

UNILEVER SUSTAINABLE TEA: LEAPFROGGING TO MAINSTREAM

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BEDFORD, UK, JULY 6, 2010. Mark Birch, global category supply manager for Tea at Unilever, summarized on paper his reactions to the thought-provoking conversation he had just had with Michiel Leijnse, global brand development director of Lipton.

Three years earlier, Leijnse and Birch had embarked on an exciting journey. It all started with Lipton's decision to source all its tea for teabags from Rainforest Alliance Certified™ farms. The two executives found themselves in the driving seat of an ambitious market transformation effort.

The first year of roll-out brought quick wins in tea supply chains that were supported by already existing capacities in Lipton's own tea plantations in Kenya. Years two and three were marked by sturdy efforts to extend training and certification to more fragmented parts of the supply chain. The collaboration with the Rainforest Alliance certification program was successful and by mid-2010, there was enough certified tea to ensure that Lipton Yellow Label teabags sold in Western Europe were fully certified.

On the market side, roll-out was faster than expected. The initial strategy of focusing on the Western European market for the first three years was replaced by the keenness of Japan, the US and Australia to accelerate the commercialization of certified tea in their markets.

Leijnse and Birch felt that they would encounter significant challenges in the years to come as certification was extended globally. In addition, demand for certified tea was growing exponentially as other major players in the global market followed on Unilever's path and began to certify their own brands. Unilever was also actively considering the implications of taking an even bigger step: extending sustainable tea to the domestic market of India, the world's biggest producer and consumer of black tea.

Background

Unilever

At the end of 2009, Unilever, a Fortune Global 500 company operating in the fast-moving consumer goods industry, had a worldwide turnover of €39 billion. It operated in 170 countries and directly employed 163,000 people. The company's portfolio was 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"¹ and generated more than half of its turnover in developing and emerging markets in Asia, Africa, Central & Eastern Europe and Latin America.

Unilever Tea

Unilever was the world's largest tea company in 2009. 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 tea production and was strongly placed in the market with three 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 its nearest rival. It was one of Unilever's 13 major brands² and was available in 110 countries. Lipton's main markets were Western Europe, North America, the Middle East and parts of Asia. PG Tips was one of the two leaders of the UK tea market³, 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.

The company expected significant future growth in tea sales. This was partly because consumers were beginning to move away from other drinks to tea thanks to the wide range of value-added products such as ready-to-drink fruit and flavored teas, the expansion of the green-tea market outside Asia and the increasing perception of tea as a healthy beverage. The second growth trail would result from an increase in the use of tea bags in developing and emerging markets where most people had traditionally made tea using only loose leaves.

Tea

Market

Historically, the tea market had shown a persistent state of oversupply, which kept a downward pressure on prices. Even though falling prices might sound like good news for tea consumers, they represent a threat to the long-term economic health of the industry, product quality and the working conditions and livelihoods of growers. However, market fundamentals had begun to improve.⁴ Projections made by the FAO in 2009 suggested that

¹ Unilever. Annual Report and Accounts 2009.

² Lipton sales in 2009 were of €3 billion.

³ PG Tips market share in 2009 was of 25%.

⁴ According to the FAO (Food and Agriculture Organization), consumption growth between 2005 and 2009 outpaced production (0.8% and -0.6% respectively). FAO Report of the 19th session of the intergovernmental group on tea. New Delhi, India, 12–14 May 2010.

supply and demand of black tea would be in equilibrium in the medium term,⁵ promoting relatively stable prices at higher levels than the average over the previous three decades.

Exhibit 1 shows data on major tea production and consumption countries.⁶ In 2008, 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. According to FAO projections, green tea exports were expected to grow 5.5% per year up to 2019, while black tea exports were projected to grow by 1.8 %. The two biggest producers, China and India, were also major tea consumers and their domestic markets accounted for over half of global consumption. Consumption in non-producing countries was led by the European Union, Russia, North Africa, Japan and North America. Western Europe and North America together accounted for approximately 10% of total tea consumption. The UK was the largest tea consumer within Europe, with a market share of 63%.

The Tea Value Chain⁷

The tea value chain 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.

When compared to other commodities, such as cacao or coffee, the tea value chain is less fragmented and significantly shorter. Traditionally, tea cultivation is carried out in large plantations – the tea estates. However, in countries like Kenya and Sri Lanka, approximately 3 million smallholders accounted for over 60% of production in 2009. 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 strongly influences tea flavor and constitutes, along with packaging and marketing, the most lucrative part of the value chain, usually carried out in buyer countries. (*Exhibit 2 illustrates the main nodes of the tea value chain and its major players.*)

Sustainability Challenges

Investments and the improvement of agricultural practices in tea plantations have been undermined in the three past decades by commoditization, downward pressure on prices and upward pressure on primary production costs. Poor yields and quality have led to a high vulnerability of smallholders' livelihoods in this labor intensive crop.

Tea plantations are typically located in tropical forest areas within about a dozen countries. Although there are significant regional differences, sustainability challenges of tea plantations can include:

- The contamination of soil, surface water and final product by pesticide residues⁸

⁵ FAO Report of the 19th session of the intergovernmental group on tea. New Delhi, India, 12–14 May 2010.

