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UNILEVER PLC. SWOT & PESTLE ANALYSIS

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Unilever Plc.

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Company Overview

Unilever Plc. is an Anglo-Dutch multinational consumer goods company founded in 1930, by the merger of Dutch firm, Margarine Unie and British firm, Lever Brothers. The Company started off in the 1890's with William Hesketh Lever, founder of Lever Brothers, who wanted to make his vision for cleanliness commonplace and penned down his ideas for the Sunlight Soap. Unilever has over 400 brands across food, personal care and household cleaning segments and is co-headquartered in Rotterdam, Netherlands and London, U.K. With a range of over 400 unique brands, on any given day, 2.5 billion people use Unilever products in their daily life. The multinational FMCG, is parent to some of the world's leading, household-name brands like Lipton, Knorr, Dove, Axe, Hellmann's and Omo, Lifebuoy, Sunsilk, Close-up etc. Kantar Worldpanel has hailed Unilever as the company with the largest number of brands in the world. It is the world's 4th largest FMCG based on net sales as of 2017, after Nestle, P&G and PepsiCo. 12 of its brands generate sales of over €1 billion annually. It has around 161,000 employees in more than 190 countries as of 2018.

Unilever's vision has a simple yet clear purpose, "to make sustainable living commonplace. We believe this is the best long-term way for our business to grow." Unilever's USP or unique selling proposition lies in its being one of the oldest FMCG companies in the world having the largest brand portfolio, great brand recall by consumers, contributing immensely to sustainable living.

Business Sector

Fast Moving Consumer Goods (FMCG)

Operating Geography

United Kingdom, Global

Revenue

€53.7 billion – FY ending 31st Dec 2017 (y-o-y growth 2%)

€52.7 billion – FY ending 31st Dec 2016

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SWOT Analysis:

The SWOT analysis for Unilever is presented below:

Strength	Weakness
<ol style="list-style-type: none"> 1. Strong financial performance and strategy 2. Strong popular brands 3. Evolving portfolio and developing channels 4. Substantial strategic investments to drive growth 5. R&D focus and integrated supply chain 	<ol style="list-style-type: none"> 1. Decline in grocery segment 2. Dependence on distributors and retailers
Opportunity	Threat
<ol style="list-style-type: none"> 1. Potential in emerging markets 2. Growing demand for premium and specialized high-end products in skin care segment 	<ol style="list-style-type: none"> 1. Global and regional competitors 2. Private label brands from retailers 3. Divergent global market environment

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Strength

- 1. Strong Financial Performance and Strategy:** Unilever has delivered sustainable high Return on invested capital (ROIC) in the range of 17-19% over the past few years. Its *Free Cash Flow* as percentage of *Core Net Profit* stood at 80% in 2016 and the organization aims to increase it further to 90% by 2019. It declared a healthy dividend of €1.19 in 2015 and the dividend has been growing by 8% since the last five years. The company has also significantly improved upon the working capital and fixed asset efficiency. The investments made over the years in advertising, supply chain and IT are also helping the company in higher savings retention. Unilever also ranked at #147 in the Fortune Global 500 for the year 2016.
- 2. Strong Popular Brands:** Unilever has strong brands across major FMCG segments. It has 13 core brands with sales of €1 billion or above as of 2016. Its Sustainable Living brands like Dove, Lifebuoy and Knorr aim at delivering social and environmental impacts and account for half of the organization's growth.
- 3. Evolving Portfolio and Developing Channels:** Unilever has invested in evolving and diversifying its portfolio of products. The acquisition of Dollar Shave Club, the online men's razor seller which sells blades per months subscription opened the door for Unilever's entry into men's shaving segment which is currently dominated by P&G's Gillette. This also develops and strengthens Unilever's e-commerce channels. The acquisition of Blueair marks Unilever's entry in indoor air purification technology extending its water purification business and strengthens its Home Care portfolio.

In a strategic move to strengthen its presence in the Chinese market, Unilever is using the online channel, Alimama - Alibaba's ad network and marketing services platform. Alimama's Taobao Affiliate Network helps position Unilever as a unique seller, advertiser and sponsor in the online market.
- 4. Substantial Strategic Investments to Drive Growth:** Unilever has made substantial business investments in the past seven years in strategic areas. Unilever has invested an additional +€10 bn cumulative (2009-16) in additional brand & marketing and an additional +€5 bn cumulative (2009-16) in Supply Chain and Information Technology. Merger & Acquisitions is another key area where

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Unilever has invested substantially, with +€10 bn cumulative (2009-16) spending. These investments have resulted in considerable growth and Unilever will continue to drive growth from these investments backed by additional spending in the coming years.

- 5. R&D Focus and Integrated Supply Chain:** Unilever spends over €1 billion a year on Research and Development in order to build and improve brands through innovation leveraged by science and technology. It has six R&D centers globally with over 6,000 R&D experts. It also recently established a Strategic Science Group which works on long term scientific solutions and complements the R&D division. According to global research and advisory firm Gartner, Unilever's integrated supply chain is one of the best across FMCG companies globally. Unilever has over 300 factories as of 2015 and has significantly invested in efficiency and eco-production. Its UltraLogistik network helps it to reduce costs and emissions impact of its supply chain on the environment. UltraLogistik operations has helped Unilever reduce CO₂ emissions by around 21% in more than 14 countries over the last 5 years.

