

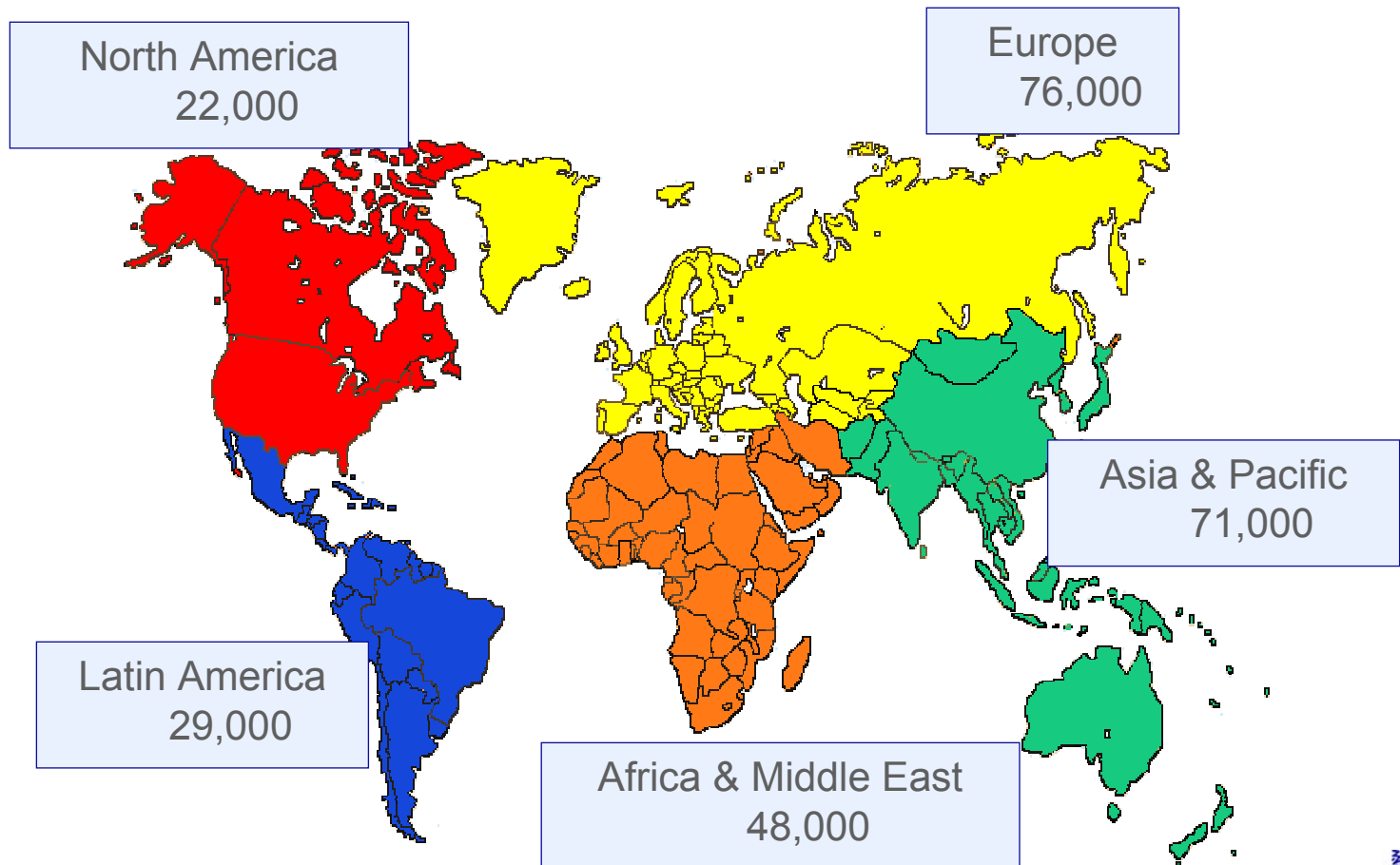


# Unilever and DPM

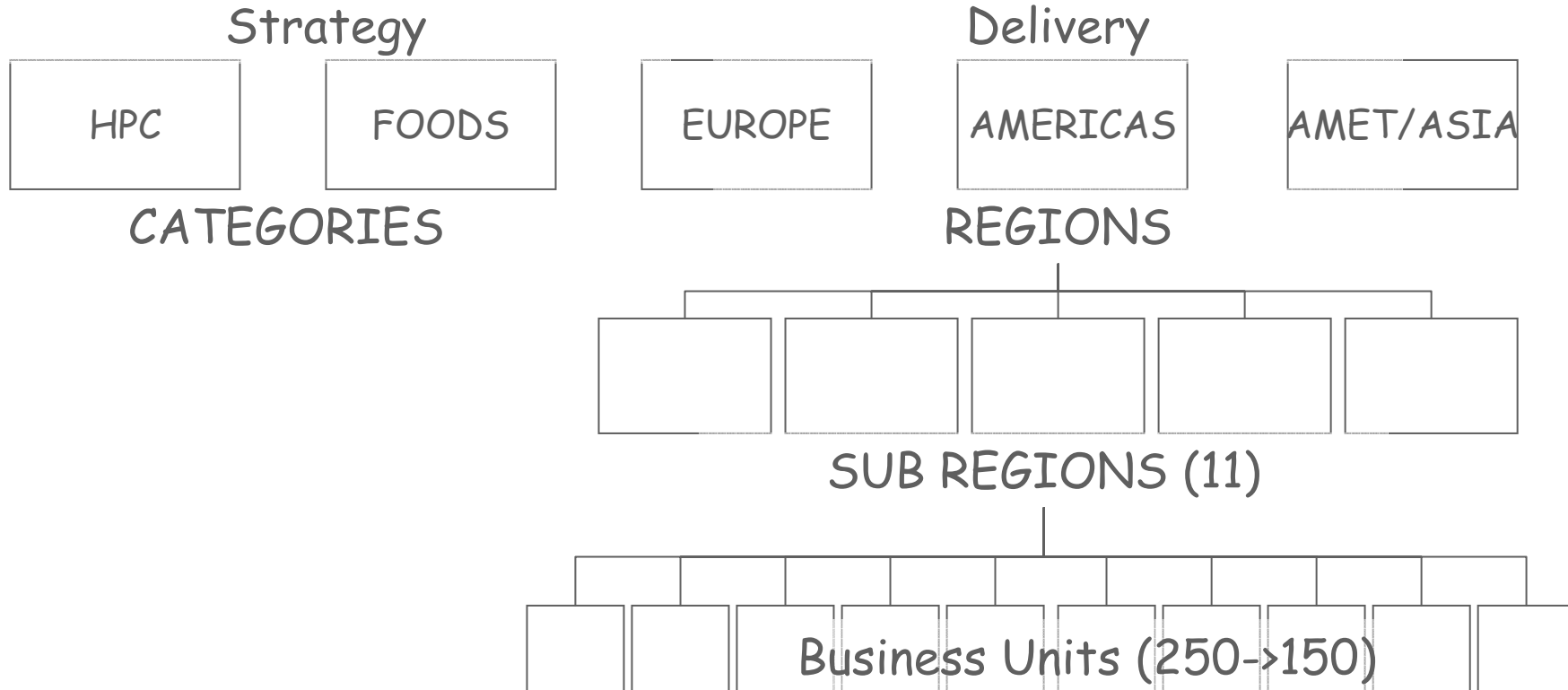
German BBRT Conference  
June 2005

# Unilever - reach

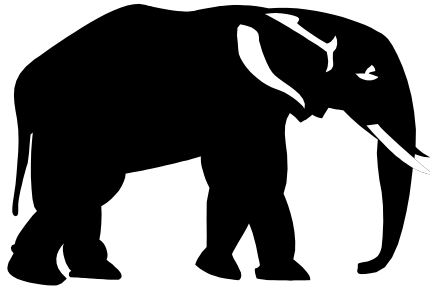
We have 246,000 employees in 88 countries



# Unilever - Structure



# What are the problems?



## TIME

**71% of complaints**

‘The cycle time is too long and results are often obsolete by the time they are published’

## FLEXIBILITY

**29% of complaints**

‘The annual event obstructs responsiveness to change’



## QUALITY

**38% of complaints**

‘The quality of budget data is compromised by cautious behaviour and fosters political agitation instead of entrepreneurship’