⁶ Tea Barometer, 2010. Published by the Tropical Commodity Coalition for sustainable Tea Coffee Cocoa.

⁷ Based on input from the Tea Barometer, 2010. Published by the Tropical Commodity Coalition for sustainable Tea Coffee Cocoa.

⁸ Pesticides are used in Asia in a larger scale in tea plantations, while its use in East Africa is minimal.

- Soil erosion, soil degradation and the sedimentation of rivers
- Land conversion and logging for firewood, potentially leading to local-scale deforestation and biodiversity loss⁹
- Low wages and poor working conditions at certain tea plantations, in particular for seasonal workers with very reduced or no access to social benefits, such as medical care, housing, education and pension funds
- Work-related injuries and health problems due to contamination by agrochemicals
- Endemic diseases¹⁰
- Poor housing/living conditions¹¹
- Gender/ethnic discrimination.

*(Refer to **Exhibit 3** for an overview of specific social, economic and environmental aspects of sustainable tea production in large estates and smallholder production sites.)*

Unilever’s Business Case for Sustainable Tea

Sustainable Agriculture at Unilever

Over the years, Unilever 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.¹² It was recognized among industry peers and a diversity of stakeholders as a pioneer in addressing sustainable agriculture issues from a strategic business perspective, linking it both to 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 a process called Brand Imprint. It started with an integrated analysis of the footprint (social, economic and environmental impacts) of brands across the value chain, along with one of the influence of consumers, market forces and key opinion

⁹ Although deforestation is an issue at the local level, tea plantation is not as big as driver of tropical deforestation as other commodities such as palm oil and soya.

¹⁰ HIV/AIDS is a very serious problem in tea plantations in East Africa, while water-related infectious diseases and malnutrition is of high concern in tea plantations in Sri Lanka and India.

¹¹ In India, most workers in large plantations have access to basic facilities such housing, drinking water and sanitation. In Kenya, house sharing is common on tea large estates that can get overcrowded in 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.

¹² <http://www.sustainability-indexes.com>.

formers (customers, suppliers, NGOs and governments) on future brand growth. It was followed by a group-facilitated discussion of alternative strategies and concluded with the design of an integrated brand strategy.

In 2009, Unilever launched a new corporate vision to double the size of the business while reducing overall environmental impact across the entire value chain. In April 2010, guidelines for best agricultural practices were converted into a sustainable agriculture code¹³ that set out Unilever's expectations for agricultural suppliers in terms of integrated farming principles to optimize yield while minimizing environmental impacts.

As highlighted in Unilever's corporate report on sustainability:¹⁴

Sustainable sourcing not only helps us manage a key business risk, it also presents an opportunity for growth, allowing our brands to differentiate themselves to the growing number of consumers who choose products based on their sustainability credentials.

Building the Business Case

In 2006, Lipton was the first Unilever brand to carry out a brand imprint exercise. The assessment group – made up of brand developers, supply managers, corporate responsibility executives, outside consultants and other Unilever staff – identified significant business opportunities in the tea market for linking brand preference to sustainability.

On the one hand, Lipton already had a 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. The company was working to align suppliers' practices with those standards and had partnered with the Kenya Tea Development Agency to promote sustainable practices among smallholders. But bringing suppliers to the same level of sustainability as that achieved in the company's own tea plantations was very challenging.

At that time, the brand was investing around €1 million per year in sustainable tea initiatives. However, the approach to communication about sustainability was essentially low key. Since efforts were not visible to consumers, the potential to harvest positive impacts on brand value and on the bottom line were not being realized.

On the other hand, Lipton was not perceived as a shiny and vibrant brand at that time and was suffering the consequences in the market. The team aimed at revitalizing Lipton's brand by positioning it as a values-driven brand.

Thus, sustainability and in particular the "people" aspect of the triple bottom-line approach, were excellent attributes to be linked to the brand. Leijnse, who had just joined Lipton from Ben & Jerry's,¹⁵ voiced Lipton's business case for sustainable tea:

¹³ Available at http://www.unilever.com/images/sd_Unilever_Sustainable_Agriculture_Code_2010_tcm13-216557.pdf

¹⁴ Unilever Sustainable Development Overview 2009. Page 18.

¹⁵ Ben & Jerry's is a US-based ice-cream brand which was bought by Unilever in 2000. The brand was a pioneer in supporting environmental and social causes with the direct engagement of suppliers, customers and local communities. It is also recognized for communicating sustainability performance in an engaging and impactful way.

The biggest impact of Lipton was in the area of tea growing. This was also where we had most control and the highest potential to make a positive difference. Universally available sustainable tea was a sound and sensible long-term business proposition from the brand point of view; and it was also a good deal for tea growers.

Taking on the Mainstreaming Challenge

Leveraging Credibility

Credibility was the crucial issue to be addressed to ensure that the link between Lipton's brand and sustainable tea growing would be successful. Unilever had built a strong track record in keeping in sync with the pulse of the market through solid market research and consultation with key stakeholders through participation in a variety of platforms, such as the Sustainable Agriculture Initiative (SAI) Platform¹⁶ and the Marine Stewardship Council (MSC).¹⁷ 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 from third parties as the answer to the credibility issue.

