The performance of unilever

In 1999, Unilever implemented what they considered to be an ambitious strategy named ‘ Path to Growth’ which they believed achieved a lot in terms of ‘ brand focus, global buying, operating margins and capital efficiency’ (Cescau & Rivers, 2007b). However, according to the then Group Chief Executive Patrick Cescau, the ‘ strategy failed to transform growth performance’ (Cescau & Rivers, 2007b, 1). Consequently, adjustments were made to the strategy between 2005 and 2006, aimed at reorganizing and streamlining Unilever’s organization and to increase awareness of the Unilever brand (Johnson & Scholes, 2006).

In terms of innovation, Unilever delivered ‘ bigger and better innovations, rolled out faster and to more markets’ (Unilever, 2009, 5). The tremendous success in fast and effective rollout of innovations was enhanced greatly by the one organizational structure (One Unilever) introduced into the business as a result of the adjustments made to Path to Growth (Unilever, 2009a). For example, the Dove Minimising Deodorant has been rolled out across 37 markets and Clear Shampoo across 37 markets. The success in this area has also been reward by the business publication Fast Company which ‘ recently recognized us as the fourth most innovative company in advertising and marketing.

In terms of cost saving, the business focused on discontinuing and cutting out activities that failed to add value. The restructuring was one such activity. In 2009 alone, Unilever, achieved cost savings of €1. 4bn, which was better than expected and also improved working capital by €1. 9bn (Unilever, 2009a.

Despite these and other successes including mergers and acquisitions, operational and sustainability and corporate responsibility, Unilever also failed to achieve some of their targets. For example, ‘ in two key markets, India and Spain, we took longer to respond to changing market dynamics and to the intense level of competition especially from low-cost local competitors’ (Unilever, 2009a, 6). In the processed and packaged goods industry in which Unilever operates, this is a significant failing as the battle for market share is fierce (Ehlers & Estes, 2007). Companies primarily achieve this primarily by cost leadership strategies, therefore the need for Unilever to continue on their cost cutting drive cannot be overestimated.

Another significant challenge is their inability to develop their brands to top quality status. In their own estimation, ‘ product quality is getting better, but we need more of our products to show superiority and there is ample scope to sharpen our communications and to set the innovation bar even higher’ (Unilever, 2009a, 6).

Financial Performance

To put Unilever’s performance into context, let us look at some of their financial ratios for both the financial year ended 31 December 2009 and ratio averages for a five year period which includes 2006 to 2009.

Figure 1: Sales Growth (%) of Unilever, Processed & Packaged Goods Industry and S&P’s 500. Data Source: Yahoo Finance

Figure 1 shows Unilever’s performance compared against its competitors and the S&P’s 500 benchmark which ‘ has been widely regarded as the best single gauge of the large cap US equities market since the index was first published in 1975' (Standard and Poor's, nd). The chart on the left shows the close to 5% decrease in growth of Unilever's sales while the industry average recorded an increase between 2008 and 2009. This reveals that the competition is making inroads in regaining lost market share during the period of the economic downturn. The five year average for Unilever is still showing a positive although it is significantly below industry average.

Figure 2 below shows the earnings per share position for the last three years for Unilever.

Figure 2: Earnings per share for Unilever (2007 – 2009) Data source: Yahoo Finance

The earnings per share ($) shows the profit attributable to each share held by Unilever for the last three years (McLaney, 2006). Despite a recovery from 2008, the 2009 EPS has fallen again and to levels below 2007's.

Figure 3 shows the Price/Earnings ratio compared with competitors and the S&P benchmark.

Figure 3: P/E Ratio (2009) Source: Yahoo Finance

The price earnings ratio is ' the number of years that it would take at the current share price and rate of earnings, for the earnings from the share to cover the price of the share' (McLaney, 2006, 58). This is one of the most important measures investors use to assess a company. Unilever is once again operating below industry average and way below a benchmark of companies in the stock market. This implies that investors are less ' confident of growth in future earnings (McLaney, 2006, 58) of Unilever compared with industry average and the benchmark of leading companies.