## COST

**29% of complaints**

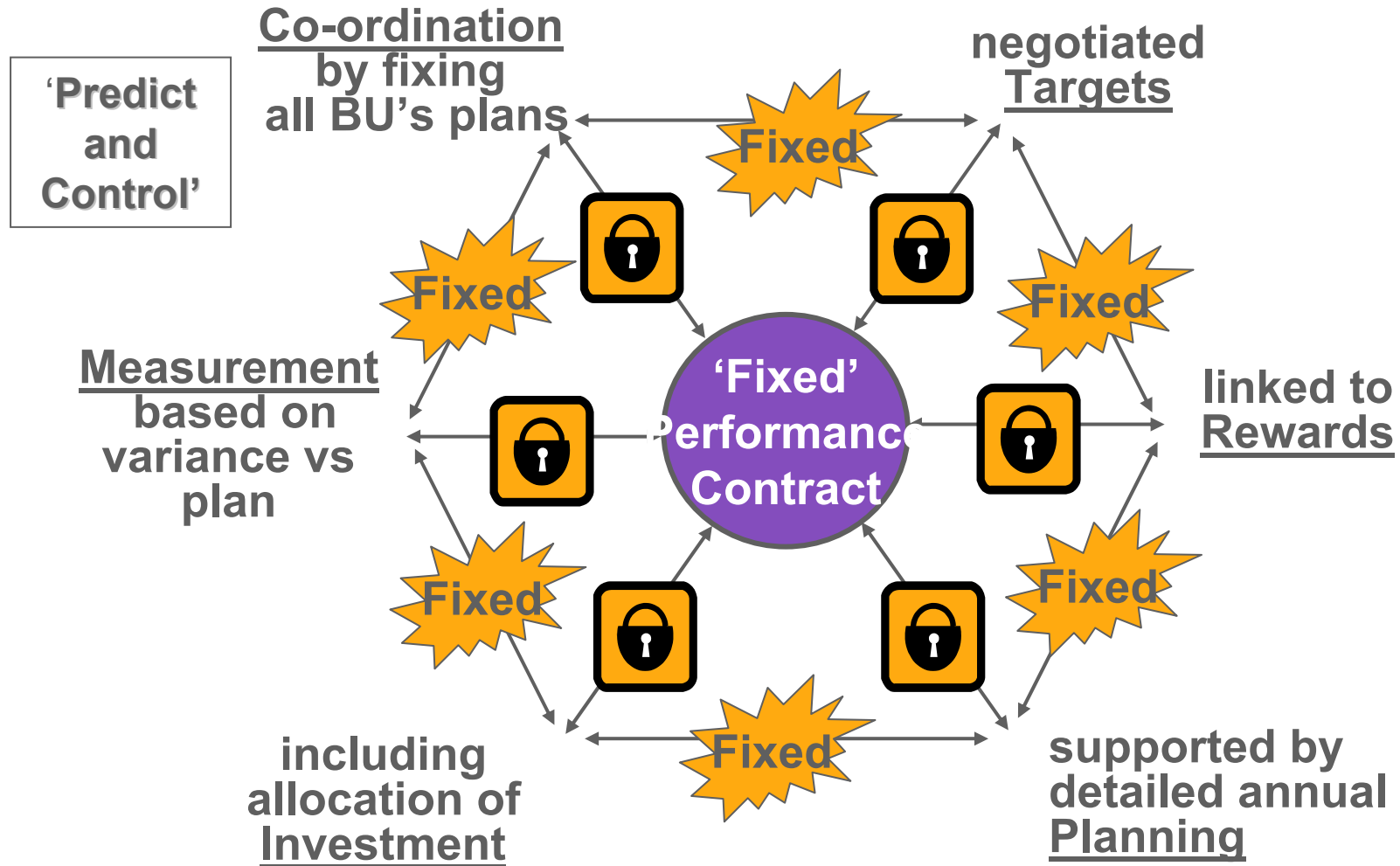
‘Many resources are wasted in the exercise and the benefits are dubious’

*‘The savings potentials are neither reflecting the follow up cost of budgeting in forecasting and business performance reporting nor the costs of management resources outside of the finance function. If we would take these costs into consideration as well, the budgeting process would probably be the most costly non - transactional process owned by the Finance Function’*



