4. On what matters: Unilever plc – purpose or performance?

Alexander Pepper

Shareholder primacy, socially responsible business, corporate purpose and sustainability are examined in this case about Unilever's evolving business strategy over the period from 2017, following an attempted takeover by Kraft Heinz Company, to 2024 with the appointment of a new chief executive officer from outside the group.

The case addresses important questions about the views of investors about corporate strategy, whether 'net positive' business outcomes will only be achieved if demanded by consumers, what happens if socially responsible business practices and corporate performance come into conflict, and what responsibility companies have to provide leadership when it comes to sustainability, climate change and socially responsible business.

Guidance on how to write a case analysis can be found in Chapter 1, 'Business cases: what are they, why do we use them and how should you go about doing a case analysis?'.

A teaching note for this case is available to bona fide educators. To request a copy please email a.a.pepper@lse.ac.uk

Introduction

> We concluded that the purpose of business is to solve the problems of people and planet profitably, and not profit from causing problems. We proposed a framework for 21st century business based on corporate purposes; commitments to trustworthiness; and ethical corporate cultures.[1]

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In February 2017, Kraft Heinz Company launched a hostile takeover bid for Unilever, one of the world's largest fast-moving consumer goods companies. The offer was for $50 per share, valuing the company at $143 billion, an 18 per cent premium over Unilever's share price. Kraft Heinz's bid was characterised by some commentators as pitting red-in-tooth-and-claw capitalism against green purposeful business.

Kraft Heinz Company

The American company had form when it came to hostile acquisitions of socially responsible companies. In 2010 Kraft had acquired Cadbury Schweppes in a controversial takeover. Cadbury came from a long tradition of ethical British businesses with roots in the Quaker movement. These included Rowntree's the chocolate manufacturer, Clarks the shoemaker, and Reckitt & Sons, makers and distributors of household products. Following the acquisition of Cadbury, Kraft reneged on a number of its promises, including to stick with Cadbury's commitment to using Fairtrade cocoa beans to produce its chocolate, confirming the suspicions of many UK-based business commentators that the American company was 'only in it for the money'. One journalist described the controversial takeover as 'how one of Britain's best-loved brands went from a force for social good to the worst example of corporate capitalism.'[2]

Kraft was itself to be acquired in 2015 by Brazilian-based 3G Capital, in a deal which had been partly financed by Berkshire Hathaway, the investment company chaired by the iconic American investor Warren Buffett. This mega-merger involved combining 3G's subsidiary H.J. Heinz with Kraft to form Kraft Heinz Company. 3G had a well-established business strategy of generating rapid returns from company acquisitions by cutting costs and improving cash flow using zero-based budgeting. It believed this strategy could be successfully applied to Unilever to enhance shareholder value and accelerate growth prospects.[3]

Unilever

Unilever has a long history. It was created in 1929 through the merger of Margarine Unie, a collection of Dutch companies and the British firm of Lever Brothers. The merger was a climax of a series of amalgamations over many years between companies which were involved in the production of oils and fat – tropical plantations, Arctic whaling, oil mills, refineries, hardening plants, soap and margarine factories, and retail stores.[4] The company's products include baby food, beauty products, bottled water, breakfast cereals, cleaning agents, energy drinks, healthcare, hygiene products, consumer pharmaceuticals, instant coffee, tea, soft drinks and ice cream. These are organised in five brand families: beauty and wellbeing, personal care, home care, nutrition and ice cream. Some of the company's leading brands include Domestos, Dove, Lifebuoy, Lux, Hellman's, Horlicks, Omo, Radiant, Surf, Magnum and

Walls. The iconic ice cream company Ben & Jerry's, famous for its progressive values, was a notable addition to the ice cream division when it was acquired by Unilever in 2000. As part of the deal, Ben & Jerry's was allowed by Unilever to continue to operate semi-independently.

At the time, Unilever, like Royal Dutch Shell – another multinational Anglo-Dutch company – had a very complex corporate structure involving two separate holding companies, Unilever NV based in the Netherlands and Unilever PLC based in London, as well as hundreds of subsidiaries. Many analysts believed, not unreasonably, that this complex corporate structure added significantly to Unilever's cost base.

