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UNILEVER TEA (A): REVITALIZING LIPTON'S SUPPLY CHAIN

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It was commissioned by the Dutch Sustainable Trade Initiative (IDH) and was written in collaboration with the Sustainable Agriculture Initiative (SAI) Platform.

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BEDFORD, UK, APRIL 23, 2007. Michiel Leijnse, global brand development director of Lipton, had just told the global tea supply coordinator at the Unilever Supply Chain Company that Unilever's top management had approved their initiative to revitalize the Lipton brand. He knew that, to achieve this, a substantial effort would be required from the supply chain team.

The market revitalization strategy was dependent on Unilever's ability to spur changes in the agricultural practices of its suppliers at the farm level at an accelerated pace. Leijnse expected to see a detailed plan on how to align the supply chain behind the initiative within one week.

Background

Unilever *(refer to **Exhibit 1** for company information)* was the leader of the global tea industry in 2007. Vertically integrated in the value chain, the company was present from the production site all the way to commercialization. It purchased around 12% of the world's total black tea production and was strongly placed in the market with leader brands.

Lipton was the global market leader in both leaf and ready-to-drink tea, with a global market share nearly three times larger than that of its nearest rival. It was one of Unilever's 12 major brands and was available in 110 countries. Lipton's main markets were Western Europe, North America, the Middle East and parts of Asia. Lipton sales in 2007 were of €3 billion. PG Tips was one of the two leaders of the UK tea market, with consumers drinking over 35 million cups per day. In India, a market that consumed approximately 25% of the tea the company sold worldwide, Unilever was also the market leader (for packed tea), with the brand Brooke Bond.

Historically, the tea market has shown a persistent state of oversupply, which has maintained a downward pressure on prices. Even though falling prices might sound like good news for tea consumers, they create a downward spiral that threatens the long-term economic health of the industry. During the last three decades, commoditization, downward pressure on prices and upward pressure on primary production costs have undermined investments and the improvement of agricultural practices in tea plantations. Low margins and underinvestment jeopardized productivity and quality and acted as barriers to the improvement of the working conditions and livelihoods of growers. (*Refer to **Exhibit 2** for information on conditions and trends in the global tea market.*)

In spite of market structural problems, Unilever expected sustained growth in demand in the years to come as a result of consumer trends that had already emerged in the market, including consumers moving away from other drinks to tea due to the increasing perception of tea as a healthy beverage; the expansion of the green-tea market outside Asia; and the offer of a wide range of value-added products, for example ready-to-drink fruit and flavored teas. A second market growth trail resulted from an increase in the use of tea bags in developing and emerging markets where most people had traditionally made tea using loose leaves.

The tea value chain[1] is characterized by a high level of vertical integration. Major companies control various production stages upstream and downstream of manufacturing operations, including the ownership of plantations. Compared to the value chains of other commodities such as cocoa or coffee, the tea value chain is less fragmented and significantly shorter. Thus it is an industry in which a few players can have a substantial impact on the market.

Tea grows year-round and is a labor-intensive crop. It is produced both in large plantations – the tea estates – and by smallholders in tropical forest areas in a dozen or so countries. Tea growing faces myriad social, environmental and economic challenges that put increased stress on the raw material supply and on the livelihoods of tens of millions of people (r*efer to **Exhibit 3** for an overview of social and environmental aspects of tea growing.*)

Tea factories, the first critical node of the value chain, are usually located close to tea plantations, since primary processing of the tea leaves should start within five to seven hours of picking. Tea is mainly traded at auctions, but access to market information is limited due to substantial variation in quality, quantity and demand, and the small numbers of brokers controlling the market. Blending, packaging and marketing – the most lucrative sections of the value chain – are usually carried out in buyer countries. (***Exhibit 4** illustrates the main nodes of the tea value chain and its major players*.)

Revitalizing Lipton

Lipton Brand Imprint

Back in 2005 Lipton was not perceived as a shiny, vibrant brand and was suffering the consequences in the market. Leijnse, who had just joined the brand from Ben & Jerry's,[2]

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[1] Tea value chain description based on input from the Tea Barometer, 2010. Published by the Tropical Commodity Coalition for Sustainable Tea Coffee and Cocoa.