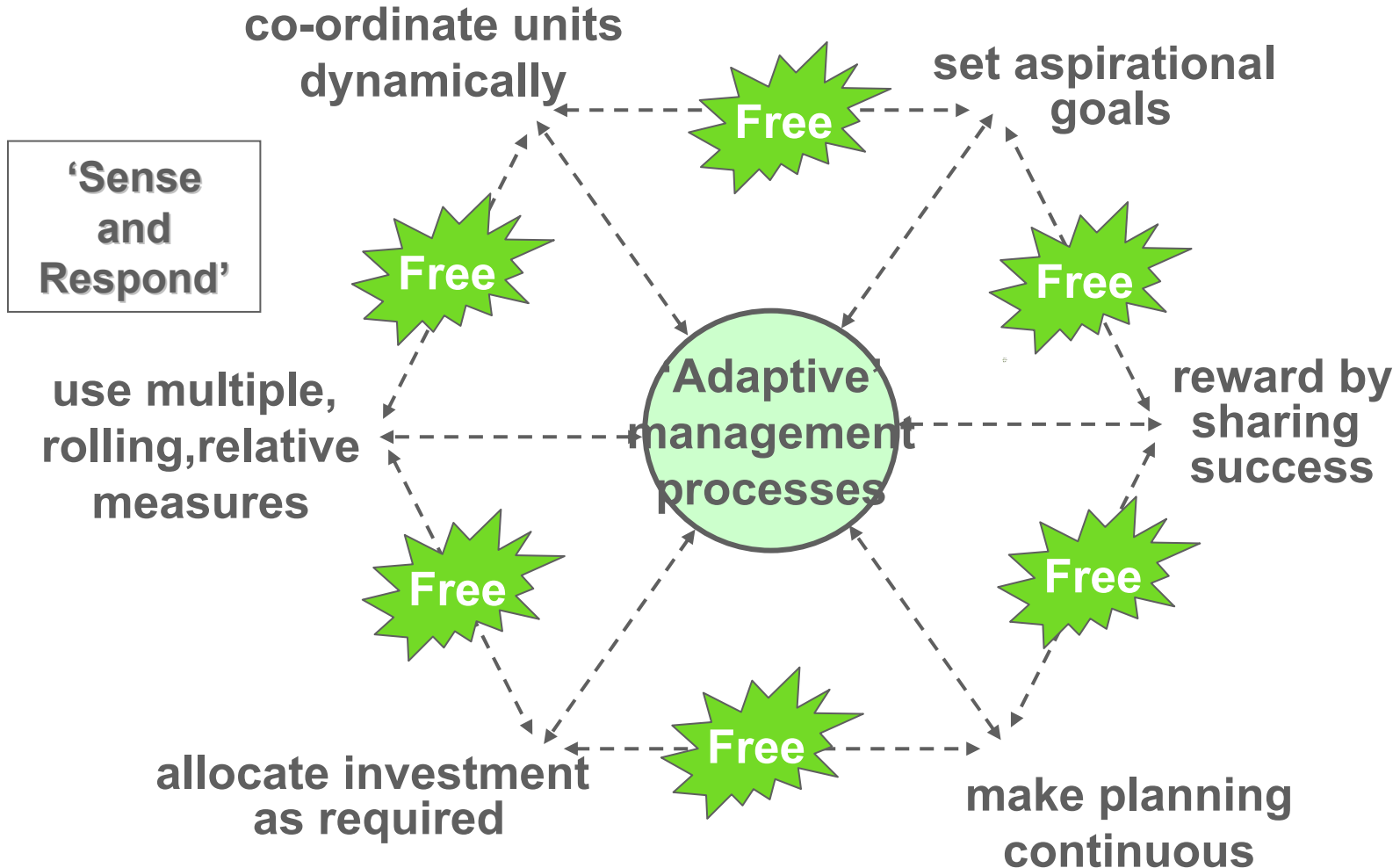
# CONTRACTUAL PERFORMANCE MANAGEMENT

*'An interlocking set of fixed annual plans, typically arrived at by a process of negotiation and tied to rewards in a deterministic fashion'*



# DYNAMIC PERFORMANCE MANAGEMENT

*'A set of processes which help the business to continuously adapt to a changing environment and where the key measure of performance is competitive success'*



# DPM - What and Why

- FLEXIBLE
  - The world is an uncertain place. In order to win we need to be responsive to unanticipated threats and opportunities
- CONTINUOUS
  - Financial periods are an artificial concept. Our processes need to be continuous in nature, driven by decision making lead times
- IMPROVEMENT COMPARED TO PEERS
  - To create value we need to beat our own past performance and the competition. Targets should be a benchmark or a performance standard; a stimulus for change and improvement not a financial straightjacket or a quota.

# What This Means In Practice

- PLANNING
  - routinely forecasting across a rolling horizon
- INVESTMENT
  - continuously allocate resources
- TARGETS
  - set targets that will be meaningful over the medium term
- MEASURE
  - manage trends and incorporate external perspective
- REWARDS
  - set incentives that support the right behaviour (improve continuously/beat the competition)
- COORDINATE
  - maintain one set of numbers/assumptions within the Business Unit and with the BU above (including risks/opportunities)

# Corporate Level Changes

ongoing	Detailed phased plans submitted to Centre
2002	Elimination of Monthly 'Phased Datum'
2003	Elimination of Quarterly 'Phased Datum' Introduction of Quarterly Forecasts
2003	Introduction of Range and Rolling Forecasts
2004	Elimination of Datum

