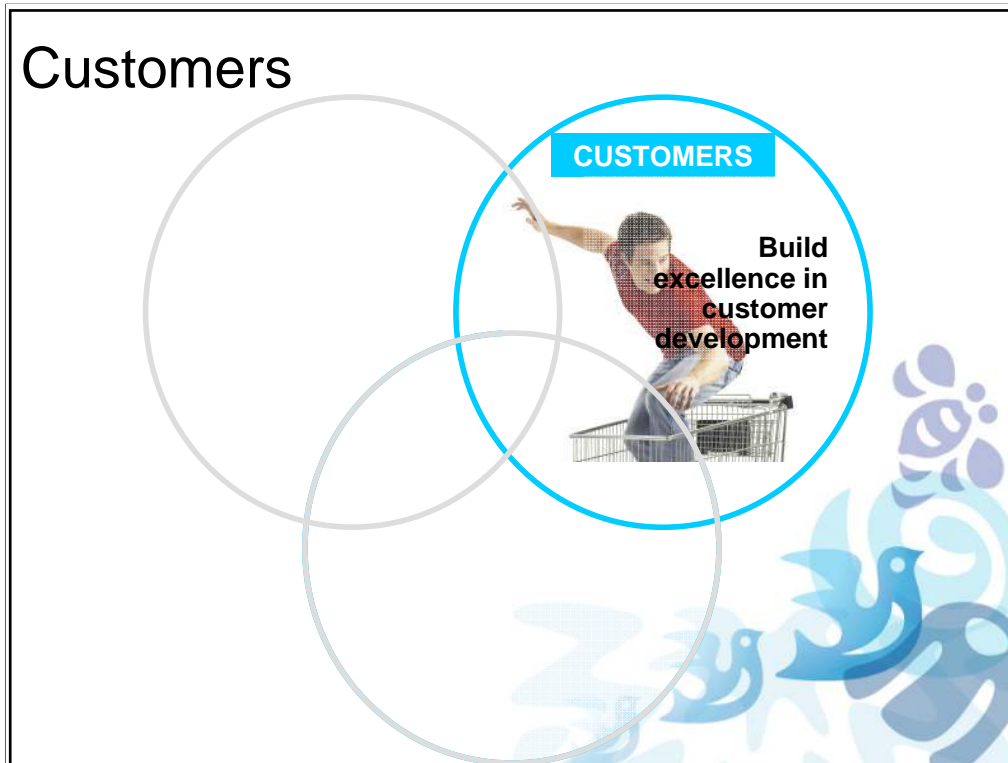
Focus behind fewer, bigger innovations  
Dove Summer Glow



## Focus behind fewer, bigger innovations Dove Summer Glow



- Focusing our resources behind fewer, bigger innovations and rolling them out through our geography rapidly and in a consistent manner; I think the campaigns on Axe and Dove Summer you just saw, are excellent examples of that. Another one would be the campaign to support the re-launch of our main Magnum brand in Ice Cream as we just saw it as well.
- Don't be mistaken; this is not about one-size-fits-all. Local adaptation is still possible, however only where and when it adds value and within the framework of the regionally coordinated roll-out of our products and advertising mixes.
- It however allows us to invest behind big and impact-full campaigns, like we have been consistently and successfully doing in Deo with Axe for some years now.
- It also allows us to introduce new products in response to new market trends and market opportunities quickly, and roll them out in case of success. The Dove Summer Glow product is a great example of that. The market opportunity emerged late last year, we developed a product in response and we quickly rolled it out once we found performance was good ..... and with a significant positive impact on our overall European share position in Hand & Body and an expected total turnover for the year far ahead of our initial plans and expectations.



