Sequential game theory of unilever business essay

Business

2nd Semester: Executive MBAIntroduction of OrganizationIn the 1890s, William Hesketh Lever, founder of Lever Bros, wrote down his ideas for Sunlight Soap – his revolutionary new product that helped popularize cleanliness and hygiene in Victorian England. It was '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'. Unilever was formed in 1930 when the Dutch Margarine Company Margarine Unie merged with British soap maker Lever Brothers. Companies were competing for the same raw materials, both were involved in large-scale marketing of household products and both used similar distribution channels. Between them, they had operations in over 40 countries. Margarine Unie grew through mergers with other margarine companies in the 1920s. William Hesketh Lever founded lever Brothers in 1885. Lever established soap factories around the world. In 1917, he began to diversify into foods, acquiring fish, ice cream and canned foods businesses. In the Thirties, Unilever introduced improved technology to the business. The business grew and new ventures were launched in Latin America. The entrepreneurial spirit of the founders and their caring approach to their employees and their communities remain at the heart of Unilever's business today. Unilever NV and Unilever PLC are the parent companies of what is today one of the largest consumer goods businesses in the world. Since 1930, the two companies have operated as one, linked by a series of agreements and shareholders that participate in the prosperity of the whole business. Unilever's corporate centers are London and Rotterdam. This was long before the phrase 'Corporate Mission' had been invented, but these ideas have stayed at the heart of our business. Even if language - and the notion of only women doing housework – has become outdated. In a history that now crosses three centuries, Unilever's success has been influenced by the major events of the day – economic boom, depression, world wars, changing consumer lifestyles and advances in technology. And throughout we've created products that help people get more out of life – cutting the time spent on household chores, improving nutrition, enabling people to enjoy food and take care of their homes, their clothes and themselves.

FUTURE PLANS

Global consumer goods company Unilever today announced plans to decouple future growth from environmental impact. Global firm announces plans to: sourcing 100% of its agricultural raw materials sustainably including, by 2015, 100% sustainable palm oil; changing the hygiene habits of 1 billion people in Asia, Africa and Latin America so that they wash their hands with Lifebuoy soap at key times during the day - helping to reduce diarrhoeal disease, the world's second biggest cause of infant mortality; making safe drinking water available to half a billion people by extending sales of its low-cost in-home water purifier, Pureit, from India to other countries; improving livelihoods in developing countries by working with Oxfam, Rainforest Alliance and others to link over 500, 000 smallholder farmers and small-scale distributors into its supply chainCommenting that Unilever wants to be sustainable 'in every sense of the word', Pau Polman said:" There are billions of people who want the improvements to their health and wellbeing that everyday products like ours provide and who want to live sustainably. Our aim is to help people in developing countries improve their quality of life without a big increase in their environmental impacts, and to help those in developed markets maintain a good standard of living while reducing theirs." Paul Polman sees no conflict between Unilever achieving its sustainability goals and growing its business. " We are already finding that tackling sustainability challenges provides new opportunities for sustainable growth: it creates preference for our brands, builds business with our retail customers, drives our innovation, grows our markets and, in many cases, generates cost savings." Polman emphasised that Unilever did not have all the answers and that the company would need to work in partnership with customers, suppliers, governments and NGOs if it was to achieve its goals. An operational framework is a guide to a company's policies, goals, standards, procedures and training. The framework sets the ways the company does business and promotes a corporate culture and identity. An operational framework may also include principles of good governance and set out company values and divisions within the firm.

