

Electrolux IFA-Keynote

Berlin, September 2, 2011

Speech by Keith McLoughlin, President and CEO of Electrolux AB

Consumers are in the driver's seat for growth

SPOKEN TEXT APPLIES

Danke schön! Thank you very much!

Thanks to the organizers, for providing me this opportunity. IFA is one of the most important recurring events in the appliance industry.

Thanks all of you, for being here.

This is my first visit to IFA as President and CEO of Electrolux, and I'm glad for the opportunity to get to know you all a bit better. I'm also looking forward to some Q&A's at the end of my prepared remarks.

In this city, in this Berlin, it's more obvious than anywhere, that the world has changed fundamentally in the last 20-25 years. The Berlin Wall fell. Democracy and market driven economies expanded all over the world. Countries, markets and people got closer to each other. Not only here in Europe, but also in large part of Asia, Africa, Latin America and – recently – the Middle East. The internet and the digital, networked society emerged. The world received the technological tools to integrate even further. You all know this.

To where have these developments brought us today?

Globalization creates new consumers. Since 2008, for the first time in history, more people live in cities than in rural areas. UN projects 74% of the world population is expected to be urban in 2050. This will not only change people's way of living and thinking. More people will also have limited living space and find other ways of spending their time.

Between 2000 and 2050, the share of the population aged 60 years and over is projected to increase in every country in the world. The traditional stages of life are

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breaking down. The size and structure of families are also changing. Household size in developed countries has fallen to an average of 2.8 persons, and there has been a vast increase in single person households.

These continued urbanization and the demographic changes will impact what consumers demand and require in their daily life.

In addition, more than 70 million people are joining the global middle class every year. New markets are emerging, with consumers craving their first modern washing machine. Brazil is already today Electrolux second largest single market behind the US. Germany is number 3. Within five years from now, half of Electrolux sales are likely to be in emerging markets.

Constrained natural resources and the climate change will of course also be very important factors, playing a crucial role in the further development of society.

In parallel with the fantastic development of the world economy over time, at the moment we see serious financial problems in mainly the mature markets. As long as this situation maintains and consumer confidence remains low, it will imply tighter household budgets and debt aversion. Nevertheless these economic cycles will work their way through, and people will maintain aspirations for living a good life.

Internet has become the main source of information. The internet and the network society today play roles in all parts of human life. With 300 million smart phones sold in 2010 alone, consumers now live truly connected lives where they no longer need computers to have constant access to information and their circle of friends.

The fall of the Berlin Wall and the development that has followed teaches us something very important:

The ideas, lifestyles, demands and behaviors of people will over time always triumph over political agendas or business plans.

Business and industry was never opposed to globalization and the network society, rather the opposite. But no business plan in, say 1986, would have predicted that 25 years later the computer, camera, TV, calendar, record collection and shopping cart would be integrated in a regular phone, where also the bank office and postman had moved in. But this happened. People's changed behavior and technology made it reality.

So, probably people from an industry – like me – should be careful to put visionary statements about the future. However, since I have been asked to, I will give my view on how globalization and the network society have tipped the power balance from producer and retailer to the consumer.

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Companies used to be the drivers of change, innovation and growth. Today, consumers are in the driver's seat. Let me go through some proofs of this:

The network society has empowered consumers to discuss and review products. Consumers have new tools for learning, comparing, discussing, buying and – finally – reviewing products. Consumer opinions and word-of-mouth affect brand perception and sales much more than before.

According to a study by the research agency NOP World, 93% of consumers perceive consumer recommendations as the most credible source for product information. According to another agency, eVoc Insight, almost half of the consumers feel they can't make a purchase without first consulting online reviews. Almost 8 out of 10 consumers say they have recommended at least one product in the past 12 months, according to the agency Roper. Whereas Electrolux customer service used to be contacted by consumers via mail or phone, we today see many consumers tweet or post a question to us anywhere in the internet and expecting an answer within 24 hours. I'm sure that's true for many of you here.

Globalized media landscape and social media have made consumers stronger. This evening it could be possible to catch a flight from Berlin to Stockholm for only 10 Euros. It has become easier to meet over geographic, social and cultural borders. Cultures are blending.

The media scene is becoming global. Consumers in Beijing and Moscow can aim for products used by Canadian film actors and Italian TV stars. Trends born in the streets of São Paulo or Cape Town, can be adapted by consumers in Hamburg or Vienna.

Consumption is globalized. This supports brands with either a really strong local presence or a really strong global position. A local presence appeals to genuineness. A global position appeals to recognition. This applies of course to both product brands and retail brands.