[2] Ben & Jerry's, a US-based ice-cream brand, was bought by Unilever in 2000. The brand was a pioneer in bringing environmental and social issues to the heart of a consumer brand.

looked into opportunities to revitalize the Lipton brand and volunteered with his team to carry out a brand imprint exercise.

The brand imprint exercise was a proprietary planning tool developed by Unilever in 2005 to fuel brand innovation and create competitive advantage by integrating social, economic and environmental considerations. It was a stepping stone in Unilever's evolving approach to corporate branding, described by Santiago Gowland, VP Brand & Global Corporate Responsibility at Unilever, as "going way beyond consumer-product insights"[3] and portrayed on the company's website as a "way to make corporate commitments and activities more visible and relevant to consumers." As part of this approach, individual product brands took a stronger stance on social and environmental issues.[4]

In 2006 an assessment group made up of brand developers, supply managers, corporate responsibility executives, outside consultants and Unilever managers from diverse functions was created, and Lipton became one of the first two Unilever brands to run the brand imprint exercise.

The exercise took about four months and started with an integrated analysis of the footprint (social, economic and environmental impacts) of the Lipton brand across the value chain. The influence of consumers, market forces and key opinion formers (customers, suppliers, NGOs and governments) on the future growth of the brand was also analyzed. It was followed by a group-facilitated discussion of alternative strategies and concluded with the design of an integrated brand strategy. During the process, the assessment group identified significant business opportunities in the tea market for linking brand preference to sustainability. Jan-Kees Vis, global supply chain director of sustainable agriculture at Unilever, explained:

> Our objective was to revitalize Lipton by positioning it as values-driven. During the brand imprint exercise we conclude that sustainability could potentially be an excellent attribute enabling us to engage in a positive dialogue with consumers and to harvest enhanced brand value.

On the one hand, Lipton had solid experience in integrating sustainability into tea production. Lipton's tea estates in Kericho (Kenya) and Mufindi (Tanzania) fully complied with Unilever's standards of sustainable agriculture (*refer to* ***Exhibit 5*** *for a brief view of Unilever's sustainable agriculture initiatives*). The company was working to align suppliers' practices with those standards and had partnered with the Kenya Tea Development Agency (KTDA)[5] to promote sustainable practices among smallholders.

On the other hand, market research showed that sustainability was a growing concern of consumers in key markets and that it could potentially be turned into an effective differentiator factor when effectively communicated to consumers. However, Lipton's

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[3] Presentation at the Sustainable Brands Conference 2008. Available at http://www.melodiesinmarketing.com/2009/04/11/unilever-sustainable-brand-lipton-knorr-dove/ (accessed on August 30, 2011).

[4] http://www.unilever.com/sustainability/strategy/vision/

[5] As of 2007, the KTDA was the second largest exporter of black tea in the world and was responsible for 62% of all tea produced in Kenya. The company provided management services for the production, processing and marketing of black tea to over half a million smallholders through 59 farmer-owned tea factories.

approach to communication about sustainability was essentially low key and, since efforts were not visible to consumers, the potential to harvest positive impacts on brand value and on the bottom line was not being realized.

Leveraging Credibility

Credibility was the crucial issue to be addressed to ensure that consumers would understand and value the link between Lipton's brand and sustainable tea growing. Unilever had built a strong track record in keeping in sync with the pulse of the market, not only through solid market research but also through extensive consultation with key stakeholders by participating in a variety of platforms, such as the Sustainable Agriculture Initiative (SAI) Platform[6] and the Marine Stewardship Council (MSC).[7] The company realized that consumers would not necessarily hold Lipton's self-declared excellence in sustainability as credible. The Brand Imprint team saw the support and endorsement of third parties as the answer to the credibility issue.

Following the brand imprint exercise, the Lipton brand team sought a third-party certification scheme. Fairtrade, UTZ Certified and the Rainforest Alliance Certified were scrutinized. Vis explained the process and criteria used in Lipton's choice of partner:

> By talking to these three organizations, brand managers realized that they should look for the best match between the shadow brand[8] and the new Lipton brand positioning. They looked for answers to the following questions: Does the shadow brand, or seal, have consumer recognition? Is there a risk that the certifier's message would overshadow Lipton's message? Does the organization have the scale to certify a big supply base? Does it have the organizational flexibility and capacity to certify large estates as well as smallholders?