Strategic frmework

The Strategic Framework is a comprehensive picture of the organization's strategy. It clarifies how individual efforts and team projects coordinate to achieve the best outcome. It includes meaningful target measures and a series of activities that help to implement the strategy

Strategy: Unilever

Business-level Strategy

Differentiation and low cost strategy is used by most of the organizations. In the industry of consumer products, consumers have many options regarding selection of brand. With 12 brands that each approximates over €1 billion in annual sales, the market leadership of Unilever cannot be continued if costs are on the higher side than a competitor's products. Similarly, without adequate differentiation, brand loyalty could be difficult to maintain. For Unilever, the current business-level strategy would be characterized as a differentiation strategy, where the emphasis is on branding, advertising quality and new product development. Unilever holds the global number one position in five of six food segments, and two of six segments in Home & Personal Care (skin and deodorants). Unilever holds the (world) number two position in two of the six Home and Personal Care segments (Laundry and Daily Hair Care) and is number three or less in Household Care and Oral Care. Company resources have been divided into two primary functions, one responsible for brand development, innovation, and brand strategy (" Categories"), and the other for managing the business, effective deployment of brands and innovations, and winning with customers (" Regions"). Their commitment to R&D and innovation is clearly stated through their mission statement (" Add vitality to life") and their corporate purpose (" Vitality Innovation"). The alignment of company resources with its strategy is an important component for sustaining a competitive advantage.)With its resources aligned and a commitment to funding its significant R&D spending, Unilever should be well positioned to sustain and improve their current standings. Perhaps the greatest risk to sustaining their competitive advantage is the high SG&A costs of Unilever's current organizational structure.

Global Strategy

Unilever’s global presence has deep roots, beginning with the founding companies At various stages throughout the course of Unilever’shistory, there is evidence that the firm was driven by nearly all five global expansion imperatives – the growth imperative, the efficiency imperative, the knowledge imperative, the globalization of customers, and the globalization of competitors -- in its efforts to globalize. However, Unilever’s progress in exploiting global presence may in fact be hampered by the lack of an overarching global strategy. With 223, 000 employees in over 150 countries, Unilever is proud of its deep roots in local cultures and markets worldwide, which enables it to bring its wealth of knowledge and international expertise to local consumers. In doing so, Unilever labels itself as a " multi-local multinational" and truly believes that it is creating value through global expansion by adapting to local market differences and tapping the most optimal locations for activities, resources and product launches. In an effort to " win Latin America," Unilever embarked on a number of transformational initiatives, with the goal of " One ULA" (Unilever Latin America) and a regional approach based on four cornerstones -- strategic leadership; innovation, market share and brand health; excellence in reachingconsumers and customers; and implementing common processes, systems and shared services. In three countries in this region, Unilever is the market leader for four out of six primary HPC categories. With 44 operating companies in the Asia/Africa region, and brands sold in 98 countries, Unilever is the market leader in most priority categories in countries where it has a presence (key markets includeIndia, South Africa, Indonesia, Thailand, Vietnam and the Philippines). In this region, Unilever places emphasis on: serving and delighting consumers; deepening partnership with customers; and buildingrelationships with local communities.

