NOW Podcast

SEASON 2 EPISODE 1 TRANSCRIPT

Alan Jope Discusses the Secrets of Building a Purpose-Driven Business that Does Good and Performs Well

Host: Mick, CFA, Portfolio Manager, Brown Advisory
Guest: Alan Jope, CEO, Unilever
Investment Commentary: Katherine Kroll, Senior Institutional Sustainable Investing Specialist, Brown Advisory

00:00:01 **Ken Stuzin:** Hello, this is Ken Stuzin. I'm a partner at Brown Advisory. Welcome to season 2 of the NOW podcast. NOW stands for Navigating Our World. Through these discussions, we try to understand the world better, to navigate some of the most pressing questions that are shaping our lives, our culture and our investment challenges.

In season 2, we will examine the forces that are shaping our post-pandemic world, moving capital markets and raising the future. As always, we are committed to sharing the views of CEOs and other leaders so that we can all learn from their perspectives.

New this season, we will also share insights from our own investment team. At the end of each episode, they will chat about what they've heard and consider how it may influence our investment thinking. As we look to the future, whether we agree or disagree with each other, the one thing we know for sure is that none of us can figure this out on our own. At Brown Advisory, we are focused on raising the future, and we hope these NOW conversations will help us do just that.

00:01:15 **Mick Dillon:** In this time, when many people's reality seems to be increasingly unreal in the face of pandemic, economic upheaval and racial injustice, CEOs have also been a rare voice of deliberation, trustworthiness and even moral suasion.

Few CEOs have accepted that mantle as comfortably as Alan Jope, the CEO of Unilever. Alan has been outspoken about the role that business leaders can play in shaping society and has been willing to tackle some of the big issues that we face collectively, like climate change and inequality.

Alan is distinctive among large-company CEOs in that he's spent his entire career at Unilever, working his way up from his first job out of university as a marketing trainee. Today, as chief executive, Alan oversees a massive company that operates in over 100 countries with 150,000 employees and generated 62 billion US dollars in revenue last year from their food, home care and personal brands.

Importantly, from an investment standpoint, Unilever has outperformed by over 20 percent over the past five and a half years versus the MSCI or Country World Index. That's good news if you're a Unilever shareholder, and fortunately, we are long-term shareholders.

I'm Mick Dillon. I'm a partner at Brown Advisory and a co-portfolio manager of our Global Leaders Equity Strategy, where we've been very satisfied owners of Unilever since we first launched this strategy more than five years ago.

It's my real pleasure to sit down with Alan Jope today. As you'll hear, Alan is truly passionate about Unilever's purpose: to make sustainable living commonplace and the power of purpose to generate profit while also making the future healthier and more prosperous for people around the world. Alan, thank you for being here today.

00:03:04 Alan Jope: Thanks, Mick. Nice to be here -- thanks for having me.

00:03:07 Mick Dillon: So Alan, I'd like to start off by asking you a question. When we look at companies, when we think about how we invest in companies at Brown Advisory, one of the frameworks we use is called sustainable business advantage drivers. And what we want is companies who are using ESG in a positive way to reinforce a competitive advantage, either that's going to help them drive revenues or cut costs or enhance their brand and franchise value. In this context, could you talk a little bit about Unilever's purpose and what that purpose brings to you and your customers?

00:03:40 Alan Jope: I can, Mick, and it's a very long story that I will condense for the purpose of our conversation. And it does go back to our founder, William Lever, who, back in -- can you believe it -- in the 1870s described the mission of the firm as being to make cleanliness commonplace and lessen the load for women.

So this is a Victorian soap maker who had an eye for public health issues, helping to fight things like cholera at the time with basic hygiene. But also was an early -- either a feminist or a stereotype -- either way, he recognized that women bore the burden of domestic chores -- unfortunately, something that sustains until this day.

And our company now for 150 years or so has had the silver thread of trying to pay attention to our impact in society or on the environment. And in 2010, we codified that in something called the Unilever Sustainable Living Plan.

But to answer your question directly, over those 10 years, the business case for sustainability has really emerged. And it's got four dimensions to it. The first is growth. We see that our sustainable living brands now are growing at about twice the rate of the rest of the portfolio. They're driving 75 percent of Unilever's growth.

Secondly, sustainability takes out cost. It stands to reason, if you're using less resources, it should cost less. And we think we've saved now about 1 billion euros of cost savings from sustainable sourcing. Thirdly, it definitely reduces risk and increases trust. So at a macro level, there is no sustainable Unilever without a healthy planet. And at a micro level, we enjoy tremendous support from influencers.