The team took about six months to analyze the three certification schemes. Initially, Unilever staff leaned more toward Fairtrade as the certifying scheme of choice. However, during the analysis they concluded that Fairtrade might lack the scale and the organizational flexibility to certify large industrial tea estates and that although the Fairtrade logo was well known, it had a strong message that could overshadow Lipton's message. At that point, UTZ Certified had very low consumer recognition and was therefore ruled out. Rainforest Alliance Certified, which ensures compliance with Sustainable Agriculture Network standards, turned out to be the best match. As Vis described:

> Rainforest Alliance certification had modest but promising consumer recognition in Europe. It was a nimble organization, quick on its feet. The program was business minded, willing to

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[6] The SAI Platform is an organization created by the food industry to communicate and to actively support the development of sustainable agriculture involving stakeholders throughout the food chain. It was created in 2002 by Unilever, Danone and Nestlé. http://www.saiplatform.org

[7] For detailed information on Unilever's key role in the creation and development of the MSC, refer to Nick, A., O. Salzmann; A. Ionescu-Somers; U. Steger. *Transforming the Global Fishing Industry: The Marine Stewardship Council at Full Sail?* IMD case no. IMD-2-0083, 2006.

[8] A shadow brand is a type of brand architecture used to endorse or leverage a brand (or a product/service) through association with another known organization or brand without overstating the relationship. It is a special case of brand endorsement with minimized association. A well-known example is Disney's relationship with Touchstone Pictures.

> grow, to invest and to find co-funding for training farmers. It was expanding from its traditional markets and products to better fulfill the mission of protecting rainforests. Its standards for sustainable agriculture measured and assessed the majority of criteria we considered important to sustainability.

The Rainforest Alliance was an international NGO created in 1987 with the objective of conserving biodiversity and ensuring sustainable livelihoods by transforming land use practices, business practices and consumer behavior. In 2009 the Rainforest Alliance had nearly 300 staff worldwide and an operating budget of US$30 million. The programs developed by the organization were focused on four areas: agriculture, forestry, tourism and climate. It was a founding member of the Sustainable Agriculture Network (SAN), a coalition of conservation groups linking responsible farmers with conscientious consumers by means of certification of sustainable farming practices according to internationally recognized guidelines and auditing procedures. Certification from the Rainforest Alliance required compliance with three levels of sustainability: worker welfare, farm management and environmental protection (*refer to **Exhibit 6***).[9]

Leapfrogging to Mainstream

Once the Lipton brand team had decided to go along with Rainforest Alliance certification, they decided to seek the green light from Unilever's top management to mainstream sustainability in tea production.

The team's proposal was to convert the whole brand to certified sustainable tea. This meant that every product in Lipton's teabag range would be made with tea from Rainforest Alliance Certified farms, a contrast to the usual approach of bringing sustainable food and beverages to the market by introducing variant brands. Introducing a variant brand generally means creating a niche market, since sustainable products are distinguished from the main product line by certification – and often by higher prices. By definition, niche markets have a limited reach and invariably lead to a situation in which the majority of consumers continue to purchase standard products. By only making a variant brand sustainable, a company generally brings economic benefits to a small group of farmers but the vast majority of the others do not benefit economically or socially and there is no significant environmental improvement. In addition, variant brands have limited capacity to change mainstream brand positioning and to create long-term value, as the link between the new attribute and the brand is weak.

But the discussion with Unilever top executives was tough. It raised questions about how costly it would be, how quickly the conversion could be carried out and what Lipton expected to get in return on the income side.

In particular, it was a hard battle for the Lipton team to internally sell the crucial point of the mainstreaming strategy: paying a premium to growers for sustainable tea while keeping the retail price unchanged. At that time, Unilever expected to be paying around €2 million in premiums annually by 2010 and €5 million by 2015. If consumers were not ready to pay more for sustainable tea, did this mean that the additional cost would need to be absorbed in

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[9] SAN Standards for Sustainable Agriculture can be accessed at http://www.rainforest-alliance.org/agriculture/documents/sust_ag_standard_july2010.pdf (accessed on August 30, 2011)

the margin, thus reducing profitability? The solution lay in the predicted growth in market share: additional supply chain costs could be recovered through that growth.

