

## Unilever: Purpose and Long-Term Value

Unilever is a company that houses 400 brands. A major player in FMCG (fast moving consumer goods), Unilever is known for bringing a sense of purpose to its business.

### A Brief History of Unilever

*“Unilever is a business founded on a sense of purpose, and our unique heritage still shapes the way we do business today.”<sup>i</sup>*

In 1884, the British entrepreneur William Lever began producing a new soap. He branded the soap as Sunlight and adopted in-home advertising to market it.

Success led Lever to build a village named Port Sunlight in Liverpool, an English industrial port city. The village gave Lever’s workers good quality housing. In 1894, Lever launched Lifebuoy soap to kill germs and improve public health. Sunlight Flakes followed in 1899, seeking to improve clothes cleaning<sup>ii</sup>, a task often done by women at the time. The flakes promised to make the hard physical labor of cleaning easier<sup>iii</sup>.

During the First World War, the Lever Brother company promised to re-employ British soldiers who had been called up and paid their families an allowance during their service. In 1926, Lifebuoy introduced the Clean Hands campaign to promote health and hygiene.

Unilever, the company, was formed in 1930 by the merger of Lever Brothers and the Dutch producer Margarine Unie. (Dutch merchants had built a successful margarine business using a technological innovation, hydrogenation, which allowed vegetable oil to harden—meaning that their spreads did not rely on animal fat.) In 1940, Lifebuoy provided mobile washing facilities to Londoners hard hit by German bombing (the Blitz)<sup>iv</sup>.

Continuing with their marketing innovations, in 1969 Unilever created the first UK color advertisement for its Birds Eye frozen peas. It went on to acquire Lipton tea in 1971<sup>v</sup> and PG Tips tea in 1984. In the US, it added Calvin Klein Cosmetics Company in 1989 and Breyers ice cream in 1993. In 1996, Unilever's India subsidiaries merged, creating India's largest private sector company.<sup>vi</sup>

This period saw renewed attention to Unilever's social purpose. In 1995, the company decided to remove trans fats (a product of the hydrogenation process described earlier) from Unilever products due to health concerns. In 1996, Unilever worked with the World Wildlife Fund (WWF) to commit to sustainable fishing, and in 2002, the Lifebuoy brand launched a hygiene education program in India. In 2004, Unilever helped found the Roundtable on Sustainable Palm Oil (RSPO)<sup>vii</sup>.

## **Unilever's House of Brands**

*We are driven by our purpose: to make sustainable living commonplace.*<sup>viii</sup>

By the 21st Century, Unilever had built a massive portfolio of brands connected by international sourcing and distribution networks. It was the epitome of the "house of brands" strategy, where a company holds several brands that are marketed independently of the holding company. (Many consumers know Unilever's brands but not that Unilever owns them). Other major adopters of the house of brands strategy are P&G (Tide, Tampax, Charmin) and Newell (Rubbermaid, Sharpie, Crock Pot). This contrasts with a branded house strategy, where the company branding is obvious (such as Apple).<sup>ix</sup>

Unilever has had a number of quite distinct brands under its control, which comes with benefits and challenges. The company gained praise for its Dove Campaign for Real Beauty, launched in 2004, which aimed to remove the anxiety around beauty concerns. At the same time, it produced "sexist" ads for its Axe brand aimed at younger men. By 2016, it resolved to remove sexist advertising for all of its brands<sup>x</sup>.

## Unilever Financial Reporting

*Expenditure to support development of internally produced intangible assets is recognised in profit or loss as incurred.<sup>xi</sup>*

Branding is, and always has been, central to Unilever’s strategy. It has spent heavily both on building brands through marketing and on acquiring brands created outside the company.