Whenever we run into trouble -- for example, we stubbed our toe around some issues to do with Black Lives Matter. And we had a lot of influencers come running to our help because of our track record. And the fourth element is maybe the most important, which is an absolute magnet for talent.

We have an entire generation of managers at Unilever who have joined the company because of our commitment to purpose, our commitment to sustainable business. We have a graduate recruitment program in 54 countries around the world. Ten years ago, we were the employer of choice in 17 of those markets. Last year, we were the employer of choice in 52 of those markets. And it's all to do with young people wanting to join a company with purpose.

00:06:25 Mick Dillon: How do you measure the purpose? You've talked about growth just then; you've talked about measuring it in terms of cost savings. Are there other measures that you use to help bring this through the organization?

00:06:36 Alan Jope: Most of the big goals that we lay out are time-burned and quantified. So I mentioned, for example, our home care business, where we made the commitment quite recently that we would move to a position where the carbon chemistry in our cleaning products, we would move 100 percent of that away from fossil fuel-derived carbon into renewable and recyclable sources of carbon. So we will now track our progress, what proportion of our carbon chemistry is coming from recyclable sources.

We said we would reduce our absolute weight of plastic that we use, and we would make sure that at least half of it came from renewable sources, and that we would capture and recycle at least as much plastic from the environment as we use in our company. So at a corporate level and at a brand level, we're able to measure both delivery against our commitments but also the economic benefits that come from sustainability.

00:07:40 Mick Dillon: Actually, this is an interesting one, isn't it? Because a lot of people think that in order to do good, there must be a trade-off. And so it's interesting for us, because as an investor, we sit there and we think we want what we call the triple win, right?

So the customer wins, society and an environment wins, and then ultimately the shareholder needs to win as well. So what we get as a great return on capital that compounds over time. How do you think about those supposed trade-offs between either purpose and profit, or some of the other competing interests, be it due to time horizon or other stakeholder trade-offs that you see?

00:08:22 Alan Jope: You know, Mick, hallelujah, even the fact that you're asking that question fills me with joy. The single biggest challenge I have talking to people on this subject is this false dichotomy that there is a trade-off between responsible business, purposeful business, sustainable business and better financial performance.

We really believe that when we look after our employees properly, they will look after our customers. When we act with integrity with our business partners, when we pay attention to our impact in society or on the planet, then you, our shareholders, will be preferentially rewarded.

You'd be amazed -- almost every business leader I speak to, that's the first question they have is, "Ah, but when the going gets tough, do you prioritize a sustainable business, or do you prioritize to financial performance?" And it is a total illusion -- that it's a ridiculous mindset.

00:09:18 Mick Dillon: Isn't ESG just good business sense in that, to your point, well, you can't be ripping off your employees or the environment or your customers? Because in the long run, somebody will see through that. One of your constituencies will see through that, and then you've neutered your ability to impact.

00:09:38 Alan Jope: Let me put it in a positive tone, which is through the COVID crisis, we've really looked after our employees first and foremost, including our extended employees, actually, the contractors in our business. And the leap that we've seen in employee commitment, in engagement, in recommending the company has been palpable.

The second reason why it's good business is -- very interesting to look at generational cohorts. So baby boomers who are becoming the oldest consumers that we serve, baby boomers don't even pretend that sustainability drives their brand choices.

Gen X, the next generation that I just sneak into, we're pretty reprehensible because we say sustainability drives brand preference but actually don't change our behavior at all. Then millennials -- it certainly is important to millennials, the sustainability profile of the brands that they choose.

But within reason, because they will not compromise on convenience or quality or price. Whereas Gen Xennials, the youngest consumers that we serve, sustainability is practically the only thing that drives brand choice. So if we want to be a relevant business for the future, 33 percent of consumers have already stopped using a brand that they feel did not respond appropriately during the COVID pandemic.

00:11:04 Mick Dillon: I've heard you talk before about brand save versus brand do. This is a real long-term commitment. You need to invest for a long time to make this happen.

00:11:15 Alan Jope: Yeah. Well, the first thing I would say is maybe for people who are listening, and Unilever's revenues, call it 50 billion euros, 20 billion are beauty and personal care, 20 billion are foods and refreshment, and 10 billion are home care. And our five biggest brands are brands like Dove, Knorr, Hellmann's, Rexona, Lux.

