

# [Unilever and pandg – comparative analysis](https://assignbuster.com/unilever-and-pg-comparative-analysis/)

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Unilever and P&G – Comparative Analysis Executive Summary The Consumer Products Industry is the biggest industry in the world at the moment, with total revenues amounting to about 50% of all goods sold. It is comparable to the GDP of the 4th biggest economy in the world, and entails most of the products we use in our every day lives. There are 3 key factors that drive the industry today: developing markets, the emerging middle-class of developing countries and the millions of baby boomers in developed markets.

The industry faces many challenges nonetheless, such as an increase in prices of raw materials, crude oil, crops and commodities – especially oil prices; the constant broadening of the industry caused byglobalization; and an increasing tendency for consumers to shop at mass-discount shops rather than the well-established companies within the Industry. The main players in this industry are Unilever, P&G, Nestle, Johnson &Johnson, PepsiCo, Mars and Henkel. This report focuses on the comparative analysis of Unilever and P&G. Some of P&G’s most famous brands are Braun, Gillette, Oral-B and Pantene.

These and the top 50% of most well known brands account for 90% of P&G sales and more than 90% of its profits. Furthermore, 25 of these 50 brands go as far as generating more than $1 billion each in annual sales. Overall, the company markets its brands in over 180 countries across the Americas, Europe, the Middle East and Africa (EMEA) and the Asian region. Despite the recent crisis, P&G continued to experience growth due to a strategy of " investments in innovation, portfolio expansion, marketing support and consumer value". The company is also investing $2 billion in R&D annually.

As for Unilever, the company owns more than 400 brands, and 2 million people use Unilever an product on any given day. Unilever is based in 100 countries and sells products into more than 150. The long-termgoalsare continuous improvement and developing a sustainable business, and the company has over 6000 people working in R&D across the globe for a total of $1, 3 billion worth of R&D investments in 2011. In terms of financial comparative analysis, market Ratios for both companies show that Unilever and P&G are attractive investments for investors.

P&G has a higher EPS on average and is a more preferable investment currently for investors looking for high returns. The market ratios also show that Unilever has been improving its earnings and has a higher earning potential in the future as its EPS, P/E and payout ratio have been improving over time. P&G on the other hand currently has a higher yield as shown by the Dividend Yield ratio but its performance seems to be declining gradually as evident by the worsening Market Ratios.

The Liquidity ratios of both companies clearly point out to the fact that the companies are not in a position to meet their immediate liabilities. However, this is not a matter of concern as both companies are large, stable and established businesses. The liquidity ratios show an adverse situation for the companies even though they are healthy otherwise. This is because the industry is such that the companies must have high current liabilities over extended periods of time and low assets due to very fast inventory turnover rate.

The consumer goods industry requires that a company’s inventory turns be fast and the accounts payable be large over long periods of time to have a high level of efficiency and consequently profitability. It also assures both corporations a competitive edge and for this reason liquidity ratios must remain low which may seem unhealthy but in reality is helpful in this particular industry. From 2007 to 2011 Unilever consistently had higher growth rates in revenue, operating and net profit. During this time p P&G profit growth rates even were negative.

This indicates that P&G is from an absolute point of view still bigger and more profitable, but Unilever is catching up. A closer look at the profitability ratios shows that both companies are doing very well with gross ratios of 43, 80% (Unilever) and 50, 56% (P&G). These ratios are above the 40% industry average and especially P&G is very profitable. This first indication is consistent with the further analysis of profitability ratios such as the net profit margin, which is still is 5% higher for P&G than Unilever.

So far P&G has managed the increasing pressure on margins due to increasing raw material prices more successful than Unilever, but has to adjust its cost-structure to stop the ongoing negative trend of the last five years. Regarding efficiency ratios like return on capital ratios the previous dominance of P&G’s financial performance cannot be confirmed. Instead, Unilever outperforms P&G in all efficiency ratios, like the return on invested capital (16, 89% vs. 10, 42%), the return on assets (11, 26% vs. 8, 99%) or the return on capital employed (16, 66% vs. 14, 06%) for the time p between 2007 to 2011.

This indicates Unilever outstanding capabilities to allocate its resources to the most profitable investments and to use the assets as efficient as possible. In terms of the debt situation for P&G and Unilever, analysis has shown that Unilever’s business is higher leveraged (D-E ratio 2, 13) than P&G’s (1, 09). This and the higher efficiency also explain why Unilever’s return on equity is much higher (36, 06%) than P&G’s (18, 78%). As a result of its high profitability and low debt-to-equity ratio, P&G’s TIE ratio is also much higher than Unilever’s (11, 95 vs. , 61). The analysis has shown that P&G is a more conservative financed and highly profitable business whereas Unilever is more aggressive in terms of growth. Unilever already is highly efficient and has grown much faster than P&G over the last five years. If this trend is not reversed P&G will face increasing competition from Unilever in the close future. We’ve calculated the average over five years for each company’s activity ratios and compared them as such because these ratios seemed to be relatively stable over time.

They also appear to be in line with the companies’ strategies and policies, starting with the Asset Turnover being proportional to the return on equity: Unilever has a turnover almost double that of P&G. As we’ve mentioned earlier, fast inventory turnover is a characteristic of the industry, but Unilever seems to be doing better than P&G in these terms as well. We believe that Unilever’s focus onfoodproducts gives it a higher Inventory Turnover (9, 09) compared to P&G’s household products focus (5, 41).

This gives Unilever a lower average age of inventory. Unilever also has a higher Day Purchases Outstanding Ratio, meaning they stretch suppliers much more by taking 88, 40 days to pays them, compared to P&G’s 65, 48 days. Strictly speaking, we would expect P&G to display a higher bargaining power to do its much higher Revenue, but this ratio shows a different story. Reasons for this could be due to geography, both in terms of differences in local management and in local regulations, and to the diversity of suppliers induced by the focus on 50 or 300 brands.

In terms of the Day Sales Outstanding Ratio, it is P&G that seems to have the better policy this time. They convert Accounts Receivable to Cash in about 28 days versus 35 days for Unilever. Again, although smaller, this difference is important because it can reflect a difference in policies or diversity of suppliers. These two factors combined, low DSO and high DPO Ratios, lead to a negative Net Working Capital such as we had seen in our Walmart analysis. Compared to Assets, P&G has a negative NWC of -27% and Unilever of -20%.

In conclusion, both companies show very strong financialhealthgiven the crisis, especially compared to the rest of the market. They are defensive values which show that their policies are working to resist the crisis. In absolute terms P&G is doing better as a company because it is a bigger, stronger, established firm. In relative terms the ratios paint another picture though: Unilever has been catching up to P&G in recent years, and their growth and financial management seems to be stronger than that of P&G.