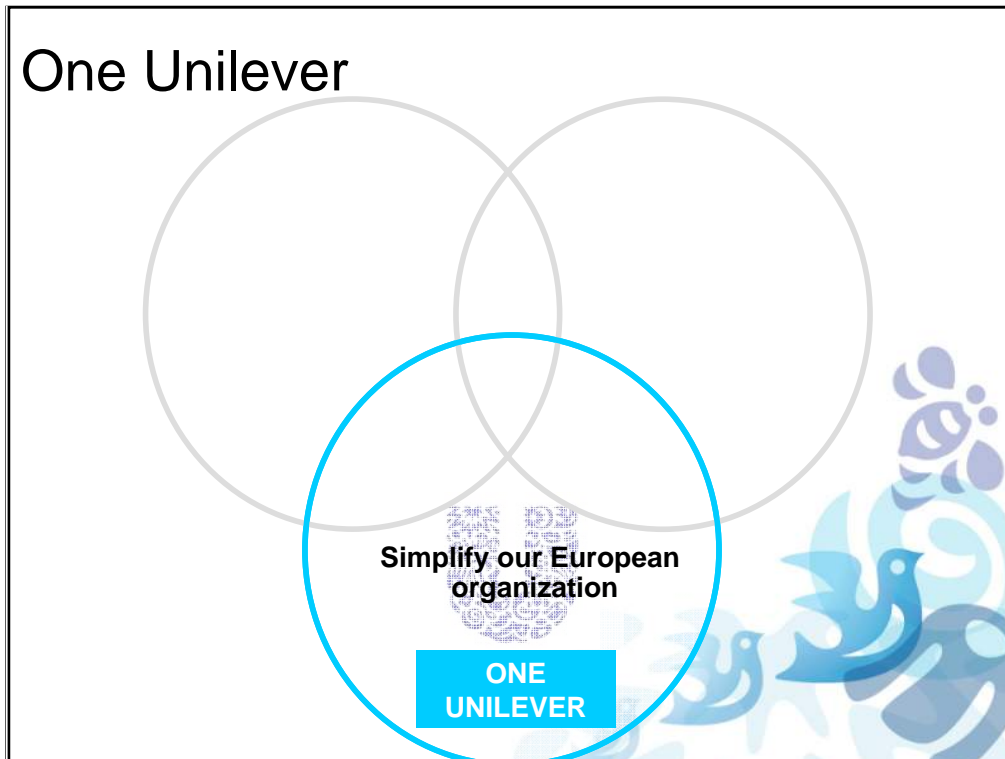
- Then, over to the Customer Development area. The overall ambition here is to significantly step-up our capability and to achieve excellence in customer development.
- One of the reasons we have invited you to come to Poland is because Chris and the team have been front-runners in Unilever in this area. You have seen the results of this approach yesterday during the trade visits and from the presentations by Carrefour and Tesco.
- Just to illustrate how serious we take Customer Development, not only in Europe but as a global business, we have for the first time in Unilever appointed a global Chief Customer Development Officer, Theo Koenders. Theo is with us today and will be presenting the details of our Win with Customers program to you later today during the case studies.
- I will now take you through a quick high level overview.

## Winning with Customers

- One sales organization per country
- Excellence in Customer Development
  - Strategic investing for growth
  - Winning at Point of Purchase
  - Building brands through customers
  - Customer service excellence



- The Winning with Customers program is at the heart of our ambition to achieve excellence in Customer Development. It is about how we organise our sales organisations, about how we build and develop world-class capabilities and how we work with our customers to build our categories for mutual benefit.
- In terms of our operating model, we have now implemented one sales organization per country, coordinated through one integrated customer development function for Europe; this enables us to use and leverage our cross-category breadth in-market much more effectively than in the past as well as using our cross-geography scale to consistently drive excellence and leverage capability throughout our European customer development organization.
- Basically, the program centers around 4 key areas; Strategic Investing for Growth, Winning at the Point of Purchase, Building Brands through Customers and Customer Service Excellence. And ..... once again, the whole approach is geared towards having one approach and one toolset and best practice traveling fast.
- To me, the Win with Customers program is all about creating a unique 1Unilever advantage in consumer access and customer/channel differentiation and being able to execute more and better at the same time in-market. It is an ambitious program and we still need to do much more, but I do think we have some good and exciting and good results so far, as you will see in the different case-studies later today.