And one of the things we profoundly believe is that brands have to walk the walk before they talk the talk. Otherwise, it is greenwashing. Let me give a couple of examples of that. The reason why Dove can talk about tackling issues to do with girls' self-esteem is because we have taught classes to 50 million girls now, one on one, about body image and the distortive effects of unrealistic body images in the media.

The reason why Domestos can preach about the importance of hygiene for everyone and everyone's right to decent sanitation is because we've put 18 million toilets into homes in the developing market. And it is very dangerous for brands to stand out there and say we believe in X when you haven't done anything about it.

Now the follow-on question might be, well, why don't 100 percent of your brands operate on some kind of purposeful platform? The short answer is one day, they will, but you can't force this. There has to be a natural pace at which a brand finds its purpose. And usually it involves going to the DNA, as you said. Many of our brands are decades or even hundreds of years old.

And Lifebuoy has been helping people to learn how to wash their hands properly for decades now. So when COVID comes along, the fact that we have taught a billion people around the world proper handwashing gives Lifebuoy the right to step up and talk about the importance of handwashing. So yes, it is a long game.

00:13:18 Mick Dillon: And just to flip that the other way, it must be frustrating having been invested so much time and company resource, and, to your point, having recruited cohorts of people who believe and want to make a positive impact to society. When you have supply chain issues or people saying, well, what about labor rights in India, tea pickers, or palm oil or whatever it is. And yet, the data seems to suggest by a long way that you have the most sustainable palm oil of any of your peers. And how do you deal with that criticism as it comes along?

00:13:55 Alan Jope: You know, Mick, one of the things that is formally written down in our strategy is we want to be radically transparent. And when you've got operations in over 100 countries around the world -- we've got 150,000 employees -- I'm sure every day there's something happening somewhere in Unilever of which I would be ashamed. I'm quite sure of it.

So we welcome the opportunity to surface when something not right is happening. Four or five years ago, we had an issue in our tea plantations where women were being subjected to abuse as part of working in a Unilever tea plantation. So we went in heavy-handed.

And actually, the first thing we did was create gender parity in the supervisor ranks, so it was majority men supervisors. And we put in place a balanced slate of 50 percent of the supervisors men, 50 percent women. And that helped eliminate this type of gender bias.

We go the extra mile on rooting out any of our palm oil suppliers who engage in what we would consider unsustainable practices. We're the only user of palm oil who publishes down to the level of the individual concession wherever we find a violation. And of course, we take them off the Unilever roster of companies that we buy from.

We get a lot of credit for this, to be honest, from the NGOs, from government organizations, from responsible investors. The only people who can be a bit prickly are the media. The media love to kind of conjure up a story when we stub our toe. We just have to accept that. We own up to our mistakes. We'll take the blows in the media. But our long-term partners understand exactly how we do business.

00:15:36 Mick Dillon: I just want to pick up on one thing -- the gender parity. That's not just at the bottom of the organization though either, is it?

00:15:43 Alan Jope: Well, you're getting me onto one of my favorite hobbyhorses here, Mick. My leadership and I have said there's three things that we want our company to be famous for. We want to be an envied portfolio of purpose-driven brands, number one. Number two, we want to prove the link between sustainable business and better financial outcomes. And number three is we want to be a beacon for diversity and inclusion.

And that third point is something we've been working at for quite a while. Forgive me if I don't sound too modest at the moment, but we've got 10 non-executive board members in the company, five men, five women, nine nationalities, three ethnically Asian women, one Black African man.

We have 14,000 managers in Unilever -- eight years ago, that was 38 percent women. Last year, we ended with 51 percent women. And the way we think about it is imagine three concentric circles. At the core is our own operations. And if we want to talk a good game about gender parity, we'd better have our own house in order.

So that's the first thing we go after. So then we look at our extended value chain and how can we create opportunities for women of small-holder farmers? I don't know if you know that. There are more small-holder farms run by women than there are run by men. And we want women to have a fair crack at the whip when they're supplying companies like Unilever.

And on the other end, in our distribution operations, can we make sure that there's lots of high-quality jobs for women in selling and distributing Unilever's brands? And then thirdly, the outermost, is what can we do to change norms in society? And we've discovered that by unstereotyping our advertising, we can change norms in society, using our advocacy and our voice, putting pressure on government and other organizations.

A very small thing. I will not appear on a panel that doesn't have at least one woman on that panel. It's just a small thing, but it sends a signal. So we do take our responsibilities for inclusion very, very strongly.

00:17:48 Mick Dillon: I guess one thing that we should talk about, as you mentioned the 40,000 managers before. My understanding is, back to your walk the walk, everybody's actually compensated on sustainability goals as part of their compensation.