Whenever a brand is internally generated or additional funds are spent developing an acquired brand (e.g., through the firm’s marketing efforts), this is classed as an expense according to financial accounting rules. (“Financial accounting” deals with external reporting—reporting to investors and creditors. “Managerial accounting” deals with internal reporting—creating reports for managers to help them make better decisions.) Classifying these investments as an expense (i.e., “recognized in profit or loss as incurred”) means that Unilever’s financial statements showed its brand-building marketing activity as a loss in the given year. Some argued that this was a disincentive to long-term investment, so Paul Polman, a former CEO, abolished quarterly reporting to help with long-term focus.

Another way to own a brand is to purchase it, typically as part of the purchase of a company. There is some flexibility about how to show such purchased brands. Accounting rules differ across the world, but when a company is bought its assets are added to the accounts of the acquiring company. Typically, the price paid for a company is greatly in excess of what the owners (shareholders) own (known as their “equity”) according to the financial accounts of the firm being bought. The excess of purchase price less the recorded assets purchased may be allocated to specific asset categories, such as an asset created for the brand acquired, or the excess amount put to “goodwill.” Goodwill is a catch-all bucket for things of value that aren’t individually listed. See Table 1 for an example of how a firm bought for \$100 million might be accounted for.

Table 1. Example: Accounting for Purchase of a Firm with Valuable Brands

Purchase Price Paid for Firm		\$100 million
Assets Recorded on Accounts of Bought Firm		\$30 million
Of which Value of Internally Generated Brand		\$0
New Entries in Accounts of Purchasing Firm		
	Recording Assets Separately	Creating Goodwill
Assets Recorded	\$30 million	\$30 million
Brand 1	\$50 million	
Brand 2	\$20 million	
Goodwill		\$70 million
Purchase Price Paid	\$100 million	\$100 million

The accounts of the Unilever Group, which includes the various companies owned by Unilever around the world, shows an notable amount of intangible assets. This is broken down into two types.

- *Indefinite life intangibles*, often trademarks and brands which could theoretically retain their value indefinitely. These are only reduced if the year-end assessment determines that they lost value. Such a loss of value is called impairment. Unilever had no impairment in 2021.
- *Finite life intangibles*, which are amortized (reduced by a regular amount each year until they eventually reach zero value). Such finite life assets include patents and know-how.

A simplified version of the Unilever Group's balance sheet is shown below, including the group's assets, liabilities (what it owes), and equity (Assets-Liabilities = Equity).

Table 2. Simplified Balance Sheet of Unilever Group<sup>xii</sup>

	2021 (€ million)	2020 (€ million)
Goodwill	20,330	18,942
Intangible Assets	18,261	15,999
Property, Plant, and Equipment	10,347	10,558
Other Non Current Assets	8,756	6,003
Total Non Current Assets	57,694	51,502
Current Assets	17,401	16,157
<b>Total Assets</b>	<b>75,095</b>	<b>67,659</b>

<i>Total Liabilities</i>	<i>55,349</i>	<i>50,004</i>
<i>Total Equity (what shareholders own)</i>	<i>19,746</i>	<i>17,655</i>
<b>Total Liabilities Plus Equity</b>	<b>75,095</b>	<b>67,659</b>

## Acquisitions and Brands

The Unilever Global website lists twelve brands<sup>xiii</sup> alongside their tag lines. The rest of the companies brands can be seen by clicking “read more.” The featured brands are:

- Ben & Jerry’s—*Peace, love and ice cream*
- Comfort—*Long Live Clothes*
- Domestos—*To win the war against unsafe sanitation and poor hygiene*
- Dove—*Our mission is to make a positive experience of beauty accessible to all women*
- Hellman’s—*We’re on the side of food*
- Knorr—*Reinventing Food for Humanity*
- Lifebuoy—*Help parents ensure their kids fall ill less often*
- Magnum—*True to pleasure*
- OMO—*Dirt Is Good!*
- Rexona—*It won't let you down*
- Seventh Generation—*To nurture home, people, and planet - for this generation, and the next seven generations to come*
- Sunsilk—*Opening up possibilities for girls everywhere*

In 2021, Unilever acquired Paula’s Choice, a prestige skincare company, for €1.8 billion<sup>xiv</sup>. Most of the value was deemed to be for the brand of Paula’s Choice, but this was not allowed to be accounted for in Paula’s Choice accounts prior to the acquisition. The acquired skincare company was committed to responsible business practices. Indeed, Paula’s choice had partnered with Terracycle to allow their products to be 100% recyclable. (Customers could create a profile on the Paula’s Choice website, print a label, and send the used bottles to Terracycle for recycling<sup>xv</sup>).