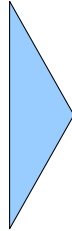


- Last but not least, our 1Unilever organization transformation program. Apart from the savings it is delivering, the 1Unilever initiative is key in unlocking the full potential of our organization, in leveraging our category and geography strength and in increasing our speed and agility by simplifying our organization and our processes.
- Once again, I think Poland is an excellent example of the benefits the 1Unilever approach can bring, not only in terms of cost-base, but more importantly in terms of market strength and competitive power. This business has been run on an integrated 1Unilever basis for a number of years and I would consider the implementation of the 1U principles as an example of best practice in Unilever and an important contributor and driver behind the excellent performance and positions of our business in the Polish market.

## We have implemented a new operating model for Europe...

From ...

Fairly independent Business Groups, Countries and Categories often acting as a loose federation



To ...

An integrated European business that:

Maximises synergies and scale at European and country level, through One Unilever

Continues to exploit synergies and scale at category level in Europe

- The new operating model for Europe has resulted in a significant simplification of our structures and our processes. From 3 fairly independent business-groups and an often loose confederation of countries and categories, we have moved into an integrated European business.

## .... and drastically simplified the European organisation

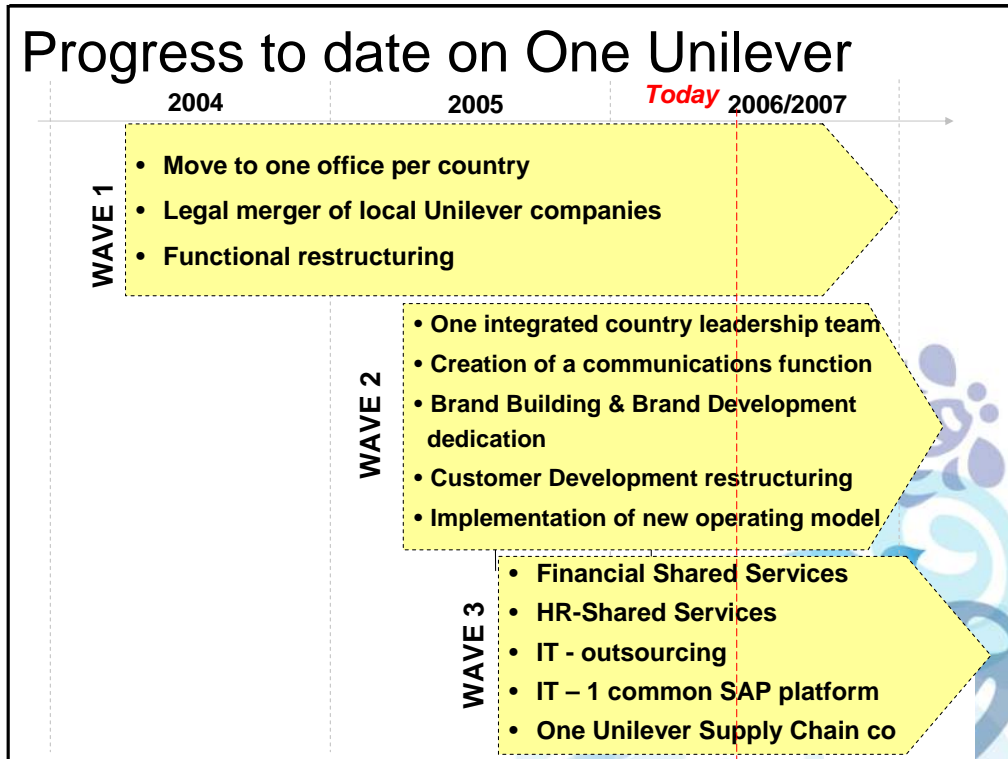
From ...

3 - BG presidents  
3 - Business Groups  
3 - HR functions  
3 - Finance functions  
3 - Customer Development function  
3 - Supply Chains  
- Unfocused Communication

To ...