E-Business Strategy

Unilever’s e-business strategy continues to evolve, from its early membership in a B2B marketplace, to participation in the GDSN, the implementation of RFID technologies, and the creation of an online buying system for making certain types of purchases from suppliers. The firm’s e-business strategy focuses primarily on the use of the internet and information technologies (IT) to achieve operational efficiencies in dealing with suppliers and in utilizing its distribution network. The firm’s e-businessstrategy is progressing, but its IT initiatives are not unique or rare within this industry, nor are they inimitable. Unilever has made significant advances – most notably its alliance with Safeway, however, according to the Dynamic Resource-based Model of Competitive Advantage unilever will need to continue to add new and industry-leading IT resources to build and sustain aresource-based advantage. Many of the products in the personal products industry fall under the category of " experience goods" that is, the qualities and characteristics of those products are only recognized after consumption. As such, those products by and large do not lend themselves well to e-commerce – purchases by consumersvia the internet. However, as early as February 2000, Unilever was making plans to invest heavily in electronic commerce, in an effort to slash costs, radically change its supply chain, and reach out toconsumers. The company recognized that it could achieve significant savings by using the internet to " buy everything from raw materials to cardboard." Unilever also began using the internet to target consumers of its products by advertising selected products on websites catering to specific Unilever and P&G are members of Transora, a B2B marketplace consisting of 49 companies. Transora merged with UCCnet to form 1SYNC, which offers a cost-effective data pool with solutions and services that support user needs, and helps the industry maximize the value of data synchronization. Unilever, as a member of Transora, was part of an enterprise-wide effort in 2004 to test the GDSN – an internet-based supply chain initiative launched to streamline communication of product informationFurthermore, in June 2004, Safeway and Unilever heralded the success of their joint Global Data Synchronization initiative; the first time that product information had been " synchronized between the leading supply side and demand side data pools. Other examples ofUnilever’s forays into e-commerce and information technologies include: the implementation of radio frequency identification (RFID) tags, the Unilever Private Exchange (which provides secure links between operating companies and suppliers’ and customers’ systems and to external electronicmarketplaces), Ariba, Unilever’s online buying system (which " enables purchases of non-production items to be made at volume-negotiated prices from selected suppliers") and ISIS, Unilever’s supply management information system (which helps local, regional and global supply managers to gather and analyze information quickly, and make appropriate sourcing decisions) (For additional information about Unilever’s utilization of information technology,

Corporate Strategy

Corporate strategy addresses the scope of the firm's activities, including the portfolio of businesses that a firm chooses to engage in, the locations or geography it will cover, and the amount of vertical integration it employs. Unilever's strategy is to have strong customer relationships at the local level, everywhere they do business, and to be seen as " a truly multi-local multinational". Unilever's activities are spread across six primary business categories, including home care, spreads, savory & dressings, beverages, ice cream & frozen foods, and personal care, and are sold in 150 different countries. As previously mentioned, Unilever is number one or two in all but three segments in which they compete. In the segments where they are not number one or two, they face intense competition and weak consumer spending, particularly in Europe. Further, the business is in an area that is relatively mature and segmented. It is in cases like this where companies might benefit from a divestiture of low-growth, under-performing business units in order to free up resources to focus on higher growth, higher profit opportunities. A decision to divest the brands that are under-performing would not be foreign to Unilever; over the last several years the brand count has been reduced from over 1, 200 to around 400 as part of an overallrestructuring campaign. With a stated focus on developing and emerging markets, particularly in the area of personal care, divesting the European frozen foods units would free up resources, provide cash for additional debt reduction, and help reduce their high SG&A costs. Such a move would better position Unilever for sustained profitability, however, should Unilever wait too long before executing this divestiture, they risk a reduction in the value of the business due to further brand depreciation. Another option for the cash that would be generated through the divestiture of low-growth businesses would be to seek out potential acquisitions that offer growth or complimentary products, and would helpconsolidate a market. Consolidating markets can help provide sustained competitive advantage by reducing the overall level of competition.

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Structural framework

Structual Frame refers to What materials have been used? What signs or symbols have been used? What values and beliefs are respresented? How has the artwork been organised? Look at focal point, blance cospositional devices.

Company structure

Unilever's new organisation provides single point accountability and has fewer management layers to deliver faster decisions and faster execution. Executive directorsExecutive directorsMembers of the Unilever Executive who are also directors of UnileverUnilever iconJoint secretariesResponsible for ensuring that Board and Board Committee meetings have the information they need. Non-executive directorsNon-executive directorsThe independent element in Unilever's governance. Unilever executive (UEX)Unilever executive (UEX)Responsible for managing profit and loss, and delivering growth. Senior corporate officersSenior corporate officersResponsible for ensuring that the Board has the information they need.