The Polman era

Unilever's CEO at the time of the Kraft Heinz Company bid was Paul Polman, a Dutch businessman who worked for Proctor & Gamble for 27 years before joining Nestlé in 2006 as chief financial officer. Polman succeeded Patrick Cescau as CEO of Unilever in 2009 and was to continue as chief executive for nearly a decade. Polman was a champion of socially responsible business. Under the headline 'The parable of St Paul', *The Economist* newspaper described his corporate philosophy in the following terms:

> PAUL POLMAN runs Europe's seventh-most valuable company, Unilever, worth $176bn, but he is not a typical big cheese. A Dutchman who once considered becoming a priest, he believes that selling shampoo around the world can be a higher calling and detests the Anglo-Saxon doctrine of shareholder primacy, which holds that a firm's chief purpose is to enrich its owners. Instead Mr Polman preaches that companies should be run 'sustainably' – by investing, paying staff fairly and by making healthy products with as little damage as possible to the environment. This is actually better for profits in the long run, he argues: society and shareholders need not be in conflict.[5]

Polman put sustainability at the centre of Unilever's strategy, launching the 'Unilever Sustainable Living Plan' in 2010. This had goals which included halving the environmental impact of Unilever's products, supporting the health and wellbeing of consumers and suppliers, developing ethical supply chains, and paying a living wage to employees across the world.

The Unilever board rejected Kraft Heinz's bid, arguing that it fundamentally undervalued the Anglo-Dutch company, and saying that they saw 'no merit, either financial or strategic, for Unilever's shareholders.'[6] Investors sided with Unilever and, as a result, Kraft Heinz announced it would not pursue a hostile deal. However, Unilever was forced to announce a series of measures designed to enhance long-term shareholder value as part of its takeover defence. These included improving operating margins from 16.5 per cent to 20 per cent by

2020, repurchasing stock in order to enhance earnings per share, reducing advertising costs, spinning-off a number of underperforming businesses, and selectively seeking earnings-enhancing bolt-on corporate acquisitions.

In 2018, Unilever announced its intention to simplify its corporate structure by merging the two legal entities into a single Dutch company with its headquarters in Rotterdam. However, in October 2018 the plan was abandoned because of objections by institutional shareholders, who were concerned about the tax consequences and the implications of Unilever's shares dropping out of the FTSE 100 index.

In November 2018, Polman announced that he would step down as CEO of Unilever at the end of the year. He has continued to work on sustainability, climate change, and inequality, and is leading proponent of 'net positive' business, the subject of a book co-authored with Andrew Winston, called *Net Positive: How Courageous Companies Thrive By Giving More Than They Take*, published in October 2021.

Unilever after Polman

Polman was succeeded as CEO of Unilever by Alan Jope, an internal continuity candidate. Jope joined Unilever in 1985 as a graduate trainee after a doing a business degree at the University of Edinburgh Business School. He was to continue with Polman's strategic focus on sustainable business, reconfirming that Unilever's corporate purpose was 'to make sustainable living commonplace'.[7]

In November 2020 Jope successfully managed to unify the Unilever group under one parent company, but importantly with the single holding company now based in the UK rather than the Netherlands, thus allaying the concern of institutional shareholders. During that year, Unilever faced turbulent times as a result of the Covid-19 global pandemic, which caused very dramatic falls in sales in food services and the beauty and personal care divisions. Underlying sales growth in 2020 was broadly flat, which many believed represented a good performance in the circumstances, but operating margins fell and were significantly down on the levels that had been achieved in 2018.

In 2021, Unilever made a bold strategic move, attempting to buy the consumer health arm of GSK for £50bn. Jope believed that this would accelerate the company's presence in a fast-developing market and re-energise Unilever's overall growth prospects. However, shareholders were not persuaded by the strategy behind the plan, and many voiced strong opposition to the size and timing of the deal, which was eventually unsuccessful. One major shareholder, Terry Smith, called the failed bid 'a near death experience', echoing words which Paul Polman had previously used to describe Kraft Heinz's attempt to acquire Unilever in 2017.[8] Smith set out his views on behalf of his investment company, Fundsmith, in a wide-ranging letter which cited Unilever management's 'penchant for corporate gobbledegook'.[9] Smith had previously written, 'Unilever seems to be labouring under the weight of a management which is obsessed with publicly displaying sustainability credentials at the expense of focusing on the fundamentals of the business.'[10]

The views of Smith and other investors were the result of their analysis of Unilever's historical performance in comparison with its global peers – see the Exhibits section for more details.