In the following months, the Lipton team sought a third-party certification scheme. Fairtrade, UTZ Certified and the Rainforest Alliance Certified were scrutinized. Jan-Kees Vis, global supply chain director of sustainable agriculture at Unilever, 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 brand¹⁸ 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? Do they 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 industrial tea estates.¹⁹ At that point, UTZ Certified had very low consumer recognition and was therefore ruled out. Rainforest Alliance Certified, which ensures

¹⁶ SAI Platform is an organization created by the food industry to communicate and to actively support the development of sustainable agriculture involving stakeholders of the food chain. It was created in 2002 by Unilever, Danone and Nestlé. <http://www.saiplatform.org>

¹⁷ For detailed information on Unilever's key role in the creation and development of the MSC, refer to Nick, A; Salzmann, O; Ionescu-Somers, A; Steger, U. *Transforming the Global Fishing Industry: The Marine Stewardship Council at Full Sail?* IMD case no. IMD-2-0083, 2006.

¹⁸ 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 endorsement brand with minimized association and contamination. A well-known example is Disney's relationship with Touchstone Pictures.

¹⁹ In 2006, the total sales of all Fairtrade products, globally, amount to €750 million. At that time, Lipton's turnover was more than €1 billion. What would it mean to Fairtrade if Lipton became 50% of the Fairtrade business? Certifying industrial tea estates would represent a fundamental change in Fairtrade's mission. Also, although the Fairtrade logo was well known, it had a very strong message that could overshadow Lipton's message.

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 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.²⁰

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 are focused on four areas: agriculture, forestry, tourism and climate. The Rainforest Alliance is 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. Tea is one of the 21 commodities grown on farms certified by the Rainforest Alliance. Certification requires three levels of sustainability: worker welfare, farm management and environmental protection.²¹

The Mainstreaming Decision

Once the 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, framing the initiative within a larger context of market transformation of the tea industry (*refer to Exhibit 4 for a consolidated description of the market transformation approach and its key phases*).

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 higher prices. By definition, niche markets have a limited reach and invariably lead to a situation in which mainstream consumers continue to purchase standard cheaper 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 society does not see a significant environmental improvement. In addition, variant brands have limited capacity to change mainstream brand positioning and create long-term value, as the link between the new attribute and the brand is weak.

²⁰ For a more detailed description of the reasons why Rainforest Alliance certification better matched Lipton's criteria, refer to Sustainable Food Lab, Innovations for Healthy Value Chains, 2008 (pages 28–30).

²¹ SAN Standards for Sustainable Agriculture can be accessed at http://www.rainforest-alliance.org/agriculture/documents/sust_ag_standard_july2010.pdf.

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 it mean that the additional cost would need to be absorbed in the margin, thus reducing profitability? The solution lay on the income side, since additional costs in the supply chain could be recovered through growth in market share.

Unilever executives questioned the possibility of market growth being captured by competitors. They argued that if other major tea brands also switched to certified tea, sustainability would no longer be a competitive advantage. Moreover, because the Rainforest Alliance certified farms and not buyers, there was a risk that once certified, producers might decide to sell to other companies, and thus attempt to drive prices up.

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 gradually rise. 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 rationality 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. 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.

In addition, to boost mainstreaming impact and counter critics of the actual reach of Rainforest Alliance certification,²² Unilever decided to roll out the scheme at a level above the minimum requirements for using the Rainforest Alliance "green frog" seal. It would only start using the seal if a minimum of 50% of the tea originated from Rainforest Alliance Certified farms, instead of the 30% entry point.²³



²² Companies can use the Rainforest Alliance Certified "frog" seal on the front of a package if at least 30% of the raw material within it originates from Rainforest Alliance Certified™ farms. Critics say that the actual reach of the certifying process is thin, since within a package containing 10 units of a certified product only 3 units would be grown according to sustainable practices.

²³ The Rainforest Alliance allows the seal to be used when a minimum 30% content is from certified farms. However the company has to commit to scaling up the content and according to the Rainforest Alliance, most companies are well above 30%. The entry point is allowed in order to recognize the need for mainstream companies to build certification over time, as supply capacity increases.

It was a very innovative approach, in many respects. Unilever went for the conversion of whole brands, instead of the usual introduction of variant brands. A premium was paid to tea producers without being transferred to consumers. The tough timeframe of three years for the conversion of all tea sold in Western Europe meant that the roll-out was highly accelerated. Instead of taking the traditional approach of testing through pilot projects, Unilever decided to leapfrog to mainstream.

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.

In May 2007, following a preliminary review of Lipton's supply chain carried out by the company in conjunction with the Rainforest Alliance, Unilever went public with its targets:

- 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.

Hitting the Road

Once the team had won sufficient internal buy-in, a roll-out strategy was put in place. Targets needed to be communicated internally at Unilever, and externally with suppliers, consumers and key stakeholders. Setting the right priorities and translating them into tangible short-term targets was crucial to enable delivery of Unilever's public commitments. Leijnse explained:

We hit the road, working both in supply-chain roll-out – making sure that certified tea was available and that our key suppliers became certified – and on marketing roll-out, communicating to consumers that Lipton's tea was now certified, what that meant and why they should buy certified tea. Both streams of work were run at the same time and they completely rely upon each other, because you can only communicate with consumers if the certified tea is actually available.