Discussing the possible financial benefits of the Unilever Sustainable Living Plan and the firm’s commitment to sustainability, Paul Polman, the former CEO who created the plan, noted:

*“Unilever has...thrived in part by acquiring fast-growing, purpose-led businesses that would only sell to Unilever because of its track record.”<sup>xvi</sup>*

Indefinite-life intangible assets described on the Unilever Group balance sheet were:

*... five existing brands that have a significant carrying value: Horlicks €2,898 million, Knorr €1,803 million, Paula's Choice €1,660 million, Carver Korea €1,452 million, and Hellmann's €1,196 million<sup>xvii</sup>*

## **Market Capitalization of Unilever**

At the end of 2021, the market capitalization of Unilever PLC, the UK arm of Unilever, was \$136.65 billion<sup>xviii</sup>, or about €120 billion. This number represented what it would cost to buy the company at market prices. You can think of it as a rough estimate of what Unilever's shareholders owned according to the financial market's assessment of the value of the firm.

## **Challenges of Being Purpose Driven**

Being purpose driven has given Unilever a distinctive positioning. Unilever stands for something. This can help with hiring, sales, and supplier relations. Still, being purpose-driven and aspiring to do good beyond just bringing money to shareholders, is not without challenges.

Unilever was able to acquire Ben and Jerry's ice cream precisely because it was purpose driven. The founders, Ben Cohen and Jerry Greenfield, trusted Unilever to maintain the campaigning aspect of the brand. Despite being a wholly owned subsidiary of Unilever, Ben and Jerry's ice cream has an independent board and sets strategy independently of Unilever. This unusual arrangement has mostly worked very well. Ben and Jerry's has thrived while maintaining its purpose. It became a B Corporation and remains committed to delivering widespread benefits.

However, challenges have arisen from different views of what makes a company purposeful. Ben and Jerry's decided to stop selling its ice cream in the Israeli Occupied West Bank settlements in protest at Israel's actions there, but the local Israeli distributor ignored this and continued to sell ice cream in the territories. Unilever sold the rights to the Israeli distributor in the hope of somewhat distancing the company from the controversial issue. Ben & Jerry's independent board took the usual, and ultimately unsuccessful, step of going to court to prevent its parent company from the sale. Ice cream remained being sold in a way that Ben & Jerry's felt did not fit with the company values, but Unilever was not actively doing the selling<sup>xix</sup>.

Other critics have argued that Unilever has focused too much on purpose and lost sight of making money. A major shareholder sought for a re-balance towards profits.

*“A company which feels it has to define the purpose of Hellmann's mayonnaise has in our view clearly lost the plot,” Terry Smith<sup>xx</sup>*

This criticism has seemed influential alongside Unilever's failed takeover of GlaxoSmithKline's consumer health unit and weaker performance than rivals such as Nestle. In September 2022, the company announced that Alan Jope, the Chief Executive, would leave his post after five years at the end of 2023<sup>xxi</sup>.