In terms of profitability, Figure one shows the position.

Profitability Ratios %

Unilever

Industry

S&P

Gross margin

30. 40

38. 50

Net margin

9. 20

9. 80

10. 50

5 yr Gross margin

48. 60

46. 80

37. 80

5 yr Net margin

10. 10

9. 50

11. 30

ROCE

15. 60

15. 00

9. 30

ROE

30. 60

29. 80

20. 50

Table 1: Profitability Ratios Source: Yahoo Finance

Gross margin figure for 2008 – 2009 was unavailable for Unilever. The net margin which shows the proportion of profit left for Unilever after all expenses have been taken into account is around the industry average for the period 2008 – 2009. The 5 year average positions for both gross and net margins are favourable for Unilever, compared to its competitors. It’s 5 year gross margin is also significantly better than S&P’s 500.

The return on capital employed (ROCE) and return on equity (ROE) positions are also marginally better than the industry average and significantly better than S&P's 500. While the ROCE is a measure of profit as a percentage of total assets less current liabilities, the ROE looks at ' matters more specifically from the shareholders' viewpoint, and reports on profit earned by shareholders after all charges have been accounted for (McLaney, 2006).

Table 2 below shows the liquidity and gearing positions of Unilever and comparisons with other companies.

Gearing and Liquidity

Unilever

Industry

S&P 500

Debt/Equity Ratio

0. 83

0. 81

1. 37

Interest Coverage

48. 30

21. 00

27. 10

Current Ratio

0. 90

1. 20

1. 40

Quick Ratio

0. 60

0. 80

1. 20

Table 2: Gearing and Liquidity. Data source: Yahoo Finance

The Debt/Equity Ratio as with all Capital Gearing ratios ‘ is concerned with the relative sizes of the funds provided by shareholders on the one hand, and by loan creditors on the other’ (McLaney, 2006, 56). The higher the ratio, the riskier the business is concerned to be. In this case, the ratio is around industry average and less than the benchmark of top companies, so it should not cause too concern. The interest coverage shows that Unilever can comfortable meet interest payments as they fall due way above the industry average.

In terms of liquidity, the current ratio is a measure of whether the current assets are able to meet current liabilities obligations as they fall due. This does not appear to be the case if payment is requested immediately (which a ratio of at least 1: 1 will be able to do). In practice however, it is unrealistic to expect to ask for their payments at once unless the business was in serious problems. Therefore, although lower than the competition the current ratio and the quick ratio (which looks at the most liquid of assets, normally excluding inventory) should not cause panic although ways to increase it must be looked at.

Brand Awareness

According to Unilever, ‘ brands and innovation are at the heart of everything we do. We develop our products to keep pace with changes in consumer lifestyles and to appeal to people at all income levels. Success means getting bigger and better innovations into the market faster, supported by the very best marketing’ (Unilever, 2009, 8). These statements are indeed backed up by initiatives undertaken in the last few years in the UK to increase brand awareness. Some of these initiatives will be briefly described.

According to Mathiesen (2009, 19), ‘ a recent campaign for Lynx for Men, one of Unilever’s men’s deodorants, resulted in a 56% increase in (prompted) brand awareness in the UK’. This campaign was done through mobile marketing. The campaign sought to achieve the following objectives (Mathiesen, 2009):

To enhance awareness of the Lynx brand

To market to the 16-24 year old male who are traditionally hard to reach through traditional advertising methods

To promote the Lynx brand as attractive to women and modern

The success is not only evidenced by the 56% promoted awareness, according to Mathiesen (2009), 86% could recall the Lynx advert and 44% of people felt more positive about Lynx after seeing the add.