Corporate governance

Internatonal corporate governance involves regulatory and market mechanisms, and the roles and relationships between a company's management, its board, its shareholders and other stakeholders, and the goals for which the corporation is governed. Lately, corporate governance has been comprehensively defined as " a system of law and sound approaches by which corporations are directed and controlled focusing on the internal and external corporate structures with the intention of monitoring the actions of management and directors and thereby mitigating agency risks which may stem from the misdeeds of corporate officers

Porter’s 5 Forces Model

Being a global company, Unilever has very strong competition not only from other strong multinational companies like P&G, Kraft and Nestle but also from other regional retailers. Porter’s 5 forces model is one of the most recognized frameworks for the analysis of competitive environment of an organisation. Porter’s five forces model which determine the competitive intensity and therefore attractiveness of the market where Unilever is operating. This model describes the attributes of an attractive industry and thus suggests when opportunities will be greater, and threats less, in these of industries. This model is based on five important elements of an organisation and uses both internal as well as external competences and threats faced by a business organisation. These five elements including;

Buyer Power

Unilever’s buyers are scattered all around the world and they are in billions. In true sense they are not so powerful to pull prices down. But on the other hand it is easier for the customers to switch to a competitor. So Unilever has to be very precautious in deciding about prices and keep the customers satisfied.

Competitive Rivalry

In consumer products business Unilever has a large number of competitors and these competitors are in reality very strong. They range from small local corner shop retailer to big giants like P&G, Kraft and Nestle. These competitors almost provide equally attractive products and services and sometimes better. These competitors have the power to attract and influence the customers by more attractive substitute, prices and marketing techniques.

Threat of Substitution

Continuous research and development in the consumer and household products has brought about a revolution in the consumer market and today customers like to try something new and better. This trend has reduced the customer loyalty and product lifecycle. Unilever is under continuous threat of substitute products and its competitors are already spending huge sums on R&D and new product development. Unilever has to be very adoptive and closer to its customers so as to get what exactly its customers want.

Threat of New Entry

As Unilever operates in different geographical markets so threat of new entrants varies in different markets. In well developed countries where big players like Unilever have a very strong hold and brand image, it is very hard for a new entrant to enter the market because of higher cost to set up a business. On the other hand in less developed markets, it is easier to enter as legal requirements and capital needed is not as much as in a developed market. Unilever has its presence almost in every market either through its subsidiaries, branches or franchises. But its brand image is a strong barrier in the way of new entrants.

Supplier's Power

Unilever has a policy of local buying and local manufacturing. Which provides itself an edge to brake power of its suppliers and make them weaker to negotiate at its own terms. Most of time Unilever has blanket agreements with its suppliers to provide for a certain period of time at a certain rate. This strategy help to prevent supplier's from switching to other competitors and charge higher rates. Also Unilever treat its supplier's fairly so as to create more loyalty among them like customers.

supply chain

is a system of organizations, people, activities, information, and resources involved in moving a product or service from supplier to customer. Supply chain activities transform natural resources, raw materials, and components into a finished product that is delivered to the end customer. In sophisticated supply chain systems, used products may re-enter the supply chain at any point where residual value is recyclable. Supply chains link value chains.

Distribution Channel

Two types of distribution channels are here in Unilever RF:

Company CompanyDistributorDistributorRetailer Whole SellerConsumers RetailerConsumersCompany uses both of the channels on the basis of requirement(PROCTER & GAMBLE AND UNILEVER

Competitor Analysis: P&G

William Procter (English candle maker) and James Gamble (Irish soap maker) founded Procter & Gamble Company. Their father-in-law's urged Procter and Gamble to pledge $3, 596. 47 each, and form the Procter and Gamble Company in 1837. The Company, whose headquarter is in Cincinnati, Ohio, has reported revenues of $56. 8 billion for the fiscal year ended June 2005. This revenue comes from turnover in over 160 countries, balanced worldwide with one half from the domestic market and one half from the international market. Today, P&G has more than 300 brands in the market, out of which 22 are $1B sales producers, and has Market Development Organizations in 80 countries, leading teams to build brands organizations working in 7 geographies. North America, Western Europe, Northeast Asia, Latin America, Central and Eastern Europe, Middle East, Africa, Greater China and ASEAN & India. The products of P&G are sold mainly in grocery stores, discount stores, through mass merchandisers, membership club stores, and high frequency stores (neighborhood stores in developing countries). The organization of P&G with 110, 000 employees has been into three global business units, P&G Household Care (33% net earnings), P&G Family Health (30% net earnings), and P&G Beauty (37% net earnings). These global business units are divided into 5 segments, Health Care, Baby and Family Care, Snacks and Coffee, Fabric Care, Home Care, and P&G Beauty.

