

# Unilever business strategy



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This is a case study on Unilever business strategy. It would seek to analyze the strategic position of the group with the help of SWOT, PEST and BCG Matrix models. The paper would critically assess the competitive situation of the company in relation to other major product based companies in the market and company's financial performance and key issues. In the end it would submit few recommendations.

The case study is my first effort towards analyzing the business strategy of Unilever and its success in the market. Since Unilever is so famous and its products so widely used all over the world, it is of great interest for me to carry out a case study on its business strategy. The paper would greatly help me and the readers to understand some key issues concerning Unilever in today's business world.

## **Introduction**

### **2. 1. About Unilever**

Unilever is a multi-national corporation, formed of Anglo-Dutch parentage that owns many of the world's consumer product brands in foods, beverages, cleaning agents and personal care products. Unilever employs nearly 180,000 people and had worldwide revenue of almost €40 billion in 2005.

Unilever is a dual-listed company consisting of Unilever NV in Rotterdam, Netherlands and Unilever PLC in London, England. This arrangement is similar to that of Reed Elsevier and that of Royal Dutch Shell prior to their unified structure. Both Unilever companies have the same directors and

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effectively operate as a single business. The current non-executive Chairman of Unilever N. V. and PLC is Michael Treschow while P Mr Paul Polman is the Group Chief Executive. The company is widely listed on the world's stock exchanges (About Unilever: 2008).

## **2. 2. History**

Unilever was founded in 1930 through merger by the British, Lever Brother; and the Dutch, Margarine Unie; now Unilever PLC in London, U. K and Unilever N. V in Rotterdam, Netherlands respectively. In 1872 before the merger, Jurgens and Van den Bergh, the Dutch, built factory in Netherlands for the production of Margarine made from milk and fact. In 1927, they formed Margarine Unie (margarine Union) together with two European Businesses, Centre and Schicht. Lever & Co on the other hand was founded in 1884 by British William Hesketh Lever and his brother, James, and was producing soap – Sunlight soap for people in England especially for women. William Lever wrote: “ to make cleanliness commonplace; to lessen work for women; to foster health and contribute to personal attractiveness, that life may be more enjoyable and rewarding for the people who use our products”. In 1890, Lever & Co become limited company known as Lever Brothers (Uhomhoabhi, Fredrick Albert: 2008)

Unilever, Unilever N. V and Unilever PLC comprise Unilever group. Both companies have the same directors. Its annual turnover in 2005 was €39. 672 billion and employs 206, 000 employees around the world. 1 Unilever brands consist of Food, Beverage, and Home and Personal Care. Some of these products are Knorr, Breyer's and Magnum, Lipton, Omo (detergent) etc. Knorr has the biggest sales of €2. 3 billion in 2005. In May 2007 it

became the first tea company to commit to sourcing all its tea in a sustainable manner, asking the Rainforest Alliance, an international environmental NGO, to start certifying its tea estates in East Africa. It declared its aim to have all Lipton Yellow Label and PG Tips tea bags sold in Western Europe certified by 2010, followed by all Lipton tea bags globally by 2015. Covalence, an ethical reputation ranking agency, placed Unilever at the top of its ranking based on positive versus negative news coverage for 2007. In 2008 Unilever was honored at the 59th Annual Technology & Engineering Emmy Awards for “ Outstanding Achievement in Advanced Media Technology for Creation and Distribution of Interactive Commercial Advertising Delivered through Digital Set Top Boxes” for its program Axe.

### **Strategic position of the company**

The strategic position of the company shall be analyzed through following techniques:

#### **3. 1. S. W. O. T Analysis**

The overall evaluation of a company's strengths, weaknesses, opportunities, and threats is called SWOT analysis. In general, a business unit has to monitor key macro environment forces (demographic-economic, technological, political-legal, and social-cultural) and significant microenvironment actors (customers, competitors, distributors, suppliers) that affect its ability to earn profits. The business unit should set up a marketing intelligence system to track trends and important developments. For each trend or development, management needs to identify the associated opportunities and threats.