## Endnotes

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<sup>i</sup> Unilever, “History & archives”, <https://www.unilever.com/our-company/our-history-and-archives/>, accessed Sept 27, 2022

<sup>ii</sup> Unilever, “1800s - Introducing our founders”, <https://www.unilever.com/our-company/our-history-and-archives/1800s/>, accessed Sept 27, 2022

<sup>iii</sup> Digital History, “Housework in Late 19th Century America”, (2021), [https://www.digitalhistory.uh.edu/topic\\_display.cfm?tcid=93](https://www.digitalhistory.uh.edu/topic_display.cfm?tcid=93), accessed Sept 27, 2022

<sup>iv</sup> Unilever, “1900 – 1950 – Joining forces, Unilever comes to life”, <https://www.unilever.com/our-company/our-history-and-archives/1900-1950/>, accessed Sept 27, 2022

<sup>v</sup> Unilever, “1950 – 1980 – Building our brands”, <https://www.unilever.com/our-company/our-history-and-archives/1950-1980/>, accessed Sept 27, 2022

<sup>vi</sup> Unilever, “1980 – 2010 – A bold change of strategy”, <https://www.unilever.com/our-company/our-history-and-archives/1980-2010/>, accessed Sept 27, 2022

<sup>vii</sup> Unilever, “1980 – 2010 – A bold change of strategy”, <https://www.unilever.com/our-company/our-history-and-archives/1980-2010/>, accessed Sept 27, 2022

<sup>viii</sup> Unilever, “Unilever at a Glance”, <https://www.unilever.com/our-company/at-a-glance/>, accessed Sept 27, 2022

<sup>ix</sup> Ideas, “Branded House or House of Brands?”, <https://www.ideasbig.com/branded-house-house-brands/>, accessed Sept 28, 2022

<sup>x</sup> Zeba Blay, Huffington Post, “Axe And Dove Parent Company Promises No More Sexist Ads After Bleak Report”, 06/23/2016, [https://www.huffpost.com/entry/axe-and-dove-parent-company-promises-no-more-sexist-ads\\_n\\_576bf003e4bob489bboc85c7](https://www.huffpost.com/entry/axe-and-dove-parent-company-promises-no-more-sexist-ads_n_576bf003e4bob489bboc85c7), accessed Sept 27, 2022

<sup>xi</sup> Unilever Annual Report and Accounts 2021, “9. Goodwill and intangible assets”, page 136

<sup>xii</sup> Unilever Annual Report and Accounts 2021, “9. Goodwill and intangible assets”, page 136

<sup>xiii</sup> Unilever, Household Names, <https://www.unilever.com/brands/>, accessed October 3, 2022

<sup>xiv</sup> Unilever Annual Report and Accounts 2021, “9. Goodwill and intangible assets”, page 136

<sup>xv</sup> Paula’s Choice, “100% Recyclable Through Terracycle”, <https://www.paulaschoice.com/who-we-are/terracycle>, accessed October 3, 2022

<sup>xvi</sup> Paul Polman and Andrew Winston (2022), Net Positive: How Courageous Companies Thrive By Giving More Than They Take, Harvard Business Review Press, Page 43

<sup>xvii</sup> Unilever Annual Report and Accounts 2021, “9. Goodwill and intangible assets”, page 136. 2020 comparator numbers have been omitted to make the quotation easier to understand.



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<sup>xviii</sup> Market capitalization of Unilever (UL), for 12/31/2021, <https://companiesmarketcap.com/unilever/marketcap/>, accessed October 3, 2022

<sup>xix</sup> Agence France-Presse in New York, The Guardian, “Ben & Jerry’s lose bid to block sale of ice-cream in Israeli West Bank settlements”, 08/22/2022, <https://www.theguardian.com/us-news/2022/aug/22/ben-jerrys-lose-israeli-settlements-palestinian>, accessed Sept 28, 2022

<sup>xx</sup> Judith Evans and Harriet Agnew, FT, “Mayonnaise with ‘purpose’ rebuke shows discontent Unilever is facing”, 01/12/2022, <https://www.ft.com/content/8feb8f98-c6d9-4288-9ce8-9e68be621a60>, accessed Sept 28, 2022

<sup>xxi</sup> Judith Evans, Arash Massoudi and Adrienne Klasa, FT, “Unilever chief Alan Jope to retire next year”, 09/26/2022 <https://www.ft.com/content/e1b361e5-efd8-414a-ba69-e09ddc86c78b>, accessed Sept 28, 2022