**FROM** AC as planning exercise

**TO** AC as target setting

**FROM** static annual plan

**TO** dynamic, continuous risk based forecasts

**FROM** variance against plan

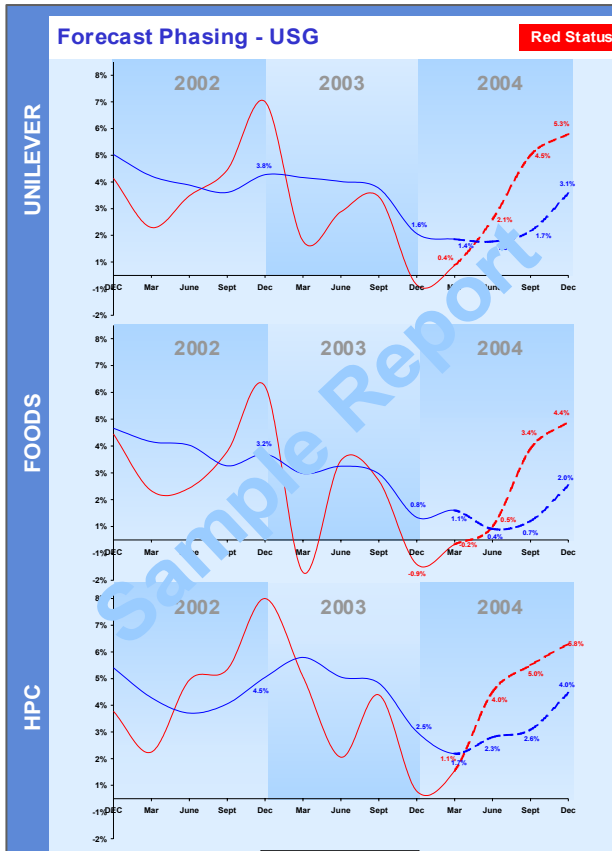
**TO** trend based analysis



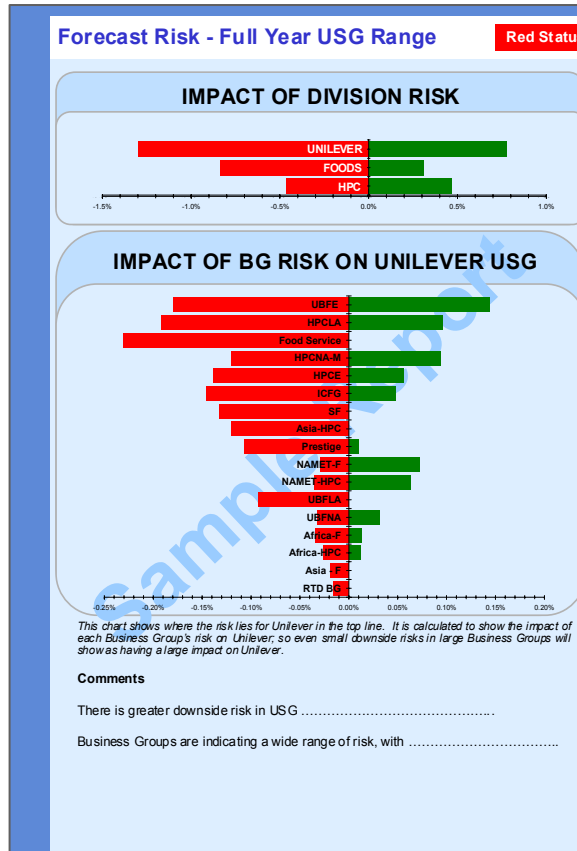
Unilever