00:18:03 Alan Jope: Yeah, so anyone who has a long-term share plan -- and that is all managers in Unilever, so we go quite deep on our long-term incentives. So we look at a composite measure of are we making progress on the big areas of sustainability that we've committed to, which would be things like our impact from raw-material sourcing, our impact on waste, our impact on social issues, and how do we score in the most reputable sustainability indices around the world.

Those go into a composite measure, and that drives everyone's remuneration. And it's funny how when you stick it in someone's remuneration, it does focus the mind a little bit.

00:18:45 Mick Dillon: Yeah, KPI matters, as Charlie Munger has told us many times. You've mentioned before you're in over 100 countries. And some of your big countries -- Nigeria, India, Indonesia, Brazil -- they're very different cultures. So can you talk a little bit about managing and bringing your firm's values into what are ultimately some very different cultures out there and how you think about leadership there?

00:19:11 Alan Jope: So just to give you and anyone who's listening a sense of our business, we are unusually internationally diverse in Unilever. So our top five markets by revenues are, of course, the U.S., then India, then Brazil, then Indonesia, then China.

So two ways I think we deal with that. The first is there is no dominant nationality in our company. I already mentioned that the board has got all of these different nationalities on it. It's the same in my leadership team. There's only one English person, and there are, I think, three Dutch. But you're as likely to meet an Indian or a Brazilian or a Venezuelan or a Finn. So it's a truly international culture.

And most of our senior leaders have had experience of working in Unilever in more than one country. And that strong international culture prevents us from becoming a monoculture dominated by one nationality. It's very helpful.

Second thing I would say is, it's quite hard to get fired at Unilever. We consider mistakes as an investment in people's development and learning. But there's one sure-fire way to get fired in the company, and that is if you violate our code of business principles.

And we take this incredibly seriously. We have annual training, and you have to positively confirm your commitment to the code of business principles. The training is really difficult. I usually fail at least one module and have to go back and redo it. We will not compromise on code of business principles. We will compromise on making business mistakes, but we will not compromise on our values. And I think everyone in the company not only is aware of that, but actually, it's a source of pride. It's something that people take enormous pride in.

00:21:02 Mick Dillon: I want to shift gears a little bit and just sort of -- I've got a couple of young daughters and they worry about their future. They wonder what world are they going to grow up with and what legacy, effectively, business leaders such as yourself will leave them with. Can you talk about what the future of capitalism and what this means for Unilever, not just in emerging markets, but in the U.S. and Europe too?

00:21:27 Alan Jope: Boy, that's a big question and a very important question. First, let me say we believe and I believe that capitalism has got a lot of benefits, and a lot of great things have happened in the world thanks to capitalism.

But it has got several very specific failings. The first is we are seeing growth in inequality at national levels. And the second is that capitalism at the moment treats natural resources as infinite resources, and we are running toward runaway climate change.

Specifically with regards to our kids, the decisions that we make in the next 10 years will echo through humanity for the next 200 years when it comes to climate change. So we have a view on, I wouldn't say a reinvention of capitalism, but an evolution of capitalism where we keep hold of the good things -- the competition, the value creation, the rewarding of risk -- but we rebalance on five or six things.

The first is to formally build in the idea of multiple stakeholders, the stakeholder model of capitalism. Second is to put a price on externalities. The most obvious is carbon. It's ridiculous that carbon is not priced into the economic system and that we have perverse incentives supporting fossil fuels.

The third is we need to move from a linear take, make, dispose model to a much more circular model on resources like plastics. We're big supporters of the Ellen MacArthur Foundation and that whole model of circularity.

Fourthly would be the mandatory reporting of nonfinancial metrics. I'm sure it drives you nuts that you can't look across Unilever, Danone, Nestle, Proctor and Gamble, Loreal, and get a standard measure of what is our carbon impact? What is our waste and water impact? What is our social impact? What are we doing for jobs?

And the final point, which is maybe the most controversial, is that favor distribution of value. And we have already committed that everyone working in Unilever will make at least a living wage, which is way more than a minimum wage. And we're now looking at our whole value chain.

Could we take responsibility that everyone down backward in the sourcing of our materials and forward in the sale and distribution of our brands is able to make at least a minimum living wage? And I think we're going to make some commitments in that space. When we do those things, capitalism will get a second lease of life.

00:24:04 Mick Dillon: It's interesting, isn't it? If you don't have regulation and guardrails, any system eventually goes off the rails, quite literally. One thing you left off there was tax. And as you said, there are multiple stakeholders. And I know your at sustainability event last year, Graham stood up and talked about, well, we pay 26 percent, and we'd like to pay it in every country where we earn our money.