With a global media landscape it's easier for consumer groups to start a trend in favor or disfavor of a brand or product. And with a few clicks, Twitter updates and Youtube-embeddings, a manufacturer's or retailer's reputation can be put at true risk ... or greatly enhanced.

Consumers have expectations not only on the products, but on the companies themselves. The increased interest in sustainability and similar issues, combined with the possibilities of the network society, has extended consumers' expectations in the companies. It's no longer enough to provide products and services that keep acceptable standards. The company itself is expected to behave ethically, responsible and correct in all matters, be it HR issues, manufacturing, or supplier policies.

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According to the renowned Edelman Trust Barometer, 77% of 25-64 year-olds around the world say they have in the last year refused to buy a product or service from a company they don't trust. 91% thought frequent and honest communication on the state of the company's business is important.

Consumer value is not anymore only about delivering and servicing, but also about behaving responsibly in all areas.

The consumer experience has become a part of the product. Consumers' preferences shift faster than ever before. Functional benefits alone are no longer enough to attract consumers or create brand loyalty. Emotional ties need to be added.

Strong consumer brands of today also rely on the identity and message they convey. Authenticity and compelling storytelling that engages people and encourages them to carry it forward, is expected by the consumer and therefore essential in today's marketing toolkit.

Delivery doesn't end at the moment of sales. Earlier, the manufacturer produced the product, delivered it to the retailer, who sold it to the consumer. Then the manufacturer and retailer crossed their fingers hoping everything would go well. Today, product engagement is shared over time between the manufacturer, the retailer and the consumer.

After sales, the manufacturer and retailer continue to play an important role in providing additional services, upgrades and accessories. In the appliance business, it's only a matter of time until consumers start demanding customer service and remote diagnostics via smart, green, connected appliances.

Consumer-pull of products has become consumer-pull of entire markets. Consumers over the borders are getting closer to each other and communicate via social media. This enables them to take the lead in product development. The rules of the game have changed from passive to active consumer involvement in business strategies.

There are several examples of how consumer movements have totally redrawn product markets in a magnitude that was unheard of before:

The most obvious example is probably how the internet changed the music business and redrew the map for the brown goods industry. Many consumers, especially young ones, didn't want to buy CD's anymore when they could download it for free.

The music business had to find completely new business models. Now growing companies like Apple and Spotify provide solutions with legal and ground-breaking business models. The brown goods industry more or less had to abandon its CD and DVD players and bulky equipment, and get into technologies based on

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connectivity and mobility. The consumers had already done so. In order to survive the manufacturers and retailers had no choice, but to change, to adapt.

The mobile phone market is another strong example. It was important that Apple put their first iPhone on the market. But only when people changed their way of thinking and living their lives, using their phones for completely other purposes than only talking in them, it fundamentally reshaped that industry. Manufacturers and retailers had to follow.

A third interesting example is the internet itself. There was no R&D department, no business plan or corporate growth strategy behind Internet. Not even a CEO, imagine that. Nevertheless, the internet today has more than two billion users all over the world, and it has had the fundamental impact I just described. Why? Because the users developed it. They set the priorities, did the marketing, made it grow, even developed it further together.

Part of the explanation to these three cases is the fact that consumers often want to have the latest and greatest. Products are expected to be replaced more rapidly by new, innovative products with good design, practical functions and sustainable properties. This calls for much shorter product development cycles.

Is it good or bad that consumers are in the driver's seat? Is it a challenge or an opportunity for the industry?

Our view is: It's good. It's democratic. It's pragmatic. It makes society and economy more efficient. When consumers are excited and satisfied, this also grows the business. In the long run, this makes it an opportunity – for manufacturers and for retailers. We're in this together: Bringing more innovations and value ... to an even more sophisticated and demanding consumer base.

So what will it require from the household appliance industry in the future?

First and foremost, this development has already created **higher demands on quality, service, transparency and functionality**. This will continue. Only manufacturers and retailers keeping their promises will survive. If not, the word-of-mouth among consumers will, in the long term, leads them on the sideline.

People can beat business, as I said earlier. One reason for this is that people are often much faster than business. It's a challenge to keep pace when consumers drive change. But it's not only about observing consumers. We also have to keep a close eye on macro trends and tech trends. That way, we get an alert on where the consumers might be heading.

On the other hand, the solution is actually rather simple: **The companies being best at including the consumer, will have a first mover advantage**. In the end the technology will of course go the way the consumers wish.