# What Exco Now See

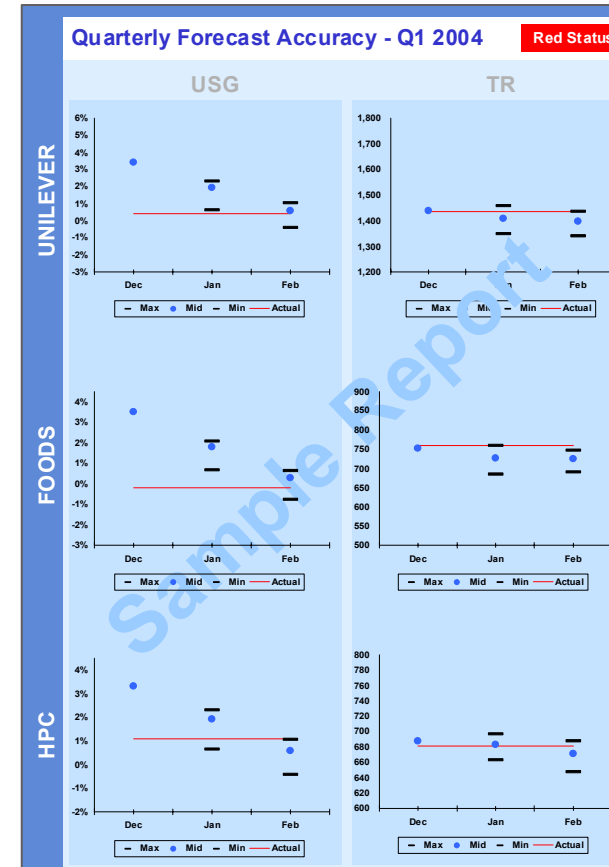
## Forecast Trends



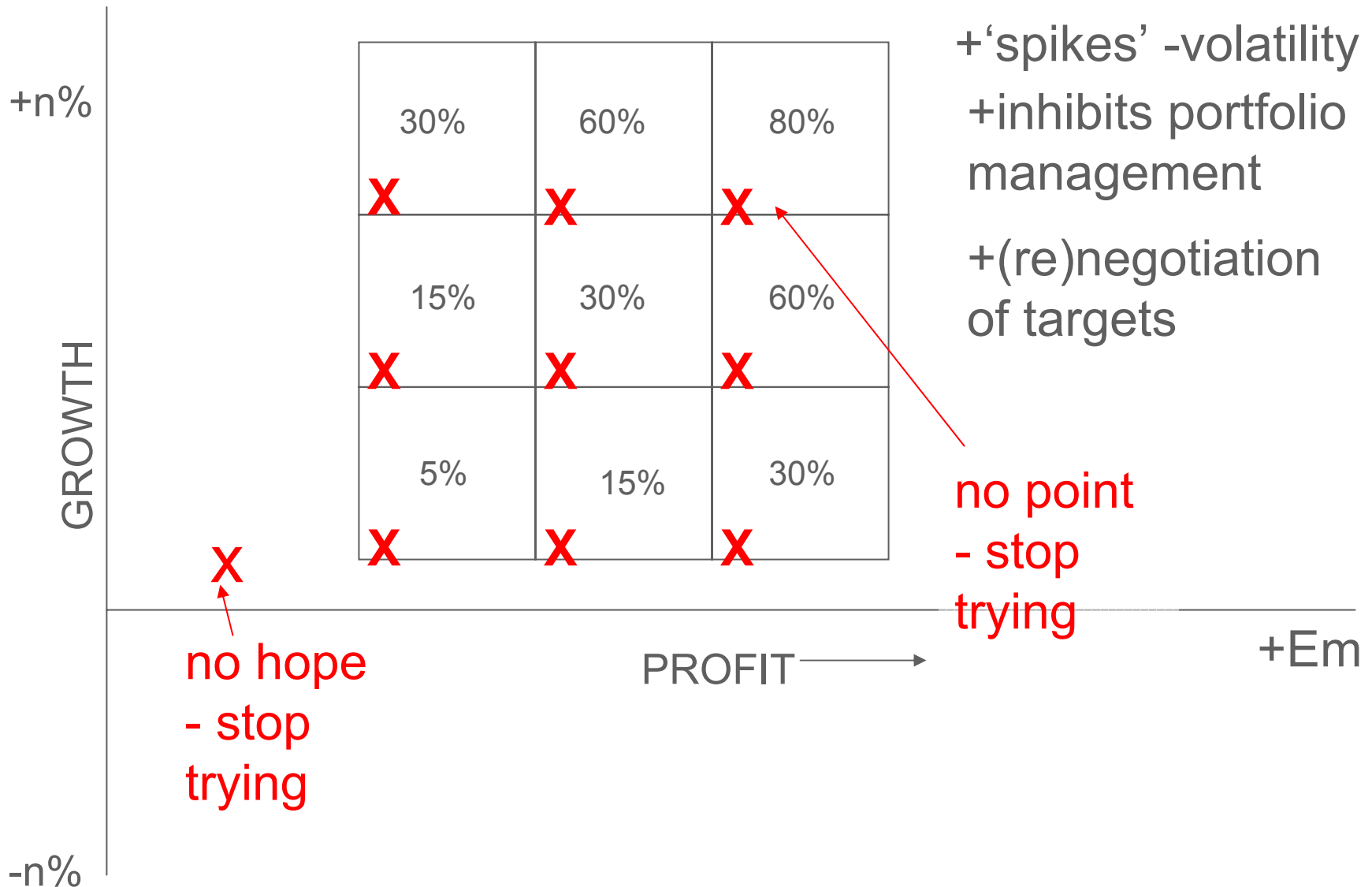
## Risk Analysis



## Range Forecast Error

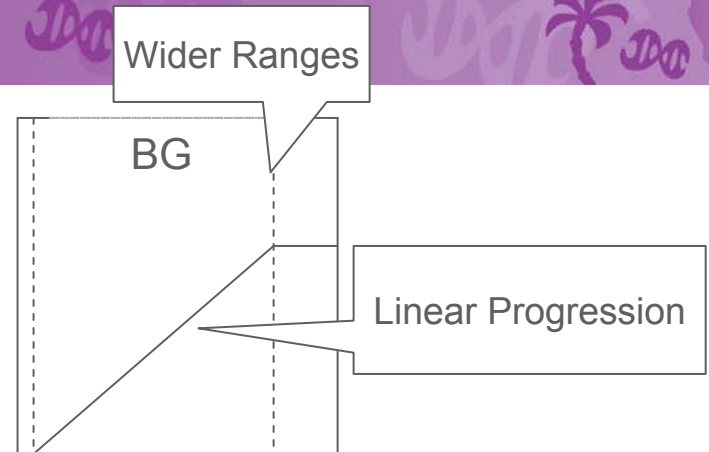
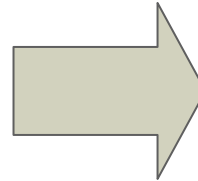
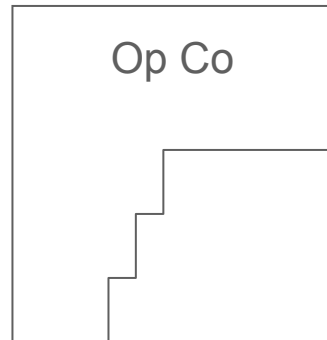