Competitor Analysis: Unilever

Unilever was officially formed in 1930, through the union of Lever Brothers, a British soap producer and Margarine Unie, a Dutch margarine producer. Unilever has become one of the largest direct investors in the United States since then. Unilever is unique in that it has maintained a dual possession structure since its inauguration, governed by an equalization contract. Although the company has two of its parents, one Dutch (Unilever NV), and one British (Unilever plc), it has only one board of directors and reports one set of financial statements. Unilever is present in 150 countries, with over 223, 000 people working in it, and has various well known brands, 12 of which each have global sales beyond €1 billion. Unilever has products for three markets, home, food and personal care, which fall into 6 primary categories: home care (17%), P&G and Unilever 9 spreads (12%), savory & dressings (21%), beverages (8%), ice cream & frozen foods (16%), and personal care (26%). In 2005, Unilever initiated combining efforts (One Unilever) including growth of one executive group (from three), a decrease in the number of managerial persons by one-third, an annihilation of the organization, and a restructuring that created worldwide groups, such as a global brand strategy group. One such effort at consolidation is the 2005 turnover of Unilever Cosmetics International unit to Coty for P&G and Unilever approximately $800 million. For sustainability in future times, Unilever needs to continue their equippedenhancements, including further outsourcing when required, add line extensions with main brands while guarding against bad effect should an extension fail, look to mergers and acquisitions to support their growth and development, protect increase/ decrease in currency rates , and continue to expand globally, especially in India and China, the identified locations for extensive growth.

Sequential game theory

The game in which players make moves in turns or in different times is called sequential game. This is how the player who makes a reactive move has the advantage of additional information of what the first player did. This also leads to this fact that the first player can influence the game in a better way. In today's business world it is necessary for the managers and leaders to understand sequential games. It is a norm for the business planners to implement static analysis and rule of thumb to the circumstances. This fact however, overlooks the reality that strategic situations are dynamic and usually extremely different from one another. A planner assesses all these aspects and considers them for better planning and forecasting through sequential games which results into improved decision making every time.

SEQUENTIAL GAME THEORY OF UNILEVER

Unilever and P&G are competing firms that intersect in a variety of markets and their actions are interdependent on one another. This type of strategic behavior is typical in a monopolistic competition and is referred to as game theory. Initially, the two firms were engaged in a prisoner's dilemma. Major moves in product, pricing or policy without providing their intentions to the other would result in losses for both companies. Thus, a surprise by one firm would yield inefficient results. Naturally, both parties developed a desire to escape the dilemma. This desire gave birth to a cooperative set of behavior between the two players. This cooperation ceased when Unilever decided to change its behavior by launching a new product without passing on the knowledge to P&G. This move by Unilever led to the adoption of a sequential games situation by both firms as the traditional cooperation no longer existed. By looking ahead to the future response of P&G and reasoning back to the present, Unilever decided this approach would be best for the firm. By initiating a new product without notifying P&G, Unliever felt it was advantageous to the firm. This is referred to as opportunistic behavior. Unilever had the perception of P&G as being a bullying firm, and Unilever did not want to be left cooperating only to have P&G cheat. What could P&G do as a reaction to Unilever's move? Would they attempt to penalize Unilever or simply not react at all? Since the two firms were cooperating, both firms would be expecting the other to react to such a move. P&G now faces a dilemma whether to devote funds in order to create a competitive product, lower prices on existing products, or devote funds to increase advertising on existing products. Although it is uncertain how they respond, there is no doubt that Unilever analyzed the probabilities of P&G's potential reactions. P&G will likely react with a tit-for-tat response through mimicking Unliever's move in order to penalize them for cheating. Since P&G would likely lose out if they did not react to UNilever's product, it is likely that they would choose to go tit-for-tat. This would result in Unilever hitting back, thus causing P&G to deliver a second punishment. There is no doubt that Unilever analyzed the position of P&G and decided on the probability of P&G's response. Since P&G has value in other markets, it is likely that they would respond and react. Though a reaction is likely, Unilever knew that its consumers are risk-averse.