00:24:28 Alan Jope: It would be so easy for us, Mick, to construct some elaborate, very legal tax avoidance mechanisms, but we don't think it's right. And so we are happy to pay our fair share of taxes. Our effective tax rate bounces around 25, 26 percent, but we also want to pay those taxes close to where we do business.

The biggest issue we have on tax is often jurisdictions squabbling between themselves about whether we've correctly recovered costs in one place. But net-net, we're happy to pay our 25 percent or so of our income as tax.

00:25:06 Mick Dillon: What's interesting -- and listeners might not know this is -- even with that point of view, you as a firm have delivered a 20 percent return on invested capital over the last 30 years. This is from 1990 -- I didn't feel the need to go back any further. And when we look at that, that's incredible because that's after-tax, that's after all these things that you've talked about.

Maybe could you talk a little bit about how you think about investing for the future? Because certainly as a shareholder, with that fantastic return on capital, I just want you to keep investing and keep growing and, in fact, frankly, grow more, grow faster. Can you talk a little bit about how you think about investing, and then maybe we'll touch on R&D in a minute?

00:25:48 Alan Jope: Yeah, our capital allocation model is incredibly simple. The first thing is, we would never constrain the growth of our organic business, the business we have today, through a lack of access to CapX. So we distinguish CapX and OpX. And to keep growing our business, we need to spend somewhere around 3 percent of our revenues on capital expenditure to fund and create capacity in our organization for growth. And that's always the first draw in our capital is our ongoing operational CapX.

The second thing we want to do is pay a sustainable and growing dividend. We are very committed to our dividend. Depending on what the stock price is, you'll get somewhere between a 3 and 4 percent yield, which is pretty good.

Then that typically leaves $2 billion, $3 billion a year for bolt-on acquisition. What we're trying to do is evolve our portfolio into faster growth spaces through bolt-on acquisitions. We've been able to do that in a very capital-efficient way. So you haven't seen a dilution of our return on capital from our acquisition activity.

And then where I get into trouble with some investors is we've got a view on buybacks, which is that special dividends or buybacks will be episodic. And where we have a windfall, for example, from disposing of a business that we feel doesn't have a long-term future with Unilever, is best owned by someone else, then we'll consider mechanisms like share buybacks or special dividends.

So that's it, that's our capital allocation model. It takes about five minutes a year for me to discuss it. We have enormous excitement in our buildup to our audit committee every year or every quarter, actually, on what should our dividend policy be, and it never changes, and I certainly don't intend to change it. Now, on OPECS, we have much more interesting discussions about the balance between investment and people, overheads, investment, and brand and marketing investment, investment in things like R&D.

00:27:54 Mick Dillon: You've talked before about how it can take sometimes historically, over a year, to get a product to market. In some markets, it's 30 months. In some markets, you can get it lower than that. And the feedback loop is pretty low, right, in terms of how do you know if you're even spending enough in R&D?

And probably the reason I ask this question is your R&D, rough numbers, has been about, just under 1 billion euros a year for the last 10 years. But I can see your commitment to recycle plastics has gone up, to innovate in packaging has gone up and all these sort of things. How can you be comfortable that you're investing enough so that you'll see the growth in five years' time?

00:28:33 Alan Jope: So that's the first slightly prickly question that you've asked, and I welcome it. There's an implied criticism that we're underinvesting in R&D. So here's how we think about it. First, we have to decompose our business into the segments that I mentioned earlier. Home care R&D rates are very different from foods and refreshment R&D rates, which are very different from beauty and personal care R&D rates, which typically are the highest.

And we do our best to benchmark our investment in those three different divisions versus best-in-class competition. The second thing is, we do have a very strong R&D capability, both the proprietary innovation that we're reducing, but also just the sheer numbers. We've got six global R&D centers; we've got 5,000 scientists on the payroll. We spend more or less 1 billion euros a year. And so far, we have found that we can support our growth.

But actually, we haven't gone public with this, so take this as a world first. We are going to start stepping up our investment in R&D a little bit. I want to pump in probably another 100 million a year for the next three years.

And it's because there are really three areas that we need to invest in. And the first is, if you imagine chemists and physicists that we have in our R&D capability at the moment, we have tons of chemists and physicists. We need a few more biologists because of the biotech revolution that's happening, and we definitely need a few information technologists.