Not only are Unilever working on improving product branding, they have most significantly moved to increase the company brand image. In March 2009, Unilever UK and Ireland began putting the ‘ corporate branding on its product brand advertising including TV, posters and press (Unilever, 2009b), starting with Flora. This move was influenced by research which showed that ‘ consumers in the UK and Ireland have relatively low awareness and knowledge of our company, compared to some of our competitors. They are open to the idea of us promoting Unilever more overtly and see this as a sign of honesty and transparency’. For a company as large as Unilever, it is surprising that a lot of people who use a lot of their products on a daily basis do not know the name of the company. The same could not be said of its competitors like Nestle or Kraft, for instance. In an industry as competitive as the processed and packaged goods industry, where the extent of competitive rivalry is very high, brand awareness is a vital source of achieving and sustaining competitive advantage (Porter, 1998b).

Brand Theories

Indeed, the importance of Unilever focusing on promoting brand awareness is supported by relevant theory. MacDonald and Sharp (2003, 1), citing Rossiter and Percy (1987) described ‘ brand awareness as being essential for the communications process to occur as it precedes all other steps in the process. Without brand awareness occurring, no other communication effects can occur’. In other words, a consumer is likely to buy a brand if they are made aware of it. MacDonald and Sharp (2003, 1) also go on to discuss memory theory where ‘ brand awareness is position as a vital first step in building the ‘ bundle of associations which are attached to the brand in memory’ (citing Stokes, 1985).

Brand awareness is very important when a consumer is making what are usually very quick purchase decisions. According to MacDonald and Sharp (2003), where a customer can identify certain brands, he or she spends very little time looking at unfamiliar brands. Consequently, an unfamiliar brand name or one that is not aggressively promoted risks being ignored, irrespective of the quality of the product.

Even after a consumer has formed a consideration set and chosen the few brands from which she will make her purchasing decision, consumers decide to purchase only familiar, well established brands (Keller, 1993). The decision is usually made very quickly as well. According to Dickson and Sawyer (1986), it takes approximately 12 seconds on average for a consumer to view product alternatives and make a choice from different brands.

MacDonald and Sharp (2003, 2) also explained that brand awareness affects customers’ perception of quality. They cited Hoyer and Brown (1990) who found in a consumer choice study that ‘ over 70% of consumers selected a known brand of peanut butter from among a choice of three, even though another brand was objectively better quality (as determined by blind taste tests) and even though they had neither bought or used the brand before. This result is even more surprising considering the subjects were given the opportunity to taste all of the brands. Just being a brand dramatically affected their evaluation of the brand' (MacDonald and Sharp, 2003, 2). Therefore, Unilever has tremendous opportunities to marry the popularity of their tremendous brand image for most of their products to the corporate brand image. With effective marketing strategies they can generate enough consumer trust and loyalty to dominate entire shopping trolleys of families. This is because in the industry that Unilever operates in and the kind of products it offers, consumers (buyers) have high bargaining powers. There is also low switching costs which means that a consumer may decide to switch from competitors' deodorants to Lynx for the simple reason that the consumer has been used to buying Knorr stock.

Recommended Strategy for Unilever

Vision

' We work to create a better future every day. We help people feel good, look good and get more out of life with brands and services that are good for them and good for others. We will inspire people to take small everyday actions that can add up to a big difference for the world. We will develop new ways of doing business that will allow us to double the size of our company while reducing our environmental impact' (Unilever, nd).

SWOT Analysis

Based on an internal analysis of Unilever, their strengths and weaknesses were identified. The opportunities and threats facing Unilever were also determined by undertaking an external analysis. The internal analysis included a review of its financial performance, its marketing function, employees, operations, management, and management information (including technology and R&D) which helped to pinpoint Unilever's strengths and weaknesses (Lynch, 2005). The external analysis used the PESTEL and Co. framework which stands for Political, Economic, Socio-Cultural, Technological, Ethical, Legal and Competition. From this analysis, the opportunities and threats facing the business were identified.