Supply-Chain Roll-Out

The first step of supply-chain roll-out was to work with the Rainforest Alliance to interpret the SAN standard for tea and tea-producing countries. The Rainforest Alliance and other members of the SAN had little experience with tea before the partnership with Unilever, and while the SAN standard is applicable to all crops, local indicators needed to be developed to adjust it for tea according to field observations in Kenya.

But in order for the actual certification process to start, the Rainforest Alliance and the SAN had to build capacity on the ground. At that time, the organization had a strong presence in Latin America but very little experience in Africa and Asia. Since it worked based on partnerships with other NGOs, considerable effort had to be put into finding local partners, which would deliver training programs to suppliers to build knowledge around the standards and also run the audits, and into getting them trained.

On the ground, the main challenge was to motivate suppliers to change their processes. Edward Millard, sustainable landscapes director at the Rainforest Alliance, explained:

We needed to persuade tea growers to change the way they farmed. We needed to motivate growers, to convince them that this was the right thing to do. Working with a market leader, such as Unilever, was a big advantage in this process. Unilever's commitment to fully convert to certified sustainable tea sent a powerful signal to the supply chain that certification was a market reality.

Unilever and the Rainforest Alliance worked very closely on the development of a plan in which suppliers were prioritized. Unilever wanted to bring its existing suppliers into the certification journey; switching suppliers would probably alter the taste of tea,²⁴ which would not please consumers, and it would be unfair to suppliers to break long-lasting sourcing relationships. The ranking that positioned suppliers according to priority for certification was built based on a combination of the amount of work they have already done in sustainability with Unilever's needs to supply specific markets. Birch explained:

Some suppliers have already invested a lot of time and effort on sustainability. It was relatively straightforward for them to get certified. We were sure that they would pass the audit, as they already had good practices in place. For some other suppliers, we knew that they had significant work to do. They would need to invest in improvements on the ground, buying new equipment and upgrading facilities before they could attempt to get certified. We also looked at our needs. We knew that we wanted to communicate in certain markets; we knew how much tea we needed in order to supply them; and we knew where the tea we used in the blend sold in those markets came from.

From this process, Kenya – the world's biggest exporter of black tea – was the natural place to start and certification was relatively straightforward since Lipton owned large tea plantations in Kericho, where sustainability initiatives had been carried out for more than ten years. There were also a few large suppliers that already had very good standards and could be certified relatively easily. The most challenging part of the roll-out in Kenya was to reach the large base of half-a-million smallholders organized around the Kenya Tea Development Agency (KTDA), which were ranked as high priority in the supply-chain roll-out plan. By mid-2010, three groups of 12,000 smallholders each were certified, leading to benefits such as a 5% to 15% increase in yield through better agronomic practices, 40,000 native trees planted, adoption of water conservation practices and generalization of the use of personal protective equipment. This was an unprecedented achievement in sustainable agriculture and in tea.

Large estate suppliers in India came as second priority, since Lipton had suppliers there who had already done some work in sustainability, although they were not as advanced as in Kenya. The Lipton team did not expect to have difficulty in convincing large Indian suppliers to get certified and put in the additional work required to achieve the standards. Also, there was a strong legal framework in place regulating working conditions and employee benefits on tea plantations; and although regulation was not well enforced, plantations that did follow the law were automatically on a good footing.

In producing countries where conditions for roll-out were more complex or where the supply base was more fragmented, a strategy was put in place to gradually bring suppliers into certification by 2015. In summer 2010, suppliers were certified in Tanzania, Malawi, Argentina and Indonesia. Others were being trained and were making their first steps toward introducing and keeping sustainability criteria in their tea plantations in countries such as

²⁴ Each tea product/range uses a complex and unique blend of different origins and qualities of tea. Thus, a tea bag usually contains teas from different varieties and origins. The composition of a tea, in terms of its origins and estates, is a key determinant of flavor and quality and is usually a well-kept commercial secret.

Zimbabwe, Burundi, Rwanda, Uganda, Vietnam and Brazil. Suppliers of Lipton in India were also included in the gradual roll-out phase and had started working toward certification in 2009.

The scale of the challenge was significantly higher in Sri Lanka, where the government was not in favor of certification,²⁵ and China, where there were major issues regarding pesticides and labor.

Unilever decided to go for the “low hanging fruits” first to accelerate the availability of certified tea. The biggest challenge for the supply-chain roll-out was speed. Birch explained:

Business does not operate on wishes; it operates on plans and on putting resources in place to deliver on plans. Farmers needed to be trained within short deadlines in Africa, Asia and South America. Once trained, they needed to be able to convert practices and structures at a very accelerated pace. The Rainforest Alliance needed to build, within months, audit capacity for certification in countries it had never worked in before. The speed required was a challenge for the Rainforest Alliance in terms of capability growth. And it was a challenge for Unilever in terms of expectation. We have ambitious targets to deliver and we are measuring how quickly we are getting close to that conversion point. My bosses, and my bosses’ bosses, all expect that we will deliver on time, but we need to be realistic that are relying heavily on a third party to make it happen.