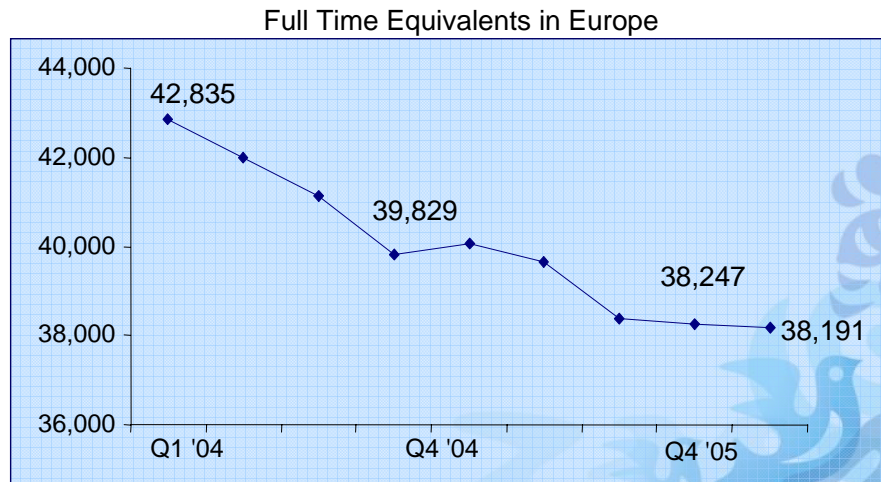
1 - President  
1 - Interdependent team  
1 - HR function  
1 - Finance function  
1 - Customer Development function  
1 - Supply Chain  
1 - Communication function

- The result is that we have removed duplication and organizational layers and greatly simplified our structures and processes. We have moved from 3 Business Group Presidents to 1 President Europe and we have integrated all of our functional structures - I am running Europe with 1 team. This process has been mirrored in the countries, where country leadership teams are now running the business on an integrated basis as well, rather than as separate business units reporting into different European structures.
- Apart from the savings that this has brought us, it has removed the barriers for speedy decision making and execution and puts us in a position to leverage our 1U strengths and capabilities much better than in the past.
- This means that the 1U program has been a key enabler to implement our overall change agenda. I am convinced that we would not have been able to execute the change programs the way we are doing today, if we wouldn't have implemented the new operating model.



- Without exhaustively taking you through all of the details of our transformation projects and the progress to date, I thought I should share this overview with you, to give you an idea of the breadth of the total 1Unilever agenda we are driving for Europe.
- This is a major organizational change agenda, which goes far beyond restructuring the cost-base. It touches on all elements of our business and our processes and requires significant change management capability.
- All of these programs have now been announced and are in implementation phase.
- Looking at the different waves, wave 1 and 2 - which are about the legal and operational integration of our businesses are progressing well. All countries are currently operating as 1 integrated business; you will understand that things like legally merging units and moving into 1 shared facility per country will sometimes require a little more time; the important thing however is the way we operate our business, which is on a fully integrated basis.
- As to our shared services and outsourcing agenda in Wave 3; you will have seen the announcements during recent months. Implementation is well underway; important enabling factors here are the implementation of our integrated SAP platform for Europe and the capacity of our outsourcing partners to transfer-in some our back-office processes.

## Update on One Unilever



- The resulting impact on the FTE development in Europe – with FTE standing for full-time-equivalents, i.e. the number of employees expressed in full-time jobs - is a reduction from almost 43.000 at the beginning of '04 to slightly more than 38.000 by the end of Q1 of this year. The expectation is that the outsourcing programs we have announced and are currently implementing, will reduce our FTE base by an additional 2000 FTE.
- This reduction goes through all management levels. The highest proportion has come from senior management, where we have reduced numbers by around 30% vs. 2004 levels.

## Europe's change agenda

### We *are*

- Rejuvenating and supporting the core
- Rebalancing our price-value equation
- Focusing behind fewer, bigger innovations
- Building excellence in customer development
- Simplifying our European organization

- Coming back to the key challenges for our business, I trust I have been able to give you a good overall idea of the initiatives we have taken and are taking to improve our performance in the different areas.
- Next in the program, we will run you through a number of case studies which will expose you in more detail to certain elements of our change program and how they contribute to turn our business around.
- I therefore hand you back over to John, who will provide us with the logistical details for the case studies, Afterwards, we will re-convene in this room, where I will share with you the overall progress in Europe as a whole and our key actions moving forward.