Strengths

Global company

Economies of scale

Good profit margins

Competitive prices

Strong brand image for products

Innovation

Developing and emerging markets

Weaknesses

Room for improvement in enhancing brand awareness

Negative sales growth

Company still not a household name

Liquidity

Opportunities

Focus on sustainability and corporate responsibility

Speed of technological advancement

Low switching costs

Threats

Low consumer confidence

Low consumer spending

Volatile political climate in developing and emerging (D&E) markets

Global economic downturn

Fierce competition

Figure 4: SWOT Analysis

In terms of Unilever's strengths, as was seen from the financial analysis above, they made good profit and their level of gearing is in line with competitors. They maintain a very strong presence in the developing and emerging markets with nearly 50% of their revenues coming from areas such as India and China. However, they need to increase their brand awareness although they are doing it with targeted advertising campaigns.

In terms of opportunities, Unilever are well positioned to exploit the opportunities that result from being seen as a company that takes its environmental responsibilities seriously. For example, to meet their aim of growing their business while reducing their environmental impact, ' our Code of Business Principles and other operational and business polices are designed to ensure that we consistently maintain high social and environmental standards an d we have established processes to track performance in these areas. Our strategy benefits from the insights of the Unilever Sustainable Development Group, comprising five external specialists in corporate responsibility and sustainability that guide and critique the development of our strategy' (Unilever, 2009a)

In terms of threats facing Unilever, the threat of political volatility especially in emerging markets are mitigated by Unilever's already strong presence there. There have experience of operating in these markets for a good number of years, therefore, they can cope with the volatility. However, the economic downturn has proved constraining to not only Unilever but its competitors. This has also adversely affected consumer confidence and consequently consumer spending which companies like Unilever depend on for their success. Competition is fierce due to low profitability, fairly equal market share and undifferentiated products (Ehlers & Estes, 2007).

To be successful in the processed and packaged goods industry, there must exist high brand awareness, effective cost management to be able to charge low prices and the commitment to meet ethical standards. Unilever have the strengths to achieve these and are well on their way to overcome weaknesses relating to brand awareness. Once brand awareness increases and the economic conditions become better then this should impact positively on their business as consumer spending and confidence returns.

Strategic Options and Choice

Based on the SWOT analysis above Unilever are faced with different strategic growth options which are provided below, based on Ansoff's matrix (Johnson & Scholes, 2006):

Market penetration of existing products into existing markets

Market development of existing products into new markets

New product development – introducing new products into new markets

Diversification – new products into new markets

Strategic Option 1 (Market penetration of existing products) is recommended with details as follows:

Maintain and sustain competitive advantage in the D&E markets where which is expected to continue to grow

Focus on enhancing brand awareness in the developed markets like the UK

Develop cross selling and other initiatives to increase usage by existing customers

The rationale behind this strategy is that with such fierce competition, Unilever's rivals will unsurprisingly be doing all they can to increase their market share and that will include offering products at low prices. Unilever, by employing the market penetration strategy, will effectively be doing business as usual, while employing cost cutting measures designed to bolster profits. This strategy is less risky especially in an environment of a global economic downturn (Johnson & Scholes, 2006).

It is also recommended that the strategy be achieved through organic growth as opposed to other activities like mergers and acquisitions which have high potential for failure. In terms of competitive strategy, it is recommended that a combination of cost leadership and differentiation be employed. Although Porter argues for a single generic strategy (1998b), this is not always the best option because customers will require different thing from the same product. For example, for the success of the Lynx brand is because it combines low price with perceived coolness. This combined generic strategy has great chance of success as it enables Unilever to be price competitive while also using obtained brand loyalty to keep customers from rivals.

Choosing the right strategy is important. However, more important is the successful achievement of the strategy. This will involve effective deployment of Unilever’s resources (those used in the internal analysis above) to achieve set objectives. Communication is also key to ensure that those responsible for implementing the strategy buy into it sufficiently to be motivated enough to implement it successfully (Johnson & Scholes, 2006). Finally, it is important that once implemented the strategy should be monitored regularly with a view of making changes or enhancing it as required to achieve set objectives.