# Old VPA Scheme



# New VPA Scheme

**Formula Based Pay**

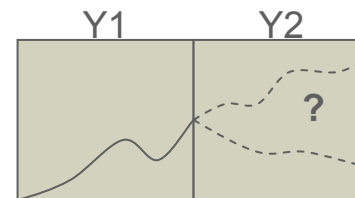


**Current Year in Context**

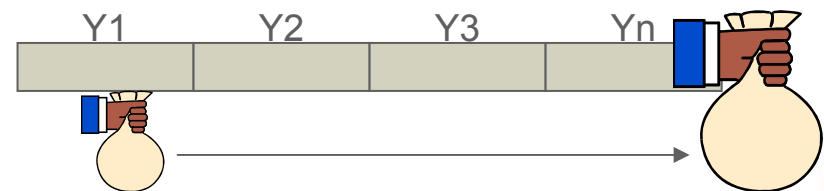


**Quality of Results**

**Sustainability**



**Strategy**



# Dynamic Forecasting

- Why should we focus on forecasting now?
  - process weak and hurting the business
  - WCFP- process improvement (including reduction of reliance on annual planning)
  - consistent with 1 Unilever - standardisation
  - aligned with other initiatives (e.g. S&OP, IBP)
  - prerequisite for/‘easy’ entry point into DPM
- Approach
  - establish Corporate Policies
  - document ‘Best Practice’
  - transfer practices to the business

# The process is weak.....

- September 2004 - Unilever's first ever profit warning
- What we have said
  - 'boxed in' by too many targets
  - failure to exploit our portfolio
  - inconsistent execution
- We we also think
  - defined 'success' in the wrong way
  - failure to create the right performance 'climate'

# Forecast Policy

what is it?

**Forecasting Policy Document**

**1.0 Forecasting Policy**

**1.1 Aim**  
Forecasts provide input into decision making in the business. They also form the basis for guidance given to investors. Whilst precise prediction of the future is not possible the integrity of the forecast process is critical to the management of the business.

The aim of this Forecasting Policy Document is to help produce reliable forecasts at all organisational levels by defining terms and policies to be applied to information about estimated future financial outcomes. Its primary focus is on forecasting revenue (growth), Trading Results, Trading Contribution and OCF, but it applies wherever we make projections of future financial outcomes that are used for decision making or control.

**1.2 Status**  
The provisions of this document are mandatory unless stated otherwise.  
It forms part of the Accounting Policy Manual, the rest of which defines the terms and policies relevant to historic information.

**2.0 Forecast**

**2.1 Definition**  
A forecast is defined as the best estimate of anticipated events. It is therefore based on assumptions. Thus, for example, forecasting revenue will take into account underlying historic trends and actions management takes to change these trends, such as promotions or product innovation.

The assumptions may comprise:  
1. the estimated future outcome of events that have already occurred  
2. the estimated outcome of anticipated events.  
3. assumptions about the probability of potential outcomes.

There are two types of forecast in use.  
**Central Forecasts** are a single point estimate of future outcomes.  
**Range Forecasts** describe a range of outcomes with a defined probability around the Central Forecast.

Forecasts

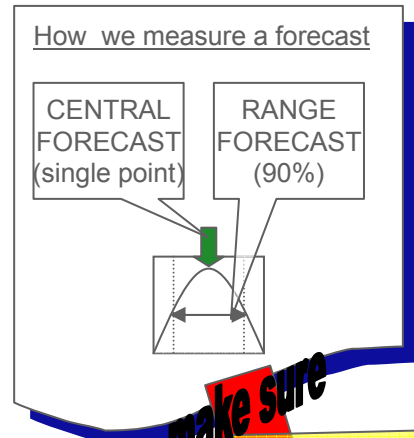
must be an  
**UNBIASED  
ESTIMATE**  
“what we think will  
happen”

**not**

**THE TARGET**  
“what we would like  
to happen”

- RULES**
- a forecast should be built up from assumptions
  - if the likelihood is greater than 50% include **ONLY ADJUST**
  - if assumptions are wrong
  - to reduce bias

**REMEMBER**  
Finance are responsible  
for forecasts not just  
actuals



**90% HITS**  
*within the range*

**ZERO BIAS**  
50% above forecast  
50% below

For the first time we have defined (and agreed with Exco) what a forecast **should be..**