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Instead of using consumer insight research mainly in the product development and marketing plans, the customer centric organization needs to operate on and be fully integrated across all customer touch points. It's not enough to make interviews with the consumers. There needs to be an ongoing dialogue. What needs and improvements does the consumer not identify herself? How is the relationship to the product changing over the usage time? What message, meaning and identity does the product bring to the consumer and its network?

Can consumers even be invited to the actual design table? Actually, right now any consumer can visit Electrolux webpage and vote on what should be next year's seasonal color of our UltraOne vacuum cleaner. That's one small step in that direction.

Products and services are blending. How can the usage phase be used to provide upgrades, added values and new and alternative use methods? All manufacturers and retailers will need to continue and strengthen the relationship with the consumer after having sold the product.

The brand must continuously be loaded with values and identity to make it distinguishable and meaningful to the consumer. It doesn't matter how innovative a product is. Since word-of-mouth is the main source of information for consumers that want to make a purchase, the product is DOA if the brand doesn't engage consumers to think and talk about the product. Appliance and retail brands will need to be either fully global or really have a strong, specific niche.

Buying decisions are made when visiting online and social media rather than when reading ads. Instead of broad ad campaigns, smart PR and online campaigns might be better used marketing money. Since these are also the arenas where consumers' drive for innovation is most clearly manifested, these are also the natural arenas for brand building.

The growth of the global middle class also creates an increasing demand for products with innovative design under a well-known global brand.

All of this will require flexibility, speed and adaptability. **Organizations, processes and internal cultures continuously need to be more dynamic, flexible and differentiated.** The same way manufacturing setup and marketing campaigns are continuously reviewed and adjusted, the company's overall strategy also needs to be.

That is not to say a company should change direction every third month, but it should be prepared to adjust. Change will have to be an integrated part of the company's DNA. This is the only way to continue and develop a fruitful dialogue with changing consumer patterns and provide them with relevant and differentiated product and service offerings.

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So how is Electrolux addressing these changes and preparing itself to better serve the consumer reality of tomorrow?

Being the “Thoughtful Design Innovator” is the starting point for everyone working with all aspects of product development in Electrolux. The products are based on consumer insight. They must have unique selling propositions and they have a clear identity.

The products are always developed with the user in mind – from when she buys the product to when she gets it home and unpacks it, to when it’s installed, used and possibly serviced and finally when she eventually disposes of it.

We have implemented a Consumer insight based product development process. Every year, our consumer insight teams conduct thousands of interviews and visits to consumers’ homes, not only observing what they do with their appliances and say about them, but also what they don’t do and don’t tell us. From this information, as well as from studying macro and technology trends, we learn and try to understand how we can even further contribute to improve the consumers’ everyday lives.

The Consumer insight process is applied to all products developed within Electrolux, and employees in all parts of the organization are regularly trained in the process.

Our product roll-out model goes in the same spirit. A new product is only launched if at least 70% of consumers in the test groups prefer the product over similar alternatives in the market. If this requirement is not met, the product is sent back to the product development team for rework, until it meets the minimum requirement.

Electrolux has had a strong presence in almost all parts of the world for a long time. Actually, the Electrolux global journey started here in Berlin. The company’s first factory outside Sweden was opened in Berlin, Tempelhof in 1926, producing vacuum cleaners. This global position and heritage makes Electrolux unique in the appliance industry. It brings us a lot of useful knowledge when developing solutions to specific markets, as well as leveraging creative ideas around the globe.

Equally important is Electrolux unique positions in both the consumer and professional segments. What we learn when developing improved kitchen solutions in restaurants, we use when improving technology in consumers’ kitchen. And vice versa. But having a regular dialogue with chefs and supplying restaurants and hotels all over the world not only gives us a lot of useful insights that can be transferred to other products: It builds our brand. Being the No 1 Choice of top professional users, gives us the credibility in quality and innovation.

Electrolux Professional connection, together with our Scandinavian heritage, fills an important function in the creation of the product’s design and in the development of innovative, sustainable and thoughtful products. The brand values are the same as

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the design values: empathy, insightful, progressive, and ingenious. These values give the products an identity.

We build strong brands with meaning for the consumer. The Electrolux brand is our global premium brand. The main manifestation of this strategy is the massive launch of the Electrolux brand in North America in 2008. As a result, in the US, the proportion of consumers that associate the Electrolux brand with premium household appliances has increased from 10% in 2007 to approximately 70% today.

