

**Business Council of Australia
24th October, 2007**

***The New Paradigm of Business in Society: A Purpose Beyond the Product:* Brian Bacon: Oxford Leadership Academy, UK**

The world is experiencing fundamental and rapid social, economic and environmental transformation and the role of business in society is being called into question as never before in its history.

How well companies integrate the social, economic and environmental (SEE) agenda into their business mission and into their relationships with consumers will define which companies will succeed in the 21st century and which will fail.

“Companies that are breaking the mould are moving beyond corporate social responsibility to social innovation. These companies are the vanguard of the new paradigm. They view community needs as opportunities to develop ideas and demonstrate business technologies, to find and serve new markets, and to solve longstanding business problems”-
Professor Rosabeth Moss Kanter, Harvard Business School.

Companies whose brands address the SEE issues that consumers care about as citizens will be preferred over brands that simply satisfy a functional or personal emotional need.

Consumers are concerned about SEE issues because the biggest challenges consumers, their families and communities face today are social (health, self-esteem, education, vitality/life goals), economic (poverty, financial injustice, indignity of aid) and environmental (scarcity of resources – eg. water, energy, agricultural)

Besides regulators and politicians, the influencers of consumer behavior come from many varied quarters.

....including economic factors, such as carbon trading, and fiscal measures, such as green taxes on flying which are widely expected to be adopted in the future as the contribution to

greenhouse gas emissions from aircraft are starting to soar from increased air travel.

People are concerned about personal and family issues, such as their health, appearance and education.

They are concerned about what goes into their food and the chemicals that are in their deodorants, shampoos, soaps and detergents.

..and about where and how products are made.

Increasingly, they are also worried about the big environmental, social and economic issues of our age – like global warming; Greenhouse gasses; Natural Disasters; The destruction of the rainforests; Health epidemics, such as avian flu, SARS and HIV/AIDS; Social and economic migration and – increasingly – environmental migration; Terrorism, war, violence and pervasive insecurity

...and the growing gap between rich and poor.

Because of television and poverty initiatives like Live8, seen by over 2 billion people, consumers are becoming much more aware of global inequalities

And those of us who enjoy a comfortable standard of living are becoming increasingly less comfortable about the social injustice of 20% of the world's population consuming 86% of the world's goods

Many wince at the fact that the 3 wealthiest individuals on the planet today (Bill Gates, Warren Buffet and Carlos Slim) have a combined personal wealth of USD120 billion compared to the combined GDP of the poorest 48 nations at USD78.2 billion – this means the 3 richest people are 35% richer than poorest 2.5 billion people in world.

Consumers are skeptical of the advocates of globalization's positive impact on poverty reduction when presented with contradictory facts. India economic growth *averaging 8.6 per*

cent 2002–06 and growth and the increase in wealth of that countries high net worth individuals by 22 per cent to \$267 billion in 2006, compared to the doubling India's slum population 1991 – 29 million in 1991 to 62 million in 2006. Mumbai, India's business capital generates 38% of India's GDP yet 50% of population live in slums.

Seeing such incongruities make today's educated consumer increasingly concerned about where Globalization is taking us.

There is also growing frustration with the inability of governments to tackle these issues. Their failure to reach a consensus on climate change at Kyoto, to stop the killing in Darfur, the failure of the Doha trade round are causing disillusionment not just with politicians but with the whole political system.

So what are consumers doing about it?

As rock legend Gerry Garcia of the Grateful Dead said,

"Someone's got to do something, and it's just pathetic that it has to be us!"

It is clear that the world has entered a new era of social consciousness and that people, especially consumers, are embracing a new level of awareness, concern and commitment to the environment and to global issues. This is creating a significant change among customers, employees and shareholders who are taking action and demanding it of others.

Some join street protests to voice their concerns...

Some boycott brands

Others are joining NGOs in their millions to campaign for change. As a consequence, NGOs have become extremely influential and powerful.

In fact many more people join environmental and social NGOs than political parties. And as NGOs themselves employ an

estimated 19 million people worldwide – they represent a pretty big market in their own right.

NGOs are a \$1 trillion-plus turnover sector. If it was a country, it would be the world's eighth largest economy.