Jope was to retire as chief executive at the end of 2023, following investor discontent over the misconceived bid for GSK's consumer pharmaceutical business and the company's perceived lacklustre financial performance. His replacement, Hein Schumacher, had also begun his career as a graduate trainee with Unilever, but subsequently worked for H.J. Heinz for over a decade. He had led the successful turnaround of Kraft Heinz's AsiaPacific business, before becoming CEO of Royal FrieslandCampina, a Dutch multinational dairy cooperative, in 2018.

In October 2023, Schumacher set out his new strategy for Unilever, focusing on faster growth, increased productivity and building a performance culture. He said that the global consumer group's results were not matching its potential, as he announced a major overhaul of the group's leadership team. While Unilever's new CEO believed that for some brands, purpose was central to the marketing and positioning to consumers, this was not true for others and had become an 'unwelcome distraction'. He added that the time and investment the company had put into sustainability had had a negative impact on its financial performance.[11]

In March 2024, Unilever announced that it was to demerge its ice cream business and cut 7500 jobs. The company said its productivity programme would deliver savings of about €800mn over the next three years, 'more than offsetting operational dis-synergies' from the separation of ice cream.[12] This appeared to be the first step in Schumacher's drive to turn around the financial performance of the business.

Preparing the case

In preparing the case analysis you might like to consider three specific questions in particular:

1. How important are the views of investors when it comes to questions about corporate strategy?
2. What do you think about Hein Schumacher's comment that, while in some cases purpose is central to product marketing and positioning with consumers, this is not true for all brands? Will 'net positive' only be achieved if demanded by consumers?
3. If socially responsible business practices and corporate performance come into conflict, is it inevitable that socially responsible business practices will give way? What responsibility do companies have to provide leadership when it comes to sustainability, climate change and socially responsible business?

Further reading

Polman, P., and Winston, A. (2022) *Net Positive – How Courageous Companies Thrive By Giving More Than They Take*. Boston, MA: Harvard Business Review Press

Exhibits

Sources for exhibits: Statista, Company annual reports, Morningstar, Macrotrends.

Table 4.1: Comparative financial information

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Unilever										
Worldwide revenue (€ billion)	48.4	53.3	52.7	53.7	51.0	52.0	50.7	52.4	60.1	59.6
Worldwide operating profit (€ billion)	8.0	7.5	7.8	8.9	12.5	8.7	8.3	8.7	10.8	9.8
Operating margin (%)	16.5%	14.1%	14.8%	16.5%	24.6%	16.8%	16.4%	16.6%	17.9%	16.4%
Employee numbers (‘000s)	173	171	169	165	155	150	149	148	138	128
Nestlé										
Worldwide revenue (CHF billion)	91.6	88.8	89.5	89.6	91.4	92.6	84.3	87.1	94.4	93.0
Worldwide operating profit (CHF billion)	14.5	9.1	8.5	7.2	10.1	12.6	12.2	16.9	9.3	11.2
Operating margin (%)	15.8%	10.2%	9.5%	8.0%	11.1%	13.6%	14.5%	19.4%	9.8%	12.1%
Employee numbers (‘000s)	339	335	328	323	308	291	273	276	275	270
Proctor & Gamble										
Worldwide revenue (US$ billion)	74.4	70.7	65.3	65.1	66.8	67.7	71.0	76.1	80.2	82.0
Worldwide operating profit (US$ billion)	13.9	11.0	13.3	13.8	13.4	5.5	15.7	18.0	17.8	18.1
Operating margin (%)	18.7%	15.6%	20.3%	21.2%	20.0%	8.1%	22.1%	23.6%	22.2%	22.1%
Employee numbers (‘000s)	118	110	105	95	92	97	99	101	106	107
Mondelez*										
Worldwide revenue (US$ billion)	34.2	29.6	25.9	25.9	25.9	25.9	26.6	28.7	31.5	36.0
Worldwide operating profit (US$ billion)	3.2	8.9	3.1	3.5	3.3	3.8	3.9	4.7	3.5	5.5
Operating margin (%)	9.5%	30.0%	12.0%	13.4%	12.8%	14.9%	14.5%	16.2%	11.2%	15.3%
Employee numbers (‘000s)	104	99	90	83	80	80	79	79	91	91