By mid-2010, 69 estates/operations had been certified in six countries, covering more than 95,000 hectares and involving more than 170,000 workers.

Marketing Roll-Out

The strategy for the marketing roll-out was to focus on key markets and convert them fully before moving on. This strategy 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 recalled:

Once we started with a market, we wanted to go all the way. We set 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 meant that all the available certified tea in the first years was channeled to this key market, instead of being spread out across the globe.

The UK was an example of a very straightforward marketing roll-out. The market was concentrated on one product/brand; black tea, PG Tips. The quantities of tea needed to supply the market were significant, but once the company had identified which producers needed to be certified, it all happened relatively quickly.

Other European markets like France, Italy and Sweden required a different approach. Because the Lipton portfolio covered different flavors and varieties of tea, supply and thus certification became more complex. In these markets, a short-term shift from 0% to 100% as achieved in markets like the UK was less feasible. The Rainforest Alliance Certified seal did not appear on all products and ranges at the same time, and not immediately at the fully certified level. These market characteristics made the launch very complex and required extra effort to explain to consumers why some products were certified while others were not yet.

²⁵ The government in Sri Lanka had concerns that certification would give Western NGOs and multinationals the power to set standards and control the tea industry, significantly reducing the reach of public policies on a strategic crop for the country.

The French market was a challenging case, since particularities of the market also affected the roll-out of certified black tea. French consumers of black tea were relatively older and very traditional, rejecting any kind of change in the pack. Lipton had concerns that if anything changed, sales would drop, as had previously happened following design changes on the front of the pack. Leijnse explained:

The strategy we took in France was to familiarize existing consumers before putting the seal on the front of the pack. First we put the Rainforest Alliance Certified seal on the interior of the pack. Then we put it on the back. So, consumers of Lipton black tea are being exposed to it and when it finally appears on the front of the pack, they will already know about it, being reassured that the taste of the tea has not changed, they will not be surprised.

The planned gradual expansion to other markets was accelerated by the dynamic of the first year, as Lipton market teams in Japan, Australia and the US manifested their interest in starting roll-out immediately.

Australia, a relative small market for Lipton with business concentrated in the “ready-to-drink” segment – Lipton Ice Tea – and Japan, where iced tea also accounted for a significant share of Lipton’s sales, launching was carried out in a very comprehensive way, following the lines adopted in the UK market. In June 2009, both markets had successfully been converted.

In the US, the launch took place more gradually. Lipton’s market in the US was spread through different product ranges, meaning that tea originated from many different sources and supply represented a bigger challenge. The conversion of black tea was done quickly as in other markets, but specialties like Assam and Darjeeling required more time to be converted.

In 2009, approximately 15% of Lipton tea sold globally came from Rainforest Alliance Certified™ farms. In the first quarter of 2010, Unilever met the target of certifying all Lipton tea sold in the Western European market. By August 2010, approximately 20% of the tea Lipton sold in the global market was certified, which, according to Leijnse, represented good progress toward the 2015 goal.

Reaping Results in the Market

Creating Brand Value in Strategic Markets

Once certified tea was available in 2008, Unilever deployed its communication campaign with consumers, linking sustainability with the brand promise “Lipton tea can do that.” The main message communicated to customers was that drinking Lipton “helps people to lead a better life, healthier and fitter,” but also “through making production sustainable, lead to a better life for farmers and a better environment.”

The campaign was run for PG Tips in the UK (*refer to **Exhibit 5** for a few examples of communication material*) and for Lipton in Italy, Norway, Sweden and Switzerland.

Certified sustainable tea proved to be an effective tool in consumer communication and a driver of market growth. Leijnse explained:

Sustainability has proved to be a major creator of value for Lipton. Our expectations of market share growth have been surpassed. In countries where the link between the brand and certified sustainable tea could be done in a straightforward way, sales and market share went up – during and following – the campaign period. Market research also showed that certified tea had an enormous appeal to consumers and that in places like Italy, it was attracting younger consumers.

Communicating and advertising on certification also had positive indirect impacts. Mercedes Tallo, director of Sustainable Value Chains at the Rainforest Alliance, explained:

Unilever knew that by engaging in a dialogue with consumers on sustainability and certification they could open the door to very powerful messages and imagery which they were not able to communicate before.

Changing the Industry

From the beginning of the journey, Unilever envisaged that Lipton's conversion to certified sustainable tea would help the integration of sustainable practices in the whole tea industry, through the creation of a significant demand for certified tea and by pushing other players to move in the same direction.

Back in 2006, Unilever had decided to drop out of the Ethical Tea Partnership (ETP), an initiative created by the tea industry in 1997 to work on a pre-competitive basis on supply-chain issues, with a focus on labor conditions through monitoring and self-assessment. According to Vis, Unilever's decision was motivated by the resistance of other players in adopting broader sustainability criteria and going beyond self-assessment.