Even more are taking action. For example, 35 million people signed up to the Make Poverty History campaign last year... and millions of people are today (17 October 2006), on Global World Poverty Day, wearing their white bands again and making a stand against poverty.

However most people will vote with their consumer hats and wallets; they expect brands and companies to reconcile the consumer-citizen tension they experience when bombarded by social, economic and environmental messages from the media, celebrities, movies, and NGO's

Consumers increasingly resonate with brands that not only help them feel good and look good but also to "do good".

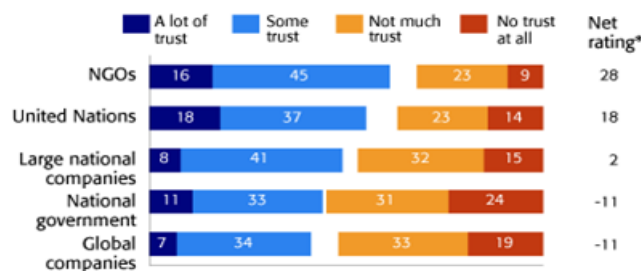
Heightened consumer concerns about fair trade, social justice, the environment and climate change are raising expectations that companies should do more to tackle these issues.

Never in history have the expectations of business by the public been higher and nor has it ever been so distrusted.

Social, Environmental and Economic (SEE) Trends

Trust

- More people around the world mistrust companies than trust them*
- Corporate Responsibility is the most important driver of trust in companies*



* Source: Globescan, consumers in 14 countries - 2005

SEE Trends

- 90% believe companies have social and environmental responsibilities beyond making profits*
- 55% are “concerned whether companies behave responsibly on issues like consumer health, the environment and worker rights”. **
- 60% say they take social and environmental factors into account when choosing what brand to buy*



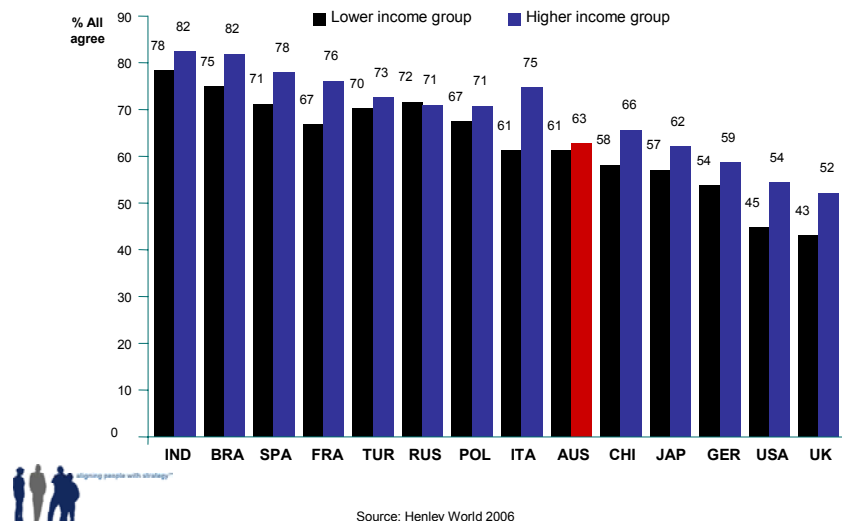
Social responsibility is the most important dimension used to evaluate global brands**

Sources: *Globescan/MORI based on 25,000 people in 23 countries
 **Harvard & Oxford Business Schools, based on 60,000 people in 41 countries



