

## In the spotlight – Paul Polman's first year at Unilever

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A year on under the leadership of Paul Polman and Anglo-Dutch consumer giant Unilever has a lot to be happy about.

The ex-CFO of Nestlé has had what some in the investment community are calling “an incredibly galvanising impact” on the company since his appointment as chief executive in January last year.

Polman's appointment came as something of a surprise 12 months ago as he was the first outsider to be appointed to lead Unilever in the company's 78-year history. Nonetheless, with Procter & Gamble and Nestle on his CV, Polman was tipped as having the right experience to continue the work of predecessor and Unilever veteran Patrick Cescau.



[view image](#)

*And despite Unilever today seeing its shares fall after the company posted a fall in profits for 2009, independent analyst James Amoroso believes the market has “fallen in love” with the Dutchman.*

*“The company is much stronger than it was five years ago so I’m pretty positive for the long-term prospects for the company. I’m just shaking my head and rolling my eyes that the market wanted more.*

*“There were some very fast and very good changes he made. Because Unilever had overdone the price hikes relative to the competition before, he corrected that and then it sort of got Unilever back in line,” Amoroso tells just-food. Unilever, Amoroso adds, is now “back to the normal competitive tug of war with Nestle, P&G and whoever else is out there as a competitor”.*

Polman has had a challenging 12 months. Under Cescau, Unilever had started a company-wide restructuring process but more needed to be done. In 2009, Unilever decided to close factories in the US, cut jobs in France and streamline its business in Central Europe, with the work started as the Flora-to-Knorr owner faced retail customers demanding lower prices.

As he published Unilever's 2009 results today, Polman said these changes and more had made the group a more “agile” business and one that had a “stronger performance culture”.

Investec analyst Martin Deboo believes Polman should be awarded with a “ten out of ten” for his performance in the first year.

“You would have to say that he’s got the organisation moving extremely quickly and while there are challenges, marking him as an individual, you’d have to give him ten out of ten,” Deboo insists.

However, he believes that Polman’s concern should be the firm’s performance in Europe, which is heavily related to Unilever’s food performance.

Polman conceded this morning that the company still has “a long way to go” in Western Europe as annual sales volumes in the region again fell in 2009.

Volumes in Western Europe dipped 0.1% last year, with Unilever seeing volumes across the group rise 2.3% in 2009 and accelerate to climb 5% in the fourth quarter of the year.

Unilever's restructuring fell heavily on the region in 2009 but, even after costs linked to those programmes were stripped out, margins and operating profit from Western Europe was lower in 2009 than the year before.

Deboo says the fall in volumes in Western Europe came despite more marketing support. "When you imagine that prices in Europe were down by 4%, it appears they put a lot of additional marketing investment in Europe in the fourth quarter. That's a disappointing return on investment for them," he explains.

"Can Polman get Europe performing better? The acid test of all the things he said about winning market places will be whether he can make that happen in Europe, which is the toughest hurdle."

Jon Cox, an analyst at Kepler Capital Markets in Zurich, says Unilever's "aggressive" pricing strategy during the first half of 2009 surprised its competitors, which then hit back later in the year.

"It's a tough situation in Europe and also a competitive environment, which has probably intensified," Cox says. "Unilever went through the first part of the year and, basically, they caught competitors with their pants down and surprised them at how aggressive they were on pricing and advertising and promotion." Now, Cox says, Unilever's competitors have "caught up".

Polman's first 12 months was a year in which Unilever's household and personal care (HPC) business, which includes brands like Dove soap and Lynx deodorants, outperformed its food portfolio. Profits were up, sales grew and Polman looked to build on that part of the business with the acquisition of Sara Lee's global body care and European detergents businesses.

Unilever's savoury, dressings and spreads business underlying sales dipped and margins fell, although the company did sell off certain assets. Nonetheless, Deboo claims the outlook for Unilever's food business in 2010 looks "quite difficult".

"[Unilever] always loves to talk about Knorr, Dove and Lynx, but a lot of their food business in Europe is in the spreads category," Deboo explains.

"This is a very difficult category at the best of times and made even more so by the fact that it has extremely dramatic price dynamics. Unilever are up against some strange competitors like Lactalis, so it's not a good old fashioned fight like P&G and Nestle, it's a different sort of industry."

*Amoroso argues that food is a "tougher area" than HPC for Unilever and has always been a "slower growth element" for the business.*

*The analyst says Unilever has found it easier to build its more focused HPC business in emerging markets, while, comparatively, the company faces a number of strong rivals in food.*

*"There are a number of categories where they are being faced with fairly competent competitors. When you look at the culinary area, you've got Nestle with the Maggi brand against Knorr. It's historically a tougher area. HPC has done a lot of focusing down and are left with categories that are pretty strong. They have been historically able to leverage that business more easily into emerging markets where the growth is," Amoroso says.*

*As far as Amoroso is concerned, there are no more strategic initiatives ahead for Polman. The Unilever boss, he says, has so far made the right decisions and has the "ability" to take the business forward - and faster.*

*"He's reshuffled management round. The team is there, the structures are there and it's all about improving efficiencies. Now it's the rather less sexy part of the process; it's basically just getting on with the job," Amoroso says.*

*"The strategies are right and I'm sure Polman has got the ability to make sure that everything is done that needs to be done, and that it's done much quicker. The company is much stronger than it was five years ago so I'm pretty positive for the long-term prospects for the company."*

Polman, who was a candidate for the top job at Nestle before current CEO Paul Bulcke took the helm, had much more to get his teeth into at Unilever than he would at the Swiss giant.

Cox believes Polman has already stamped his mark on the organisation but faces challenges ahead.

"The key thing is volume-driven growth and doing that through innovation and customer service, so hats off to him, I think he's done a great job," Cox says.

"However, the job is only half done. This is going to make or break his career I'm sure of it."

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