Rainforest Alliance certification provided Unilever with a third-party independent endorsement of sustainability efforts in a way that an industry-led organization, such as the ETP, wouldn't. Once Lipton, PG Tips and Lyons certified tea started to appear on shelves in Western Europe, Japan, North America and Australia, a snowball effect took place.

In August 2009, the ETP reviewed its position regarding certification and announced a collaboration with the Rainforest Alliance certification program to build capacity within the tea industry and streamline the certification process for tea producers. Tallo explained:

Engaging the ETP into recognizing third party certification schemes was a very effective way to facilitate certification. We jointly developed a program to train producers how to use ETP monitoring and self assessment tools as a key step should they decide to pursue Rainforest Alliance certification. Those producers supplying ETP member companies that were already Rainforest Alliance Certified™ would be recognized as complying with the ETP requirements. This agreement was beneficial for tea producers, since it reduced the burden of going through the different and cumulative processes of audit and assessment. This unblocked the availability of certified sustainable tea for the rest of the industry and we saw other mainstream brands committing to Rainforest Alliance certification.

Subsequently, Yorkshire Tea decided to go for Rainforest Alliance certification, followed by Twinings²⁶ with its Twinings Everyday brand. In January 2010, Tetley²⁷ also went public with its commitment to obtaining Rainforest Alliance certification for the Tetley brand globally.

Although it was expected that other major brands would follow in Unilever's steps, the catalyzer effect was faster and broader than the Rainforest Alliance had envisaged. Tallo

²⁶ Twinings started the Rainforest Alliance journey in January 2010 with 30% content. Its commitment was to have its Twinings Everyday brand with 100% of the tea to be sourced from Rainforest Alliance Certified gardens by 2015.

²⁷ Tetley, the world's second largest tea company, committed to have all branded tea bags and loose tea for black, green and red tea certified in UK and Canada by 2011 and US, Australia and Europe starting in 2012.

estimated that by the end of 2011, 70% of the volume of the tea sold by UK retailers would be Rainforest Alliance Certified™. She also estimated that by 2016, Unilever, Tetley and other mainstream brands would, in conjunction, convert 20% of the world's tea producers to certified sustainable tea.

A robust market transformation process took place following Unilever's pioneering move.

Challenges Ahead

By summer 2010, Unilever had achieved its certification target for the Western European market and was ahead of scale for its 2015 global target, but challenges remained.

On the marketing side, the challenge was to reach other countries where consumer interest in sustainability issues was not at the same level as in Western Europe. Extending to countries like India, Russia, Turkey and Saudi Arabia, which were among the biggest tea markets in the world, would not be trivial. The Lipton team expected higher costs related to awareness-building and advertising activation in these countries. But good results in terms of turnover growth in the markets activated so far made them confident that the targets would be met by 2015.

On the supply-chain side, the biggest challenge was that once the low hanging fruits were harvested, implementation would require more time and investment. Entering new producing countries where there was no track record would be increasingly difficult, as it would be more challenging to convert producers without prior experience of sustainable practices.

Certifying tea in Sri Lanka and Vietnam would still be a challenge. However, as of mid-2010 there had been some mindset changes. Leijnse explained:

By now I believe these governments are seeing the impact of certification. They know that we are the world's biggest tea company and we are committed to certified tea. They know that Tetley, the second largest, is also committed. They see where the wind is blowing. They are starting discussions, they have already seen enough proof that certification is unavoidable.

Another challenge Unilever faced was the issue of casual and temporary workers in tea plantations. In May 2009, two of Europe's largest trade unions – the Dutch FNV Bondgenoten and the UK-based Unite the Union – went public with a declaration that Rainforest Alliance certification did not necessarily mean that suppliers to Unilever comply fully with the social component of the certification requirements, since permanent workers were being replaced by casual, temporary workers who had fewer rights.

However, the major challenge facing Unilever tea was reaching large markets in countries where tea was mainly sourced internally, such as India, China and Turkey, where the market was dominated by loose leaf tea and local brands, and it was very early days for local producers in terms of sustainability issues.

Making Sustainable Tea Available in the Indian Domestic Market

The domestic market in India was particularly challenging and of high importance to Unilever since it corresponded to roughly a quarter of Unilever's tea business. Unilever (Hindustan Lever) tea sales in India were made under the brand Brooke Bond.

India was the biggest producer of black tea in the world, and the domestic market accounted for 80% of its production. The domestic market in India was characterized by the

predominance of loose, non-branded tea (60% of consumption). India was the fastest growing market for tea in the world.

As of 2010, the tea industry in India was facing relevant sustainability challenges. In early 2005, the big players in the tea market withdrew from primary production and concentrated their businesses on blending, packaging and marketing tea, where margins were higher. Between 2005 and 2009, the profitability of plantations was extremely low as prices continued to fall and, in many cases, did not meet costs that had been pushed up by a combination of mismanagement, age of the bushes, high overhead costs and poor agricultural practices. Tea plantations were usually situated in remote and uninhabited areas. Workers, mostly migrants, were often provided with housing on the tea estate, along with facilities for shops, services, recreation and culture. However, during the years of crisis, companies minimized labor costs. Small tea gardens usually employed temporary and casual workers, whose work and living conditions were considerably worse than their plantation counterparts. Energy efficiency was generally low and the use of firewood was a major driver of deforestation. Tea estates usually used pesticides intensively in an indiscriminate manner, rather than turning to integrated pest management.