Weakness

- 1. Decline in Grocery Segment:** Unilever's share in the grocery segment has significantly declined over the past decade. The grocery segment performed poorly in the competitive European market facing a steep decline from 25% in 2008 to 12% in 2015. One of the primary reasons for this slide was the gradual divestment of major food brands by the company and the other reason being the grocery segment becoming highly commoditized. In the Asian and African markets, Unilever is facing tough competition from mass-market and local players. Also with global grocery sales moving online, Unilever has not been able to preserve its share in the grocery segment.
- 2. Dependence on Distributors and Retailers:** Unilever does not directly sell its products except for some specific brands in beauty and skin care and men's grooming portal - Dollar Shave Club. It majorly depends on distributors and retailers who are part of its supply chain and help in reaching the products to the end-consumer. Any conflict with the distributors or retailers can impact its sales in the market. A recent instance of the above was the dispute with UK retailer Tesco in October 2016 over the pricing of some brands including Marmite and Ben & Jerry's. Tesco had apparently

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refused to hike up the prices of Unilever's brands by 10% as directed by the company. This had affected supply of Unilever's products in Tesco's stores across UK and Irish markets.

Opportunity

- 1. Potential in Emerging Markets:** Emerging markets are the key to growth for FMCG companies like Unilever. Unilever has set itself a target of doubling its sales by 2020 and this can be achieved by aggressive expansion in markets across the Asian subcontinent, ASEAN region, Africa and Latin America. Developed markets are expected to deliver a growth of only 1-2% over the next five years due to market saturation. Unilever currently (as of 2018) generates 58% of the sales from developing markets which it aims to escalate to 70% of its total sales by 2020.
- 2. Growing Demand for Premium and Specialized High-End Products in Skin Care Segment:** There is a strong growing demand for premium skin care products across markets. The global skin care market was US \$121 billion as of 2016 and is expected to reach US \$196 billion by 2024 according to Grand View Research, Inc. and the premium segment occupies about 30% which comes to US \$37 billion in 2016. In developed markets such as North America and Western Europe despite slowdown in consumer spending, there is a growing demand for premium products in the mass products segments. In developing and emerging markets like the Indian-subcontinent and Middle East, demand for premium personal care products is set to increase according to Trefis Research as there is growing disposable income and greater awareness. Further the natural skin care segment is expected to grow by a CAGR of 10% through 2019. Thus premium skin and personal care segment has good potential for Unilever, a segment in which it already has a strong footprint.

Threat

- 1. Global and Regional Competitors:** Unilever faces tough competition across its business segments from global and regional competitors. Consumer product giants like Colgate Palmolive and P&G are pursuing aggressive growth and expansion strategies in personal care segments and pose a direct challenge to Unilever. Reckitt Benckiser is also a major competitor in Asian and European markets.

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- 2. Private Label Brands from Retailers:** Private label brands from top retailers pose direct threat to FMCG companies like Unilever who are majorly dependent on these retailers for sale of their products. Costco uses Kirkland Signature as its private brand whilst Walmart's own house brands include Sam's Choice, Equate and Great Value that directly compete against Unilever's products. Online retailer Amazon has come up with its own range of private brands like Amazon Elements and Bama Bear in personal and baby care segment and Happy Belly and Wickedly Prime in the foods segment which have gained popularity over the past year.
- 3. Divergent Global Market Environment:** Unilever is facing a divergent environment across its major markets. In India, one of Unilever's major markets, the demonetization initiative announced by the government in November 2016, is expected to have a considerable lasting impact on the business and economy and may result in a slowdown, affecting sales of its subsidiary, Hindustan Unilever. Further, the introduction of Goods and Services Tax (GST) in later part of 2017, is expected to change the market dynamics. In Latin Americas (LATAM region), there has been significant cost rise due to the impact of currency devaluations. Volatile political and economic climate in major markets like Russia and Turkey also pose significant threats to Unilever. Other Asian markets, particularly the South-East Asia is experiencing subdued pricing, impacting margins of FMCG companies.

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PESTLE Analysis:

The PESTLE analysis for Unilever is presented below:

Political	Economic
<ol style="list-style-type: none"> 1. Trade protectionist policies of Trump administration 	<ol style="list-style-type: none"> 1. Conflict with distributors over product price rise due to currency impact of Brexit 2. Sharp fluctuations in currency markets
Social	Technological
<ol style="list-style-type: none"> 1. Growing demand for premium skin-care products in emerging markets 	<ol style="list-style-type: none"> 1. Implementation of integrated supply chain with Ultralogistik 2. Leveraging 'People Data Centres' to understand consumer behaviour
Legal	Environmental
<ol style="list-style-type: none"> 1. Regulatory approvals delay decision making and business growth 2. Change in tax laws and regulations 	<ol style="list-style-type: none"> 1. Actionable steps to address climate change within the value chain

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Political

- 1. Trade protectionist policies of Trump administration:** Increased protectionism policies impacts global trade and more often than not these are influenced by political factors and issues. Unilever being a European company may find tough market conditions for operating in the U.S as new regulations are likely to be introduced impacting foreign companies. Trump administration has already withdrawn from Trans-Pacific Partnership trade agreement and is expected to bring many more administrative changes to trade deals and partnerships.