So we will think about R&D -- not just about science, but the convergence of science and technology. The second area is we have picked three areas of science that we want to be corporate leaders in that are independent from any particular brand agenda. I don't want to share those right now, but we will share them in a little while.

And then the third is we are making a lot of investment in sustainability initiatives and stuff you just talked about. And if you take plastic as an example, our strategy for achieving our plastic goals is around less plastic, better plastic and no plastic.

Less plastic is very much about lightweighting and concentration. If you can deliver things in a concentrated format that is either used concentrated or diluted, you typically get massive reductions in the amount of plastic that you need. And then the better plastic in the middle there, that's where we need the scientific breakthrough to incorporate post-consumer use of recycled material.

Let me give you a very simple example. Every single pump that you use for your personal care, your food products, has got a metal spring in it that makes it damn near impossible to recycle. So right now we're -- R&D on an all-plastic pumps. And you put all that together, and I think we will need to step up our R&D investment a little bit over the next few years.

00:31:27 Mick Dillon: As a long-term investor, I'm thrilled to hear it. The world's changed a lot this year. You've already referenced a couple of the changes in your business with COVID. One of the biggest ones, of course, for you has been distribution channels and e-commerce.

And I think my statistics are roughly correct -- about 6 percent of your sales last year were e-commerce direct-to-consumer growing, rough numbers, 20 to 30 percent. And if I understand it correctly, now it's more like a double-digit percentage of your sales six, nine months later growing north of 50 percent. How do you think about managing channels in that channel shift? And back to your point on investing at the right time to drive the long-term returns?

00:32:10 Alan Jope: Well, you've got the numbers exactly right. Last year was around 6 percent. We'll exit this year at least with a 10 percent run rate of our business being in e-commerce. I can see in another four or five years that somewhere between 20 and 30 percent of Unilever's sales will be in e-commerce.

And now we need to stop talking about e-commerce and start talking about the different subchannels in e-commerce. Because a pure player like Amazon or Alibaba or JD.com is a very different shopping occasion and has very different needs from an only channel e-commerce player, like Walmart.com, Tesco.com, Carrefour.com, where it's parts of a grocery shop.

And that, in turn, is a different profile to direct to consumer e-commerce where you disintermediate any retailer and its directly Unilever to the consumer. And actually, the most interesting is the fourth type, which is B2B e-commerce. We are finding that we can go much deeper on our distribution in places like Brazil and Indonesia by creating a B2B e-commerce platform for small, small retailers to buy Unilever goods online and have them maybe delivered by motorcycle. So the business systems that are required for those four different subchannels are as different from each other as this kind of collective e-commerce is from, for example, a typical supermarket.

00:33:38 Mick Dillon: And that's the supply side of it, but also I guess there's the demand side -- thinking about investing in advertising, etc.

00:33:47 Alan Jope: It's product design. You have to design for e-commerce, and they're very different for those different channels. The common thread they have is value to entity. E-commerce works very well when you have a value-dense product.

To then the supply chain, which typically needs to be more agile and able to handle smaller runs and changes in demand. To the selling process -- I mean, you don't deal with Alibaba the same way that you deal with Tesco. To then finally how you market.

We're used to marketing plans that are put together on several months' lead time and then which run for a week or two. Well, in e-commerce, there might be zero lapse time between conceiving a plan and putting it into practice. It's much more algorithm driven.

00:34:33 Mick Dillon: It's been an amazing change over a long period of time, but in particular just this year.

00:34:40 Alan Jope: One of the lessons that we're drawing on is I had the privilege of working and running our business in China for five years. And in 2010, China suffered its second wave of pandemics, which was the H1N1 swine flu illnesses.

And we saw at that time a shift to online shopping for our types of grocery items. That was a ratchet -- it never went back again. And so we can say with a high degree of confidence that the step up that we're seeing right now in e-commerce is one-way traffic. The world will not revert back.

00:35:20 Mick Dillon: There's a question that we like to ask on the podcast series, which is, particularly as a finishing question, which is, what gives you hope? And actually, you've just touched on a whole bunch of things across the podcast in terms of staff and changes and cohort behavior. But what is it that gives you hope as you go forward, Alan?

00:35:38 Alan Jope: I think the number one thing is young people. You know, young people have historically been the drivers of change in any decade that you look at. And what are we seeing from young people right now? We're seeing a rise in conscious consumption. We're seeing an intolerance of us grownups who have messed things up as far as climate change is concerned, as far as inequality is concerned, and now as far as global pandemics are concerned. And I think young people are just not going to accept the grownups not dealing with matters like climate change and inequality. Those are, by the way, the two overarching challenges of our times. So they fill me with hope.