On the one hand, pushing tea sustainability from the demand side was not straightforward in India, since it was difficult to demonstrate sustainability in a non-branded, commodity-like, market. In addition, market research showed that consumers of branded-tea in India had little interest in how the tea was produced.

On the other hand, pushing tea sustainability from the supply side was also challenging. Producers did not perceive sustainability benefits, such as improved yields, safety of products and benefits to local communities, to be important.

Birch summarized the challenge:

The majority of producers supplying the domestic market do not see the relevance of sustainable practices. Resistance to certification is particularly high, as standards conflict with some of their current agricultural practices, such as the use of Paraquat.²⁸ The challenge that we now face is how to work with these producers. Ultimately, we aim at making sustainability the standard in the tea industry. For some of our brands, such as Lipton, PG Tips and Lyons, certification is already a brand promise and therefore, not negotiable. But Unilever did not make external commitments that require certification for all its brands. Unilever wants to be sure that all its tea is sourced from sustainable sources, but no decision has been made as to whether it should all be certified.

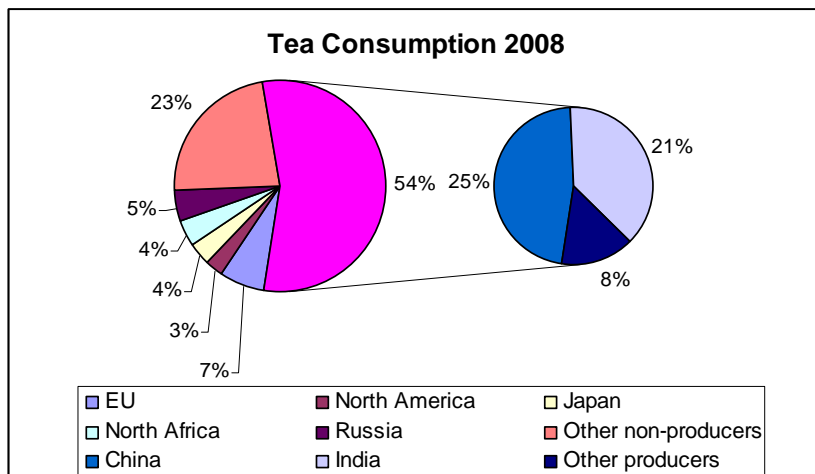
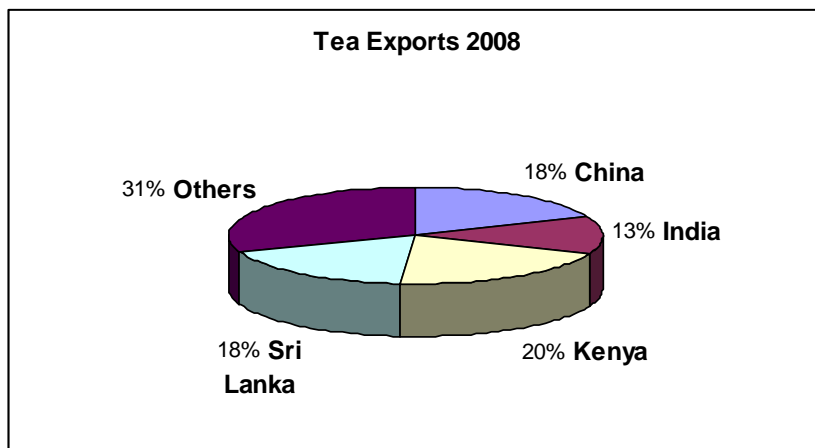
Leijnse and Birch discussed a few alternatives for mainstreaming sustainable tea in the Indian domestic market:

- Extend Rainforest Alliance certification to the Brooke Bond brand.
- Work with verified sustainable tea in the Indian domestic market, as a step in the journey for certification.²⁹
- Work with suppliers and assess their level of compliance by measuring their practices against the Unilever Sustainable Agriculture Code.

²⁸ Paraquat, one of the most widely used herbicides to control broad-leaved weeds and grasses, is explicitly prohibited for use in all plantations and farms that are Rainforest Alliance Certified.

²⁹ Verified sustainable tea means documented sustainability criteria that would move tea producers from their current practices towards more sustainable practices. It would be based on measurable criteria to be agreed across a group of stakeholders, which will compose a national – or regional – standard (they do not necessarily need to be the same internationally recognized criteria which is present in the Rainforest Alliance certification).

**Exhibit 1
Production, Exports and Consumption of Tea in 2008**



Source: FAO Report of the 19th session of the intergovernmental group on tea. New Delhi, India, 12–14 May 2010

Exhibit 2 Overview of Major Players in the Tea Value Chain and Tea Consumption



Source: Reenen M. van; Panhuysen S.; Weiligmann B. (2010) Tea Barometer 2010, Tropical Commodity Coalition. Page 5.