Unilever executives questioned the possibility of competitors capturing market share. They argued that if other major tea brands also switched to certified tea, sustainability would no longer be a competitive advantage. The answer lay in the positive economic impacts for Unilever of a transformation of the entire industry to certified tea. If a significant share of both tea producers and buyers around the world switched to certified sustainable tea, prices would inevitably increase across the board. With prices moving upward, the historical trend of commoditization of tea would be reverted, allowing retail prices to rise gradually. Because Unilever had the largest global market share, it would be able to capture the lion's part of the income growth. The company would gain a lot from an end to the downward spiral of prices and quality variance on the global tea market**.**

Leijnse summarized Lipton's rationale for taking the mainstreaming approach:

> According to market research, 60% of consumers in Western Europe declare that they take social and environmental factors into account when deciding what products to buy. However, they are often discouraged by price and availability. Lipton, as the world's biggest and best known tea brand, had an opportunity to break down those barriers and rebuild market share by making sustainability an integral part of the brand promise. Universally available sustainable tea was a sound and sensible long-term business proposition from the brand point of view. We saw the possibility of transforming the entire industry and guarding it against commoditization. We were formidably placed to win; both as a first mover and as the catalyst of an industry-wide transformation.

Another heated discussion was around the timeframe for conversion to sustainable tea. To secure the benefits of a first mover, Lipton needed to work on a highly accelerated schedule. Instead of taking the traditional approach of testing the ground through pilot projects, Leijnse and his team proposed to leapfrog to mainstream and the conversion of all tea sold in Western Europe to Rainforest Alliance certified within three years.

After five months involving one-on-one discussions with key decision makers, Lipton's team got the buy-in from Unilever's top executives. PG Tips and Lyons were also to meet full brand certification requirements.

Leijnse told the Unilever global tea supply coordinator that the public announcement of Unilever targets was planned to happen in a couple of weeks. They were as follows:

- By 2010 the tea in all Unilever mainstream teabags in Western Europe would be sourced from Rainforest Alliance Certified™ farms.
- By 2015 the tea in all Lipton teabags sold globally would be sourced from Rainforest Alliance Certified™ farms.

Aligning the Supply Chain

Leijnse underlined that the key element for the success of the initiative would be to hit the road working concurrently on supply chain and market rollout, with perfect synchronization.

According to the information sent by Leijnse, the approach for market rollout would be to focus on the Western European market and convert it fully before moving on. This decision was guided by the limited availability of certified tea in the first years and by the existence of differing levels of consumer interest in sustainability in specific markets. Leijnse explained:

> Once we start with a market, we want to go all the way. We are setting up targets as clear as: We are starting now with the Western European market and within three years it will be fully certified. In practice, it means that all the available certified tea in the first years will have to be channeled to this key market instead of being spread out across the globe.

Thus, the critical point of supply chain rollout was to make sure that certified tea was available not only at the right time but also from the right suppliers, since each tea product/range uses a complex and unique blend made of different origins and qualities of tea.[10] The Unilever global tea supply coordinator knew that switching suppliers was only feasible to the extent that it did not alter the blend.

The Unilever team knew that significant brand risks were at stake if supply chain rollout were not perfectly timed with marketing deployment. Once targets were made public, conversion to sustainable tea became a one-way street with no rolling back. By linking sustainability to the brand and actively communicating it to consumers, Unilever had no other option than to live up to the expectations and bring certified sustainable tea to the market.

[10] The composition of a tea in terms of its varieties and origins is a key determinant of flavor and quality and is usually a well-kept commercial secret.

Exhibit 1
Unilever: Company Information

By fiscal year 2006 Unilever, a Fortune Global 500 company operating in the fast-moving consumer goods industry, had a worldwide turnover of €40 billion. It operated in about 100 countries and directly employed 179,000 people. A decentralized company driven by its consumer brands, Unilever had a portfolio composed of 400 core brands and nearly 75% of sales were generated by its top 25 brands, including Knorr, Rexona, Dove, Lipton, Flora/Becel and Hellmann's.