**(S)trengths**

- Recognized as a global company.
- Strong brand portfolio.
- Strong relationship with retailers
- Economies of scale.
- Corporate social behavior
- Variety of products

**(W)eaknesses**

- Dual leadership
- Limited customer connection
- Inefficient management of brands
- Inability to maximize acquisitions
- Lack of control in the market
- Reduced spending on R&D

**(O)pportunities**

- Changing consumer preferences
- Increasing need for healthy products
- Low income consumers
- Rapid increase in population

**(T)hreats**

- Decrease in revenue
- Strong competition(P&G)
- Tougher business climate
- Exchange rates

- Economic crisis
- Increase in production and labor cost

### **3. 2. BCG Matrix**

#### **Stars(High market growth & share)**

- Lux
- Sunsilk
- Wall's ice cream
- Fair & lovely
- Rafhan
- Energile
- AXE
- Vasline
- PG tips

#### **Dogs(Low market growth & share)**

- Wheel detergent
- Supreme tea
- Lifebuoy shampoo

#### **Cash cows(Low growth & High share)**

- Surf excel
- Ponds
- Lipton
- Close up
- Blue band
- Dove soap

- Rexona
- Knorr

#### **Question marks(High growth & low share)**

- Clear shampoo
- Rin
- Comfort
- Ben & Jerrys
- Persil

### **3. 3. PESTEL Analysis**

#### **3. 3. 1. (P)olitical/Legal environment**

Unilever, as a matter of policy, set a standard as to the way of tackling political issues. Unilever has its tactical way of handling political issues. First, in the 1960s, many countries began to nationalize foreign firms which also affected Unilever. This was a call for local equity participation in foreign firms. Thus, so many companies were subject to local control on prices, imports, employment of expatriates and so on. As a result of the adverse effect of nationalization policy, in the 1970, many US companies e. g. IBM and coca cola left India. There was fear by foreign companies uncertain issues such as knowledge leakage, loss of trademark etc. this was also hazardous for Unilever as its control over operation in the market was reduced. For example UAC, a subsidiary of Unilever, whose operation was in many African countries (Cameroon, Ghana, Ivory Coast, Nigeria, etc.), was focused on as its profit margin and rate of easy remittance of profit to its Anglo-Dutch parent was enormous. Nationalizing UA Chambered Unilever's control over the market where UAC operates. However, Unilever uses its <https://assignbuster.com/unilever-business-strategy/>

experience and goodwill to make contacts in many countries to bargain with government so as to modify their regulations. In central and south America, Unilever only engaged in lobbying rather than active politicking. In other words, Unilever never get involved in sponsoring political parties. Today, Unilever has gained political ground using its tactical strategy and experience. Unilever is a member of many organizations all over the world. The aim is to create favorable business environment, and also facilitate corporate reputation management.

### **3. 3. 2. (E)conomic environment**

Unilever market environment is becoming highly competitive especially in the Western Europe. Procter & Gamble (P&G) is one of the major competitors in the European market. More so, there are so many discounters in the European market resulting from EU free trade policy. This has had adverse effect on Unilever's profit potentials. Retailers are pressurizing FMCG producers to reduce prices of their products.

Consumers on the other hand would not want to buy expensive product or brands due to current economic tide. Competition in EU has grown so strong that Unilever is facing difficulties in places like France, Netherlands. In the developing countries and the emerging economies (Asia and Africa), where there are political instability, Unilever has adopted its company strategy to ensure that its profitability drive is sustained. Some Products are packaged in small size for low or regular income earner, for affordability. In some developing countries, Nigeria to be precise, there was uncertainty about duties to be paid by companies due to inflation and fluctuation of currency.



The effect on Unilever was a decrease in profit in 2005 compared to 2004, though there was increase in turnover.

### **3. 3. 3. (S)ocio-cultural environment**

Unilever has continued to maintain momentum in its socio-cultural environment in line with its sustainability drive. The company is working relentlessly to bring improve hygiene and better nutrition to people in Asia, Africa and Latin America, especially the poor and obesity. Over 30% of Africa population lives on less than \$1 per day. By this, Unilever strengthens its goodwill. However, the low literacy of consumers affects marketing vehicles such as advertisement in print media. This therefore requires employment of more resources, for instance to enhance face-to-face communication. Besides, Unilever employs about 100 nationalities. It ensures that diversity works for everybody both employees and consumer alike. In order to achieve and ensure that diversity works amongst employees, Unilever employed the strategy of so as to manage and leverage diversity. Unilever is focused on building an exclusive culture and embracing difference, which resulted in high demand of its products in the developing and emerging markets.

### **3. 3. 4. (T)echnological environment**

Right in the 1930s, Unilever continued to diversify. Business continued to boom in the 1950s with new technology being invented to boost production and enhance quality products for consumer, competitors improving their products using new inventions. Unilever did not give up its effort in R&D. Since 2000, Unilever has been spending on IT

to improve its business especially in the area of e-business so as to improve brands communication and market through internet, making transaction simple along chain.