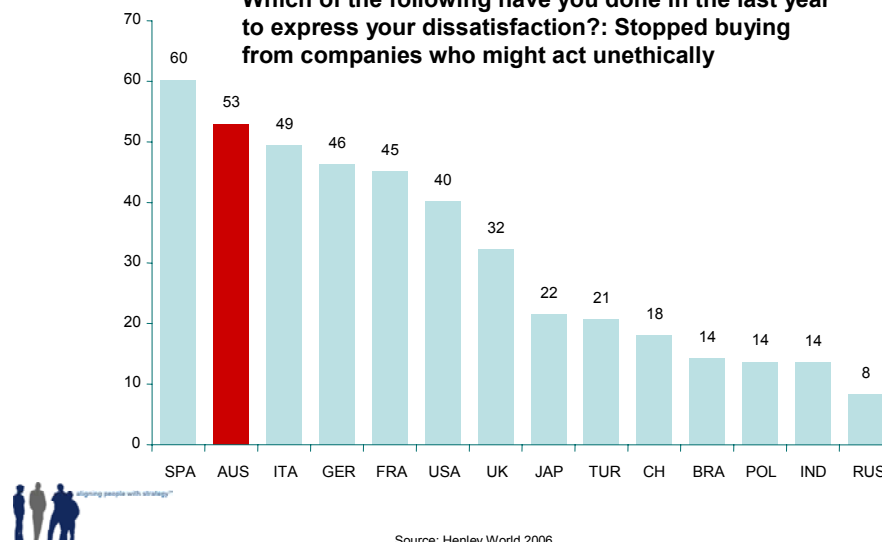
SEE Trends

"If the price of two products is the same I will always choose the ethical option"



SEE Trends

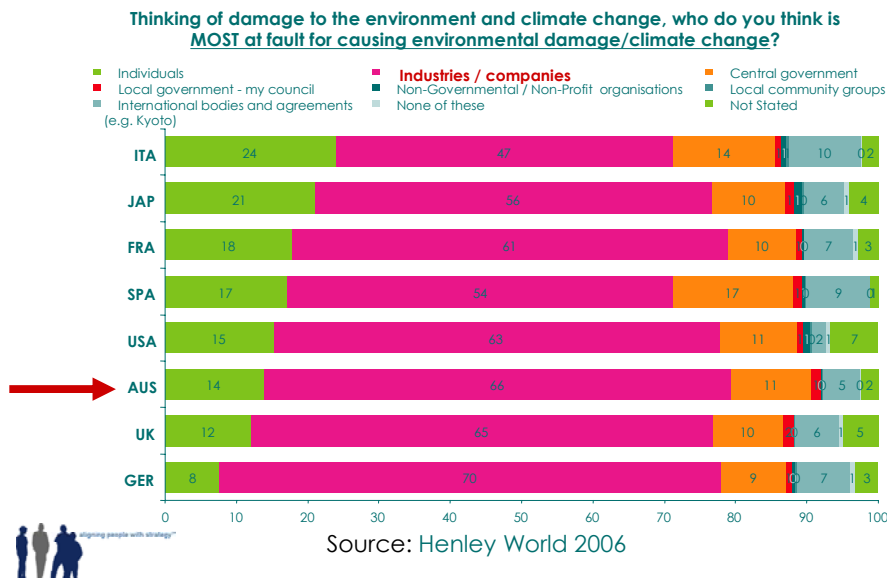
Which of the following have you done in the last year to express your dissatisfaction?: Stopped buying from companies who might act unethically



Many consumers show dissatisfaction by boycotting a product. As we all know, the media plays a big role in multiplying the

message of citizen organizations (such as NGOs) to nail brands that claim values but are inconsistent in their business practices.

SEE Trends



All fingers point at industry. Everyone has played a part, but consumers believe companies are most at fault for damage to the environment and climate change

In spite of public opinion it is clear that a growing number of companies and brands are responding to the SEE challenges.

American Express is one of 6 Red Brands raising funds for HIV/AIDS in Africa. Fair trade sales have taken off. GE is set to double sales of environmental products. Toyota expects to double sales of the Pirus hybrid by 2010. Cadbury-Schweppes bought chocolate brand Green & Blacks, Wal-Mart's strategy is setting the trend of the retail industry

Unilever CEO, Patrick Cescau speaking at a conference on 'Business as an Agent of World Benefit in Ohio, October 25th 2006

Today, people are much more aware of global concerns, such as poverty, famine, disease, global warming, water scarcity and the depletion of natural resources. The consumer response is to look for products that not only make them feel good and look good, but that also help them do good. The successful brands of the future will be those that not only satisfy consumers' functional needs but also address their concerns as citizens."

