

## LESSONS IN DRIVING BUSINESS SUSTAINABILITY

### GREEN LIVING

A new valuation methodology and toolkit enables Unilever to measure its sustainable living plan's progress.

#### THE BUSINESS

Unilever is a global fast-moving consumer goods company which sells its products in more than 190 countries. On any given day, more than two billion consumers across the world use a Unilever product. In 2013, the company's turnover was €49.8bn. Unilever is proud of its sustainability record. By the end of 2013, 48% of its agricultural raw materials were sourced sustainably. It has reduced its waste by 11% since 2010.

#### THE IDEA

Unilever Finance has created a new valuation methodology, toolkit, and key performance indicators to assess the financial impact of the **Unilever Sustainable Living Plan (USLP)**.

The USLP was launched in 2010 and sets out to decouple Unilever's growth from its environmental impact. At the same time, it seeks to increase positive social impact. The USLP covers Unilever's complete range of products and applies across the whole value chain.

The new methodology enables Unilever's finance function and the managers of its 'categories' – groups of product portfolios – to assess the revenues, growth and margin of products and brands against their performance on six key USLP commitments. These are health and hygiene, nutrition, greenhouse gases, water, waste, and sustainable sourcing. 'As a result, we're able to track the supply chain investments, avoid costs and forecast incremental turnover associated

**‘We're able to track the supply chain investments, avoid costs and forecast incremental turnover associated with sustainability-led initiatives so that we can understand more fully the net-benefit of our Sustainable Living Plan.’**

with sustainability-led initiatives so that we can understand more fully the net-benefit of USLP,' explains Sabina Nealon, Unilever's Group Finance Director for Sustainability.

#### THE INNOVATION

The toolkit is an innovation with big ambitions. Unilever is using it to improve financial resilience and sustainability by prioritising investments and marketing. In this way, it expects to focus its product portfolio on delivering the company's vision of doubling in size while improving social outcomes and halving its environmental footprint.

In fact, the toolkit is already delivering benefits. For the first time Unilever can assess how its products incorporate sustainability while supporting corporate objectives. 'This baseline assessment provides our starting point to accelerate product innovation and portfolio shifts in lagging brands,' explains Nealon. 'It enables us to identify and replicate successful initiatives.'

#### 1. Health & Hygiene

Help more than a billion people to improve their hygiene habits and bring safe drinking water to 500m people by 2020.

#### 2. Improving nutrition

Double the proportion of our portfolio that meets the highest nutritional standards by 2020.

#### 3. Greenhouse gases

Halve the greenhouse gas impact of our products across the lifecycle by 2020.

#### 4. Water

Halve the water associated with the consumer use of our products by 2020.

#### 5. Waste

Halve the waste associated with the disposal of our products by 2020.

#### 6. Sustainable sourcing

Source 100% of our agricultural raw materials sustainably by 2020.

Unilever intends to extend the project work in several directions. It aims to improve the internal reporting and to create more harmonised approaches for assessing financial, social and environmental value at industry level. It is already pursuing this approach through participation in projects such as the World Business Council for Sustainable Development (WBCSD) **Redefining Value initiative**. But the greatest opportunity lies in improving performance and engaging consumers. For example, Lifebuoy soap is engaging consumers in hygiene projects and the Dove cleansing products brand is working on a self-esteem programme for girls. 'The data we collect will also let us expand the breadth and depth of information available to consumers,' says Nealon.

## FINANCE FUNCTION LEADERSHIP

The finance function has been at the forefront of creating the valuation methodology and its accompanying toolkit and KPIs. In 2013, Unilever Finance created a new finance sustainability team, headed by Nealon, to act as a business partner for the sustainable business function. Charles Nichols, Unilever's Group Controller, and Gail Klintworth, Chief Sustainability Officer, provided the project sponsorship.

By Spring 2013, the team had developed early thinking on the valuation approach and a set of metrics. They had also discussed the concept with the USLP Steering Group and senior stakeholders. After that, they gained support to develop a full methodology, calculation process and IT tools. This work started in September 2013 with a combined project team, including experts from Accenture Sustainability Services working alongside Unilever's finance, sustainability, and information management functions.

The team set out to define criteria and performance thresholds to use in assessing the sustainability of Unilever's many stock-keeping units. They did this by referring to the principles of the USLP. This enabled them to segment Unilever's product portfolios using data from R&D, manufacturing and the sustainability teams integrated with financial data from group reporting systems.

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By the first quarter of 2014, Unilever Finance, working with Accenture, had used the approach to assess global performance using 2013 financial results. The central finance team is now working to disseminate the findings and toolkit throughout the 'category' finance function.

## POSITIVE LONG-TERM IMPACT

By 2020, Unilever wants to cut the greenhouse gas, water and waste footprint of its products by 50%, including the consumer use phase. By the same date, Unilever aims to source 100% of agricultural raw materials sustainably.

Yet many of the biggest impacts are outside Unilever's direct control. Influencing customers to make more sustainable choices in purchasing and using products is critical to success. In addition, delivering USLP's goals means Unilever must drive a major portfolio shift to lower-impact products and services on a per-consumer-use basis.

'This initiative is essential to dealing with these challenges. It informs brand and category managers and finance teams about the potential to drive profitable volume growth whilst



Sabina Nealon, Unilever's Group Finance Director for Sustainability, and Roger Seabrook, VP Investor Relations, accepting the Large Business Award at the 2014 ceremony

also supporting consumers in sustainable living,' says Nealon. She argues that it provides the analytical framework to support choices on brand and portfolio strategy.

By tracking sustainability-linked investments and cost avoidance from material and energy efficiency, the financial KPIs provide the information to build the business case for delivering on long-term social, environmental and economic targets. The valuation methodology establishes the link between commercial performance and sustainability outcomes. This encourages clearer stakeholder and investor engagement. 'Providing a platform for an informed debate with investors is essential to securing long-term support for Unilever's strategy,' adds Nealon.

## LESSONS FROM THE CASE STUDY

There are three important lessons from Unilever's experience for other companies planning similar projects.

1. Make sure there is enthusiastic sponsorship from the top. At Unilever, Chief Executive Paul Polman is a sustainability enthusiast, so gaining buy-in was 'like pushing at an open door,' says Nealon. But there were other sceptics in the company who needed persuasion through means such as regular dialogue and workshops. 'At this stage, you can't over-communicate,' says Nealon.
2. Don't under-estimate the problems in identifying and developing the data sources needed to monitor and manage sustainability projects. In most companies financial data will be well established – but sustainability data may be sketchy or non-existent. 'But as you develop non-financial data you must apply the same rigour as for financial information,' says Nealon.
3. The whole sustainability strategy has to stand up to scrutiny. That means, in Unilever's case, having the detailed information to track the provenance of ingredients of its hundreds of products back to sustainable sources.

'For us, those three lessons were key,' adds Nealon.