In addition, we focus on a few strong brands strategically. One of them is the AEG brand. The AEG brand was actually born here in Berlin in 1887. These 124 years have brought it a solid recognition in Germany as well as in other parts of the world, and this is something to strengthen and utilize.

In marketing, Electrolux is also focusing on PR and internet. Consumers only buy new appliances – say – every 8-10 years. In order to keep a dialogue over these years, we want the consumers to notice these exciting initiatives. That way, Electrolux comes up top-of-mind when it's time to buy.

Our **Vac from the Sea** initiative – which highlights the enormous amounts of plastic waste in the oceans when we at the same time have great difficulties to find recycled plastics to produce our green vacuum cleaners – has become one of the most successful PR cases in Electrolux history. Social media played a crucial part in making this happen.

Electrolux Design Lab is our yearly competition for design students all over the world. The competition finals in London next week, but thousands of consumers have already admired the final concepts on the web site, and some have already voted on their favorite concept.

This spring Electrolux was one of the main sponsors to the **Cannes Film Festival**. We also launched the **Cube Restaurant** – a glass box on top of the Triumphal Arch in Brussels. In that sensational location we served dinners made by famous master chefs.

The restaurant will now go on tour through Europe. Who knows, maybe the Cube will one day be found balancing on the tip of the Fernsehturm here in Berlin?

Vac from the Sea, Electrolux Design Lab and the Cube clearly link to the sustainability, design and an innovation focus that guide all operations, and have been for a long time.

It's natural that Electrolux takes a leadership position in this development. We are the most global manufacturer, with strong positions in all parts of the world. We are the only one with a strong presence in both consumer and professional markets. And we have a genuine heritage in having a dialogue to consumers.

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Electrolux started with the idea that product development, consumer interaction and sales could be integrated.

Over 90 years ago, when our sales staff started to knock on doors to sell vacuum cleaners at people's homes, the foundation was laid for today's ambitious consumer insight work. By visiting consumers' homes, we could observe how they used their product. We could talk to them about what innovations they hoped to become reality.

That's why Electrolux in 1921 was the first manufacturer to put metal runners on the vacuum cleaner, making it much easier to move around the home.

And that's why we continue develop relevant and innovative products like:

- AEG Neue Kollektion – We put together all of our consumer insights and collected it in our newest full kitchen range here in Europe. One example of this is the AEG CuliSense oven, that's included in the Neue Kollektion. Talks with consumers showed that they wanted to shine both as chefs and as hosts. With this German built oven we made it possible. It uses sensors to calculate the precise combination of energy consumption, time and cooking mode needed to prepare the dish. The chef's job? Just load the oven and push a button.
- AEG ProClean dishwasher – Consumers witnessed they found dishwasher loading inflexible and rigid. Some of the more bulky kitchen equipment weren't possible to load at all. So we rearranged the interior and water distribution and developed the most flexible dishwasher in the market.
- Ergorapido vacuum cleaner – Consumer research showed that cleaning behavior had changed – consumers clean limited spaces instantly instead of large spaces on a regular basis. Therefore we developed this combined handheld and upright vacuum cleaner, that's beautiful enough to leave outside the cabinet.

Yet, no one can rely on historical achievements. The future successes require reinventing and new thinking, as I have touched upon. So, what's the conclusion?

Globalization and the digital, networked society has changed lifestyles and demographics. Since the appliance industry provides products used in the everyday life, we as manufacturers and retailers are affected by these changes directly.

Globalization and the digital, networked society has also provided some tools shifting power from manufacturers and retailers to consumers. By their behavior and interaction with each other, consumers have a direct power to redraw entire markets and product categories and to re-evaluate brands.

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Consumer's behavior will always win over any business plan. That's positive and fair – the company being best in including the consumers and foreseeing the future, will have a distinct advantage. The company providing brands with meaning and identity, and living up to it, will win the trust and loyalty of consumers.

In Electrolux we have adapted to this by changing our product developments processes, sharpening our brand policies and raising our ambitions in delivering to the customer.

The world economy and financial markets might go up and down, as it has in the last several weeks. The appliance industry will see cycles of good times and bad times, it's a part of reality. But let me end with a hopeful note about this: Consumer will always need and appreciate relevant, innovative, sustainable and beautiful products that make their life easier and more enjoyable. As long as we continue to follow the consumers and deliver what they really need, producing and selling appliances will remain a vibrant, growing and successful industry and business opportunity.

Thank you for your attention! I wish you some good, fun and fruitful days here at the event!

Auf Wiedersehen!

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