00:36:19 Mick Dillon: Alan, I'd like to thank you very, very much for your time today and for sharing some of your thoughts about the future and how we can think about navigating our world in the future.

00:36:28 Alan Jope: Well, Mick, it's a pleasure to have you guys as owners of our company, and we will try to live up to your expectations. Thanks for your trust and confidence over all these years.

00:36:40 Mick Dillon: I'll be back in a minute to chat about some of the investment takeaways from my conversation with Alan. I've had 24 hours to think about my conversation with Alan Jope, and there's a host of ideas buzzing around in my head. So I've called up my colleague, Katherine Kroll, who's a sustainability analyst at Brown Advisory, to help me figure out what we should take from it as investors. Hi, Katherine.

00:37:05 Katherine Kroll: Hi, Mick, it's great to be here. What have you been thinking about particularly with the conversation?

00:37:10 Mick Dillon: Probably the most important bit was the long-term focus and how embedding purpose in satisfies most of the stakeholders, particularly employees, who ultimately deliver that purpose to your customers and to the others, to us as investors as well.

00:37:28 Katherine Kroll: I totally agree. I've always had Unilever on a pedestal of sorts in my ESG research world. But hearing the commitment that he had to both his company embodying purpose and also himself, right, some of the personal actions he was willing to take, really drove it home for me.

00:37:56 Mick Dillon: Yeah. And he wasn't willing to compromise on that purpose anywhere. But ultimately, it felt like because he believed that it delivered outcome for everybody -- as he put it, a multistakeholder view. Hey, Katherine, you spend a lot of time digging into company data to find out what's really going on and trying to understand how these management teams are using sustainable practices to generate revenue or to save costs. And not just greenwashing, which we see all the time, but that actually attempting to use sustainability to generate real outcomes.

What did you hear from Alan yesterday that makes you think about Unilever in a new way? So, from a sustainability perspective? And actually, before you do that, what about just talk to a little bit about what sustainable business advantage drivers are?

00:38:43 Katherine Kroll: Yeah. So, we're focusing on two things: how companies are able to play defense with ESG -- environmental, social, governance -- characteristics and avoid certain -- certain risks. And also how companies are able to play offense and are able to become better businesses because they're looking at sustainability.

And that last part we try to break down specifically into what we call sustainable business advantages. We think that they can be driven in three ways. Companies can drive SBA by creating products or services that help promote revenue growth. And these are products or services that are solving for some of the world's most challenging environmental and social obstacles.

They can help with cost improvements, so a little bit more intuitive, right? Companies that are being good stewards of their own resources. And they can have a brand that really helps with customer loyalty, and we call that enhanced franchise value. And Unilever is one of those companies that checks all three boxes. Right?

They have the products and services that are more sustainable in nature, they are operating in a way that is efficient and mindful of their resource constraints, and they've just built this incredible profile around being a leader, in terms of purpose and in terms of the environment and in terms of people.

00:40:19 Mick Dillon: Well, you could also take it one step further as well, can't you? We've talked before about you can see companies that have these or even some of these three characteristics, but then it's not really material. It doesn't make a big difference to the economic outcomes, and it's not meaningful. It doesn't actually differentiate them from peers. It's still got to make an outcome for other stakeholders, not just revenue growth.

00:40:46 Katherine Kroll: I think that's a really good point, Mick. And one of my biggest takeaways from your conversation with Alan was when he answered your question about how he manages through some of the criticisms the company still faces. He said the company is committed to radical transparency, and I thought that was quite profound.

We know as investors we need rigorous disclosure from companies in order to make sound investment decisions, and for good reason. But Alan's point about at any given point, Unilever could be doing something that he was ashamed of, and that struck me.

I thought talk about an intangible, right, in terms of management quality. That's something that maybe you can't put a number on, but the humility in that statement. It engendered in that moment so much trust in him for me, in my perspective.

Because when you're working with a company that's as large as Unilever is, there's going to be controversy. I thought that was something that all ESG analysts and managers can take away, that we don't need perfection from companies -- we just need them to show up.

00:42:11 Mick Dillon: Yeah, and that's a really big part of governance, not just in an ESG context. In anyone, when we take our clients' money and we effectively give it to these management teams for a long-term return, then you've got to trust them.

And yeah, I've got to say I thought that was a very strong demonstration of an ability to be trusted. What did you think about the diversity discussion? This wasn't even Unilever; this was actually one of their suppliers in Assam was not giving equal rights to some of the tea pickers. And then obviously he answered that question in such a powerful way. What do you think about the next question, when we talked about diversity and inclusion, what was your take then?