Today, Unilever is trying to minimize cost through IT efficiencies at global level. In addition, Unilever Technology Venture works in collaboration with Unilever R&D group to help Unilever meet consumers' needs. Area of concern is genomics, advanced bioscience, advanced materials science and nanotechnology. In 2003, Unilever installed and commissioned "pallet live storage system" from Bitto Storage System Ltd. This was meant to store its frozen products. The facilities include: pallet live storage systems, carton live storage systems, pallet racking, boltless shelving, plastic bins and containers, wide span and heavy load shelving, cantilever racking, and multi-tier shelving systems.

### **3. 3. 5. (E)nvironment**

In recognition of local legislation and to keep its corporate responsibilities, Unilever designed management system. Unilever has respect for consumer health and safety. This policy is to ensure all Unilever operators establish a formal environmental management system. Training programs are being arranged in various regions/business groups to ensure compliance with the company Standard for Occupational Health and Safety Environmental Care (SHE). This framework is based on the ISO 14001 management standard. Unilever had also worked in conjunction with government of countries of its operation as regards waste management. For instance in Ghana, 2004, over 21 tones of wastes were supplied to small and medium size recycling

businesses in Accra, Ghana, by Unilever to reduce the amount of plastic waste sent to landfill.

## **Financial performance**

Underlying sales growth of 7. 4% was partly offset by movements in exchange rates (4. 8%) and the net impact of disposals and acquisitions (1. 4%). Including these effects, turnover was 40, 523 million for the full year, increasing by 0. 8%. Operating profit increased by 1, 922 million to 7, 167 million, including a higher level of profits on business disposals. These generated a pre-tax profit of 2, 190 million in 2008, compared with 297 million in 2007. Net profit was 28% higher than last year, boosted by the profits on disposals. Earnings per share were €1. 79, including a net gain of 0. 36 from RDIs. This compared with 1. 35 last year, which included a net loss of 0. 07 from RDIs. Net cash flow from operations at 3. 9 billion was in line with last year. Total cash returns to shareholders in the year were 3. 6 billion, made up of 2. 1 billion of dividends and 1. 5 billion of share buy-backs.

## **4. 4. Financial Objectives**

Unilever's ambition is to top Third Total Shareholder Return, over a 3 year rolling period out of peer group of 20 other companies. Its outlook for year 2010 is:

- Un-gearred free cash flow in the period 2005-2010 to be 25-30bn.
- Improvement in Return on Invested Capital.
- Underlying sales growth of 3-5% p. a.
- Operating margin of over 15% by 2010 after normal restructuring.

- Improved capital and tax efficiency.

## **Market share and competition**

### **5. 3. Category position in the market**

#### **Strategic Issues**

Following are some of the key strategic issues which Unilever faces today:

### **6. 1. Leadership**

Unilever maintains two business entities i. e. Unilever PLC and Unilever N. V.

Due to dual chairperson approach; it faces following problems in their business strategy:

- List stock separately
- Shared board of directors
- Typical management; wear two, three hats
- Conflict in Board and Business responsibilities
- Company remains fragmented
- Reduced effectiveness
- Slow decision making process( Bureaucracy)

### **Unilever believer (believe in Unilever)**

Unilever should create a sense of 'belief' amongst its consumers. It should try and focus on program that focuses on brand initiative to the consumers.

Use advertising that connects with consumer needs:

- Consumers demand high quality products that are both convenient and delicious
- Consumers look for new ways to use the product

- Large population of single parent house hold
- More females are working full-time jobs
- Increase consumer focus on health and nutrition

## **Strategy Justification**

### **7. 1. Recommendation 1**

Make an initiative to create an overall umbrella brand across all Unilever's brands that will eventually consolidate various businesses under one name.

Unilever Plc

Unilever NV

One Unilever

Provides a greater clarity of leadership, responsibility, and accountability

Allows Unilever to focus on the needs of their customers and consumers thus reigniting growth and increasing sales potential

Provides the ability to leverage scale of operations

Create a strategic platform for brand management

### **Recommendation 2**

It should implement “ Unilever Believer” product and brand extensions. The related example in this case is of ‘ Lipton tea’. It should try and create an extension to this famous brand by focusing on energy drinks. Justifications are:

Energy drinks jumped 56% in sales last year

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Market has exceed \$100 million in the recent years

Main Competitor: Red Bull

Positioning Statement: A Healthier Alternative to Energy Drinks

Unilever should cash in this opportunity by:

Target Market: Young adults 18-32

Uses: stay up all night and/or start a night out

Main Ingredients: Caffeine, Vitamin B, Guarana

Advertisements: Highlight healthier ingredients of the product while showcasing its ability to give energy and revitalize body