# DPM and S&OP: Aims

continuous & flexible

**DPM**

**S&OP**

*how we set  
financial goals  
and steer the  
business towards  
them*

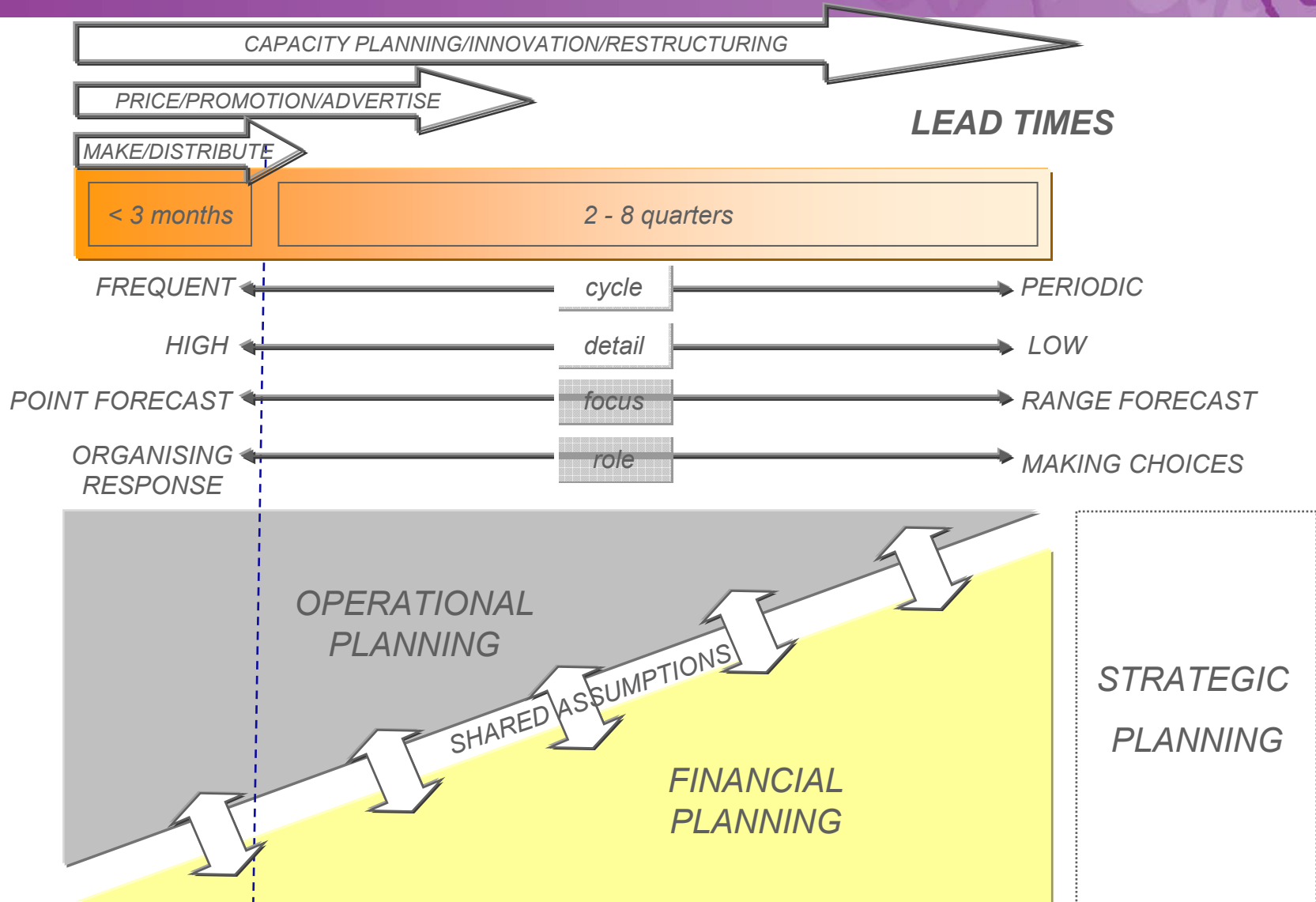
*how we forecast  
demand and make  
trade off's of  
limited resources*

*how we  
synchronise  
supply with  
demand in an  
optimal fashion*

holistic & balanced



# DPM and S&OP: Integrated Approach



# DPM Implementation Phases

ongoing

shift perspectives

FOCUS ON:  
Measurement

external measures    year on year, trend analysis    performance vs peers

1

THEME



INTEGRITY  
CAPABILITY

accept uncertainty - add flexibility - synchronise activities

single set of assumptions    continuously update gaps    ranges and scenarios

Forecasting

S&OP

2

SIMPLIFICATION  
RESPONSIVE

responsiveness - manage the portfolio - liberate operators

split 'maintain' vs 'growth'    global, regional, local, team    committed, planned, options

Investment

3

CONTINUITY  
STRETCH

stop target games - inspire and lead - look after the future

plan horizons = response times    multi period stretch goals    target ranges

Forecasting

Targeting

S&OP

4

EXTERNAL  
ADAPTIVE

compete - seamlessly responsive

continuous improvement    routine benchmarking    relative targets

Targeting



Unilever



any questions?