CORPORATE SOCIAL RESPONSIBILITY

Unilever is one of the world’s leading suppliers of fast moving consumer goods with operations in over 100 countries and sales in 190. Consumers buy 170 billion Unilever packs around the world every year, and our products are used over two billion times a day. We have more than 171, 000 employees, and generated annual sales of €46. 5 billion in 2011. More than half our sales are generated in emerging markets (56% in 2011). Working 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. Our portfolio includes some of the world's best known brands including Knorr, Hellmann's, Lipton, Dove, Vaseline, Persil, Cif, Radox, Sure and Lifebuoy. Our ambition is to double the size of our business, whilst reducing our overall environmental impact (including sourcing, consumer use and disposal). We are also committed to doing what we can to improve health, nutrition and hygiene, with a target to help more than a billion people take action to improve their health and well-being, as well as sourcing all our agricultural raw materials sustainably by 2020. All of these goals are itemised in around 50 time-based commitments in our Unilever Sustainable Living Plan. Unilever has led the Food Producers sector in the Dow Jones Sustainability World Indexes for 14 consecutive years and has regained the leadership of the Food and Beverage supersector. We are included in the FTSE4Good Index Series and attained a top environmental score of 5, leading to inclusion in the FTSE4Good Environmental Leaders Europe 40 Index. In 2011 Unilever led the Climate Counts Company Scorecard and were named #1 in the list of Global Corporate Sustainability Leaders in GlobeScan Inc. and SustainAbility Ltd's latest annual survey (2012). Safety is an essential element of a successful and sustainable business. We take our responsibility to protect our consumers, our employees and the environment we live in very seriously.

Safety and Environment

The role of the Safety and Environmental Assurance Centre (SEAC) is to assure the safety and environmental sustainability of Unilever products, and the processes used to manufacture them. SEAC develops and applies the latest science and technology for risk and environmental impact assessment in partnership with leading scientists globally, and shares this expertise worldwide.

Science & technology

We are at the forefront of research into novel non-animal approaches to replace animal testing for assessing consumer safety.

Developing alternative approaches to animal testing

Ensuring Unilever products are safe for our consumers to use.

Consumer safety

Ensuring a safe workplace for Unilever employees.

Occupational safety

Ensuring Unilever's chemicals are safe in the environment.

Environmental safety

Reducing Unilever's environmental impact.

Recommendations

1) If the company has finally decided to cut loose of the permanent staff and hire more and more contractual workers then they must be considered a 100% liability of the company otherwise they would not consider themselves

a part of the team and they must be provided at least some job security so that they could feel themselves committed to the organization. 2) Although the main purpose of factories is profitability and production, but still more emphasis should be done on the social attitudes and behaviors of employees. 3) Proper reward be provided to those who really work hard rather than to those who just sit in their chairs and get reward for the work they never did. 4) There must be some selection criteria for the interns and must have some specific capacity. And every intern should be given the proper project5) UPL-RF must remove their estate because it’s the major source of expense and in all over the world UPL has removed its estates. Only it exits in RF and by removing it HRD can more easily achieve its cost reduction targets.