Some retailers, notably in the UK, are adopting ethical retail brand positions. For example:

Marks & Spencer, which only sells own brand clothing and foods, recently launched a national corporate brand advertising campaign called 'Look behind the label'

The campaign, the first to involve an employee communications and consumer marketing campaign at the same time, highlights the brand's health, social and environmental credentials and its stance on issues like sustainable fishing, eco-friendly packaging, animal welfare and fair trade. It's been their most successful campaign ever and directly contributed to a sales increase of over 10% since launch

People know that as consumers and citizens they have considerable power to influence business and brand behaviour.

Consumers are starting to trust and prefer brands that have values and act in ways that resonate with their values – and mistrust and reject brands that either ignore their impacts or don't do enough to leverage their ability to tackle SEE challenges

Public trust can be a major source of competitive advantage for those that can build it and simply a disaster for those that can't.

Simply sponsoring a cause or cynically adopting a social mission almost certainly causes more grief than gain.

Consumers have become very knowledgeable about what brands can do and increasingly intolerant of campaigns perceived as 'greenwash'.

Today's consumers are well educated, clued-in and highly sensitive to companies that are genuine about their social commitments compared to those that are simply jumping on the CSR band-wagon to enhance their reputation.

While the globalization agenda represents a threat for some industries, many businesses and brands are seeing it as a huge opportunity for innovation and growth. Smart companies are recognizing the potential of consumers who would rather 'buycott' than boycott – who want to make a positive difference to the world through the brands they choose to buy.

In McDonald's, under Charlie Bell's leadership, this message come from the top at a time when the company was reeling under a media barrage of accusation about McDonald's fast food contribution to child obesity and the worlds nutrition problems.

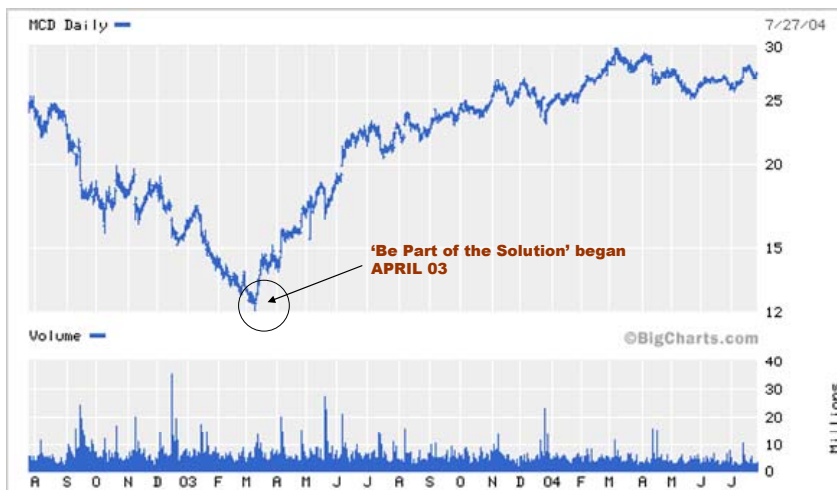
"Whether McDonald's has been the cause of the problem or not maybe debatable, but one thing is absolutely certain.... we ARE going to be a major part of the solution"

Charlie Bell 2003

With this mission, he succeeded in engaging 1.6million McDonald's employees, franchisees and suppliers in becoming 'part of the solution'. The company is not only succeeding in its social mission but doing pretty well financially as well.



McDONALD'S SHARE PRICE : AUGUST 2002 – AUGUST 2004



"What is good for our customers is good for our business" *Charlie Bell*




PEOPLE

PRODUCTS

PROMOTION

PLACE

PRICE



MCD Stock price

April 2002	28.40
<u>April 2003</u>	<u>12.12</u>
April 2004	29.43
April 2005	32.08
April 2006	35.00
<u>April 2007</u>	<u>52.22</u>



Like McDonald's, Unilever and others, successful businesses of the future will be those that make social responsibility more than an add-on, but a major part of the reason they are in business. This means to be consciously aligned, in all parts of the business with **a purpose beyond the product**. This is what consumers want.

"What's good for our customers, is good for our business"
Charlie Bell, CEO McDonald's 2003–04

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