Exhibit 3 Overview of the Social, Economical 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	

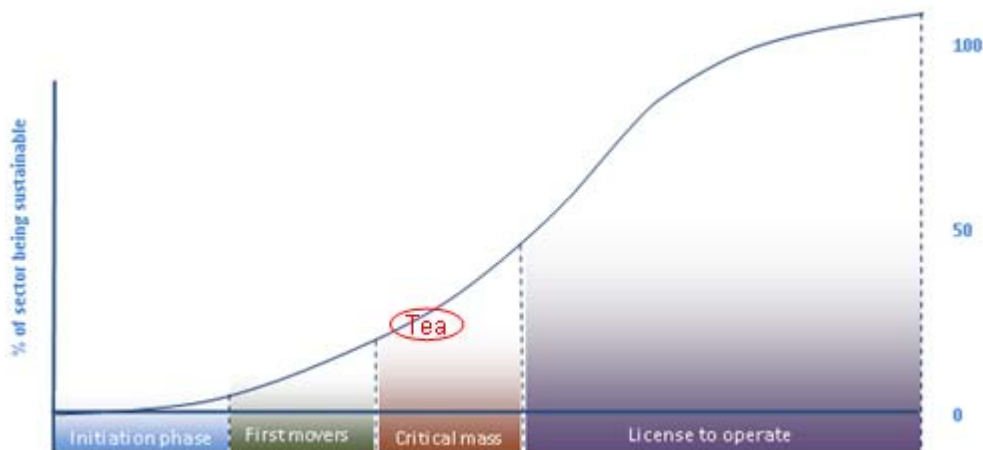
Source: Reenen M. van; Panhuysen S.; Weiligmann B. (2010) Tea Barometer 2010, Tropical Commodity Coalition. Page 6.

Exhibit 4 The Market Transformation Approach and Key Phases

The Dutch Sustainable Trade Initiative (IDH) developed a maturity model for market transformation, based on empirical research with different commodity sectors and characterized by four phases:

In the first phase, there is no common vision on sustainability and only fragmented initiatives by first-movers. In the second phase, there are compelling success stories and the first-movers bundle their forces in multi-stakeholder platforms which pull others along. In the third phase, there are several standards in place but first-mover advantage is diminishing. Unless harmonization takes place, rivalry may result in loss of momentum. In the fourth and last phase, sustainability becomes institutionalized in the public domain and it has become a license to operate.

The tea industry is, according to IDH, in the early stages of the critical mass phase, as shown in the figure below.



Source: IDH Monitoring Protocol 2010-2015: Mainstreaming global supply chain sustainability. Dutch Sustainable Trade Initiative, 2009, page 9.

The following is a summary of each of the four phases of market transformation:

- Initiation phase:
 - It is characterized by the absence of a common vision action agenda and by the lack of coordination of activities and projects.
 - Main drivers for the industry are first mover advantage and strategic commitment.
 - First mover companies within the sector and NGOs are the target groups.
 - The main challenge is to establish a multi-stakeholder coalition with frontrunners and create a common agenda.
 - Facilitators play a large role, analyzing the sector, initiating coalitions, facilitating the process, harmonizing agendas and vision, funding program setting and pilot projects in producing countries.

Exhibit 4 (continued)

- First movers phase:
 - It is characterized by expansion, with new players joining existing initiatives and the creation of new ones (such as round tables), and by the rising of the first success stories.
 - Main drivers for the industry are to keep first mover advantage, create brand value and secure sustainable sources.
 - Target groups are expanded through broadening coalitions and the involvement of media.
 - The main challenges are to broaden, improve and accelerate uptake of the standards and to consolidate capacity building mechanisms.
 - Facilitators' role is broader, going from process facilitation and funding of effective and efficient capacity building programs, to the endorsement of programs, expansion of membership base and performance monitoring.

- Critical mass phase:
 - It is characterized by the creation of momentum, with most (large) businesses being active in one or multiple initiatives, by increased competition between standards and decreased opportunities of market differentiation.
 - Main drivers for the industry are to secure sustainable sourcing, increase efficiency and manage risk of certification and implementation and prevent bad press
 - Target groups expand to include branch organizations, local governments, banks and round tables.
 - The main challenges are to mainstream, making sustainable products a “normal” part of business, harmonize standards and audits, increase certification and implementation efficiency, reduce implementation risk for companies and institutionalize initiatives through the involvement of local governments.
 - The role of facilitators changes substantially, focusing on the switching of target groups and intervention strategy, the analysis of structural barriers, the broadening of the coalition (or the creation of a new one), the facilitation of standards' harmonization and the pressure on laggards.

- License to operate phase:
 - It is characterized by the institutionalization and involvement of local governments and international bodies, the harmonization of standards and audit mechanisms and by the consolidation of joint capacity building programs.
 - Main drivers for the industry are regulation, market barriers, good press and the transformation of sustainability into a market “qualifier.”
 - Target groups expand even more to include governments, trade organizations and more branch organizations.
 - The main challenges are to change legislation, diversify the business of laggards and institutionalize change.
 - The role of facilitators focuses on advocacy and lobbying and on the analysis and taking up of structural limits to growth and barriers.

Exhibit 5
Examples of Material Used for Communication Campaign



Source: Unilever