00:42:58 Katherine Kroll: I thought it was so interesting to hear the marriage between the company action and the personal action. And to me, going back to his bit on radical transparency, radical transparency is all well and good, right? You can be completely blunt about your lack of progress and sharing all of your missteps.

But if there's no element of consistency of a commitment toward progress, then radical transparency on its own is not necessarily going to move the needle. But when you're willing to look at your own action and every small decision ultimately adds up to that consistency profile that we need for radical transparency to have legs, it goes the distance.

And this might sound so small, and it is small. It won't solve for gender injustice on its own, but that every single panel that Alan Jope does -- and you have to imagine it's a lot of panels, right? He's in high demand. That he's not going on it if there isn't a woman on the panel as well.

00:44:13 Mick Dillon: Well, the other thing, to pick up on that point, is not just there, but then they embed metrics around sustainability in the compensation for, I think he said, the top 14,000 managers in the firm. The other stat, or one of the many, but another one that I loved was his graduate recruitment. I think he said 17 out of 54 countries, we were number one, and now it's 52 out of 54 as the preferred choice. That tells you something about the long term.

00:44:43 Katherine Kroll: And I think they do a really good job at measuring some of these mission-oriented policies when it comes to recruitment. We know looking at efforts to expand the pipeline around diverse candidates is important. We know that measuring the retention of underrepresented groups is also a really important data point.

We know that looking at how promotions are handled and are you promoting from within, what is the demographic of the folks you're promoting? That's also important. And it just seems like they have their arms around the right way to ensure accountability.

00:45:29 Mick Dillon: What did you think about his triple win question? So in our view, the number one most important person in a business is the customer. However, you can't deliver this great customer outcome if you don't have engaged employees and if you're not doing the right thing in the long run from ESG perspectives.

And then ultimately, if you do all those things, then the shareholder will win as well. So when I asked him about the triple win, of the win for the customer, the win for the environment and society, and then ultimately the win for the shareholder, what was your take on that answer?

00:46:03 Katherine Kroll: In a phrase, it reminds me of what Karina Funk, our chair of sustainable investing, says: "better, cheaper, cleaner, greener." These are just concepts that resonate with common sense. And so I thought it was neat to hear from the CEO of Unilever a sentiment that's been reflected from multiple portfolio managers at Brown Advisory. It made me feel quite proud, to be honest.

I liked when at one point, you asked a question, and he said, "That's the first prickly question you've asked me, but I embrace it -- let's hear more," or something like that. I thought that was great. And I think these companies do want to be challenged so that they can get better. But I mean, having hit on R&D, what did you think about his response there? Do you think they're investing enough to continue this growth in the future?

00:46:56 Mick Dillon: Innovation is the life blood of future value creation, and R&D is the center of innovation. So to hear him say yes, we're going to be investing more money over the next three years in R&D, and ultimately that supports his growth agenda and look to be very hard-nosed about it in the numbers.

$100 million doesn't make a very big difference -- or 100 million euros, whatever the currency he used -- doesn't make a very big difference to a 52 billion euro revenue company. However, if you can drive a 20 percent return on capital business a little bit faster, and you go from 3 percent to 4 percent? You've just ticked up your growth by 33 percent.

00:47:39 Katherine Kroll: And just to tie it all back together, that fundamental perspective with the sustainability perspective. You said innovation is the life blood, right? And one of the things we know about diversity and its impact on companies is that they're more likely to invest more in innovation and R&D, and that their output is more likely to help drive revenue growth than companies with less diversity.

00:48:07 Mick Dillon: Yeah, for sure. And look, we see it in our own teams, right? The second you bring somebody outside of you into the room, somebody who's got a different perspective or a different background or whatever it is, they will have different ideas and think of things that you haven't. And that's what lifts the team higher. Katherine, thank you, very, very much for your time. It's been a terrific conversation. I always enjoy catching up with you and look forward to the next one.

00:48:32 Katherine Kroll: Great, thank you so much, Mick.

00:48:38 Ken Stuzin: Hello again. This is Ken Stuzin. Thank you for joining us as we continue this effort to seek out insights that help us understand our rapidly evolving world. If you enjoyed listening, we encourage you to subscribe to the podcast. We will be back with another episode in two weeks, a conversation with Dr. Dan Yergin, a leading authority on energy, global markets and geopolitics. Until then, be well and stay safe.