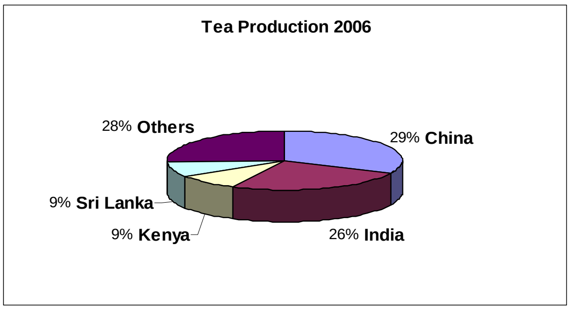
The Anglo-Dutch company described itself as "a 'multi-local multinational' with consumers, customers, suppliers and shareholders on every continent"[11] and generated more than half of its turnover in developing and emerging markets in Asia, Africa, Central and Eastern Europe and Latin America.

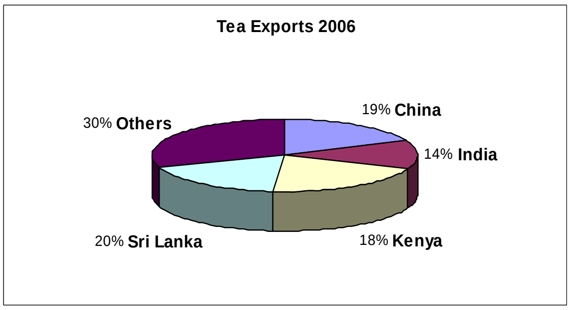
[11] Unilever Annual Report and Accounts 2009.

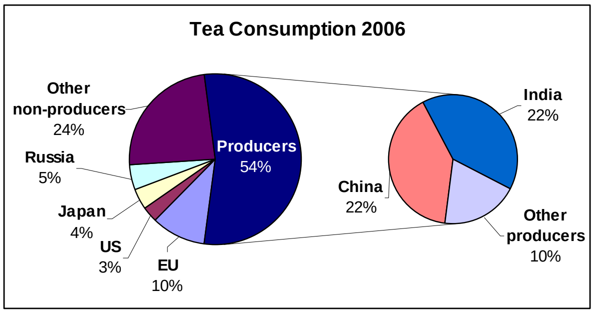
Exhibit 2
Conditions and Trends in the Global Tea Market

In 2006 black tea accounted for approximately 65% of global production and 80% of global trade. India, Kenya and Sri Lanka were the biggest world producers of black tea, while green tea was mainly grown in China. The two biggest producers, China and India, were also major tea consumers and their domestic markets accounted for almost half of global consumption. Consumption in non-producing countries was led by the European Union, Russia, Japan and the US. The EU and US together accounted for approximately 13% of total tea consumption. The UK was the largest tea consumer within Europe, with a market share of 63%.

Production, Exports and Consumption of Tea in 2006







Source: FAO. Report of the 18th Session of the Intergovernmental Group on Tea. Hangzhou, China, 14–16 May 2008

Tea Production, Exports and Consumption: Global Market

		Actual 2006	Projected 2017	Growth Rates 1996-2006	2006-2017
		(thousand tonnes)		(percent per year)	
Black Tea	Production	2565	3141	2.8	1.9
	Exports	1151	1385	1.5	1.7
	Consumption	2340	2820	1.0	1.7

Source: FAO. Report of the 18th Session of the Intergovernmental Group on Tea. Hangzhou, China, 14–16 May 2008

Exhibit 3
Social and Environmental Aspects of Tea Growing

Tea growing employs over 13 million workers – of which around 9 million are smallholders – in the four main producing countries. In countries like Kenya and Sri Lanka, approximately 3 million smallholders accounted for over 60% of tea production in 2009. Tea production in smallholdings is usually combined with other subsistence crops and livestock, and plays an important role as a cash crop, providing income to pay for food, education and healthcare for farmers' families. Poor yields and quality resulting from the downward spiral that threatens the fundamentals of the tea market have led to high vulnerability in smallholders' livelihoods. Although there are significant differences between regions and plantation types (estate or smallholding), the sustainability challenges of tea production can include:

- The contamination of soil, surface water and final product by pesticide residues[12]
- Soil erosion, soil degradation and the sedimentation of rivers
- Land conversion and logging for firewood, potentially leading to local-scale deforestation and biodiversity loss[13]
- Low wages and poor working conditions at certain tea plantations, in particular for seasonal workers, with considerably limited or no access to social benefits
- Work-related injuries and health problems due to contamination by agrochemicals
- Endemic diseases[14]
- Poor housing/living conditions[15]
- Gender/ethnic discrimination.