Economic

- 1. Conflict with distributors over product price rise due to currency impact of Brexit:** Post-Brexit the GBP depreciated significantly which resulted in Unilever increasing its product prices in UK markets. Unilever majorly depends on distributors and retailers who are part of its supply chain helping them reach its products to the end-consumer. Any conflict with the distributors or retailers can impact its sales in the market. A recent instance of the above was the dispute with UK retailer Tesco in October 2016 over the pricing of some brands including Marmite and Ben & Jerry's due to the currency impact. Tesco had apparently refused to hike up the prices of Unilever's brands by 10% as directed by the company. This had affected supply of Unilever's products across Tesco's stores across UK and Irish markets.
- 2. Sharp fluctuations in currency markets:** The increased political and economic certainty globally has caused sharp fluctuations in the currency market. Unilever consolidates and reports its financial statements in Euros, it is subject to translation risks of its assets and earnings of foreign subsidiaries. The UK's decision to leave EU caused major depreciation of the GBP in 2016, which impacted Unilever's UK market sales. These fluctuations cannot always be passed on to the end-consumer through price increases thus impacting the company's margins.

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Social

- 1. Growing demand for premium skin-care products in emerging markets:** Disposable consumer income is increasing across developing and emerging markets. These markets also have a high percentage of young population which is also leading to expansion in the middle class segment. In developing and emerging markets like the Indian-subcontinent and Middle East, demand for premium personal care products is set to increase according to Trefis Research as there is growing disposable income and greater awareness. Further the natural skin care segment is expected to grow by a CAGR of 10% through 2019. Thus premium skin and personal care segment has good potential for Unilever, a segment in which it already has a strong footprint.

Technological

- 1. Implementation of integrated supply chain with Ultralogistik:** Unilever's integrated supply chain is one of the best across FMCG companies globally. Unilever has over 300 factories as of 2015 and has significantly invested in efficiency and eco-production. Its UltraLogistik network helps it to reduce costs and emissions impact of its supply chain on the environment. It also gives the company benefits of economies of scale, gives real time visibility and reporting and helps to implement best practices across a region.
- 2. Leveraging 'People Data Centres' to understand consumer behaviour:** Consumer and Market Insights (CMI) group division has created a data analytics unit, "People Data Centres" which analyzes data from social media, consumer care lines and digital marketing platforms which are turned into actionable business decisions that help in sales and revenue growth. Unilever also maps consumer purchase journeys in digital channels which helps in better segmentation and understanding online behavioral patterns.

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Legal

- 1. Change in tax laws and regulations:** Changes to tax laws and regulations can have a major impact on Unilever's business. This area is particularly in focus after major political and administrative changes globally, mainly the Brexit referendum and election of Donald Trump as U.S. President. Tax laws and their interpretations are frequently changing which may lead Unilever at the risk of unexpected tax exposures.
- 2. Amnesty allegations regarding child labor:** Unilever along with other companies is facing allegations from Amnesty International regarding usage of child labor in palm oil which is used by the company. In 2016, Amnesty reported, that it has traced the palm oil used by Unilever as produced by Wilmar International. The allegations further substantiate that children do back-breaking physical labor on Wilmar's refineries in Indonesia. The allegations if proved, may cause legal issues for Unilever in many markets and also lead to consumer boycott.

Environmental

- 1. Actionable steps to address climate change within the value chain:** Unilever aims to address sustainability in each of its operations and has integrated addressing climate change initiatives within its value chain. The company has committed to being carbon positive in its operations by 2030 with complete usage of electricity from renewable sources. Also Unilever aims to eliminate usage of coal from its energy mix by 2020. Amongst other initiatives Unilever is addressing consumer disposal and recycling, deforestation, water recycling and sustainable packaging of products. Unilever is one of the few organizations globally which has been named a leader of the Household & Personal Products Industry Group in the Dow Jones Sustainability Index (DJSI).

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Unilever Plc. SWOT & PESTLE analysis has been conducted and reviewed by senior analysts from Barakaat Consulting.

The Unilever SWOT & PESTLE Sample Analysis report was published in August 2018. The information and analysis is relevant to the data available before the publishing date.

Data in the actual 'Complete Reports' (available for purchase on the website) are updated on a periodic basis.

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Methodology

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- Company official portal
- Media releases which include journals, published literature, press releases, market information that cover industry news, country news, and customer intentions.
- Investors presentations
- An aggregation of the experiences, judgments, and insights of our analysts who go through volumes of data to extract meaningful information to create these analytical reports which equip our clients to take their research forward or make business decisions with acuity.

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