



## Polman pushes the volume button in Unilever upturn

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**\* Unilever Q2 sales volumes turn positive**

**\* Polman's policy starts to bear fruit**

**\* Unilever gains as P&G suffers pain**

By David Jones

LONDON, Aug 6 (Reuters) - Chief Executive Paul Polman's plans to ignite sales volume growth at Unilever has worked a treat, and he looks a good bet to cope with the tricky part of keeping the recovery going even in a prolonged downturn.

Polman took over at the perennially underperforming consumer goods group in January aiming to revive sales volumes rather than relying on less sustainable price rises to drive growth, and has delivered a rapid turnaround in volumes after two quarters of decline.

Anglo-Dutch Unilever Plc/NV reported second-quarter volume growth of 2 percent on Thursday, well above the most optimistic forecasts as it relied less on price rises to achieve its underlying sales growth of 4.1 percent.

The 2-percent second quarter rise came as U.S. arch-rival Procter & Gamble showed a 4 percent fall in the same quarter prompting analysts to believe Polman may have got it just about right with his recipe for recovery.

"Few can claim such a turnaround and performance in the context of extremely challenging times," said analyst Harold Thompson at Deutsche Bank.

Polman trimmed some prices, focused on fewer new products backed by hefty marketing spend to revive volumes, and although profit margins did suffer he was confident his strategy would protect profit margins over the full year.

New products such as Magnum Temptation ice creams, Small & Mighty liquid detergents and Ponds anti-ageing creams helped revive growth, and Polman plans more as he anticipates little help from the recovery in world economies for this year.

"Growth is solid and of good quality as it is mainly driven by improved execution and stronger innovation backed up by higher advertising & promotional spending," Polman told investors.

He highlighted that volume growth is widespread, across categories and countries, with share trends showing positive momentum in nearly 60 percent of its group turnover.

Unilever Plc shares in London rose 6.8 percent to 16.50 pounds by 1352 GMT reflecting the revival in sales volume growth.

The shares currently trade on 15 times 2009 forecast earnings, similar to its two bigger consumer goods rivals P&G and Nestle, and also French food group Danone.

## INVESTORS LIKE VOLUMES

Analysts view volume growth in consumer goods more favourably than price growth because focusing on volumes is seen as more sustainable, and results in better quality results.

"Unilever certainly deserves credit for restoring volume growth more strongly than we had expected," said analyst Graham Jones at brokers Panmure Gordon.

*Independent analyst James Amoroso added, "You have to put Q2 in the context of Q4 2008 when Unilever had clearly overcooked the price increases. As promised, Polman has addressed this short-term issue and returned Unilever to competitiveness".*

Polman signalled the peak in commodity prices at the half year saying Unilever would benefit from lower comparative prices in the second half, which analysts say offers scope for further price cuts or to plough savings back into more marketing.

UBS's Alan Erskine points out Unilever enjoyed warm weather in June to boost its European ice-cream sale and also cut home and personal care product prices quicker than P&G.

The Unilever performance is being compared favourably with Danone, which late last month posted second quarter sales volumes up 3.6 percent but this came largely from price cuts with overall quarterly sales just up 2.2 percent.

Analysts question how long a revival at Danone can be based on price cutting if dairy costs for its core Activia and Actimel yoghurt business rebound in 2010, and add Unilever offers better balance with its 4.1-percent second quarter sales growth split roughly equally between volume and price.

Nestle reports first-half results next week on Aug. 12.

(Reporting by David Jones; Editing by Sitaraman Shankar)