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[12] Pesticides are used in Asia on a larger scale in tea plantations, while their use in East Africa is minimal.

[13] Although deforestation is an issue at the local level, tea plantation is not as big a driver of tropical deforestation as other commodities such as palm oil and soya.

[14] HIV/AIDS is a serious problem in tea plantations in East Africa, while water-related infectious diseases and malnutrition are of high concern in tea plantations in Sri Lanka and India.

[15] In India, most workers in large plantations have access to basic facilities such as housing, drinking water and sanitation. In Kenya, house-sharing is common on large tea estates that can get overcrowded in the peak season when seasonal laborers are employed. In Sri Lanka, most tea workers share rooms in old barracks with no access to (piped) drinking water and proper sanitation facilities.

Exhibit 3 (continued)

Overview of the Social, Economic and Environmental Issues in Tea Plantations

	Estate and factory workers	Small-scale farmers
Social issues	– High discrimination, gender inequality – Low representation of workers – Poor living conditions on estates	– High reliance on tea for livelihood – Low level of farmer organisation – Lack of land title deeds
Economical issues	– Low wages – High casualisation of labour – Uneven value distribution	– Lack of market information, market access & (technical) training – Low productivity and low prices versus high production costs – Uneven value distribution
Environmental issues	**Small-scale farmers and estate and factory workers** – Deforestation / loss of biodiversity due to conversion of forests into tea farms – Soil erosion, low soil fertility – Agrochemical use – Pollution and energy inefficiency in processing tea	

Source: van Reenen, M., S. Panhuysen, B. Weiligmann. *Tea Barometer 2010*. Leiden: Tropical Commodity Coalition, 2010, page 6

Making tea farming more sustainable has the potential not only to bring environmental benefits to tropical forest areas but also to improve the livelihoods of millions of smallholders, by enabling them to obtain higher prices for their tea. However, overcoming the sustainability challenges of tea production (and distribution) can only be achieved by liberating the sector from its downward spiral in price, quality and investment, and by promoting a structural market transformation.

Exhibit 4
Overview of Major Players in the Tea Value Chain and Tea Consumption

Source: van Reenen, M., S. Panhuysen, B. Weiligmann. *Tea Barometer 2010*. Leiden: Tropical Commodity Coalition, 2010, page 6

Exhibit 5
Sustainable Agriculture at Unilever

Over the years Unilever has developed a strong corporate reputation in sustainability management in general, as demonstrated by its nomination in 2010, for the 12th consecutive year, as the food industry category leader in the Dow Jones Sustainability World Indexes.[16] It is recognized among industry peers and a diversity of stakeholders as a pioneer in addressing sustainability issues, including sustainable agriculture, from a strategic business perspective, linking it to both product branding and supply chain management.

Unilever established a sustainable agriculture program in the 1990s. At that time, it developed guidelines for sound agricultural practices for key crops. Indicators covering the three aspects of the "people, profit and planet" view of sustainability – such as water, energy, pesticide use, biodiversity, social capital, work conditions, workers' livelihoods and animal welfare – were incorporated into contracts with growers. The guidelines were developed in consultation with key stakeholders and extended to suppliers through various tools such as regular buying visits, self-assessment questionnaires and close monitoring of high-risk suppliers. In 2006 social and environmental considerations were brought into product brand innovation and development plans using the brand imprint exercise.

[16] http://www.sustainability-indexes.com.

Exhibit 6
SAN Standards for Sustainable Agriculture

The SAN standards were developed through a series of public consultation processes and tests on the ground on different farms of different sizes and for 21 different crops. It is structured around 10 principles:

1. Social and environmental management system
2. Ecosystem conservation
3. Wildlife protection
4. Water conservation
5. Fair treatment and good working conditions for workers
6. Occupational health and safety
7. Community relations
8. Integrated crop management
9. Soil management and conservation
10. Integrated waste management.

SAN Standards for Sustainable Agriculture can be accessed at:

http://www.rainforest-alliance.org/agriculture/documents/sust_ag_standard_july2010.pdf