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Kraft Heinz Company										
Worldwide revenue (US$ billion)	10.9	18.3	26.3	26.1	26.3	25.0	26.2	26.0	26.5	26.6
Worldwide operating profit (US$ billion)	1.6	2.6	6.1	6.1	(10.2)	3.1	2.1	3.5	3.6	4.6
Operating margin (%)	14.4%	14.4%	23.4%	23.2%	-38.8%	12.3%	8.1%	13.3%	13.7%	17.2%
Employee numbers (‘000s)	43	42	41	39	38	37	38	36	37	36
Exchange rates										
€ /$	1.22	1.09	1.05	1.20	1.15	1.12	1.23	1.13	1.07	1.11
CHF / $	1.01	1.01	0.98	1.03	1.02	1.03	1.11	1.10	1.08	1.19

* Mondelez International, Inc., is a multinational confectionery and snack food business which was spun off from Kraft Foods in 2011 following the acquisition of Cadbury Schweppes.

Table 4.2: Share prices of Unilever and peer group

	Calendar year-end share prices									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Unilever	$39.68	$43.57	$41.14	$59.38	$31.48	$57.39	$60.96	$53.30	$50.28	$48.49
Nestlé	$70.87	$76.05	$70.95	$82.54	$87.86	$109.96	$111.32	$130.61	$120.61	$115.96
P&G	$91.09	$79.41	$84.08	$91.88	$91.92	$124.90	$139.14	$163.58	$151.56	$146.54
Mondelez	$36.33	$44.84	$44.33	$42.80	$40.03	$55.08	$58.07	$66.31	$66.65	$72.43
Kraft Heinz Company	$50.21	$51.25	$63.27	$57.96	$33.46	$26.41	$30.14	$32.56	$38.50	$36.56

Figure 4.1: Comparative share prices on 31 December indexed to 2014

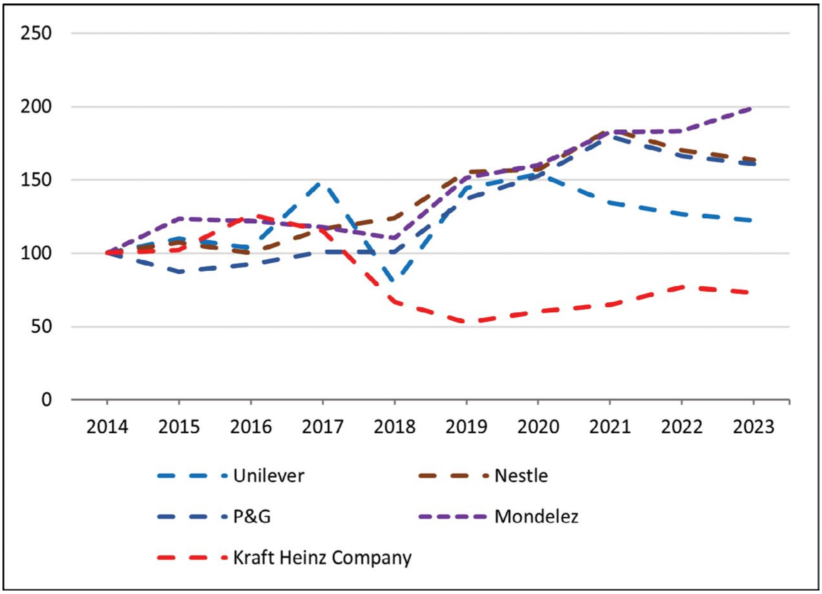
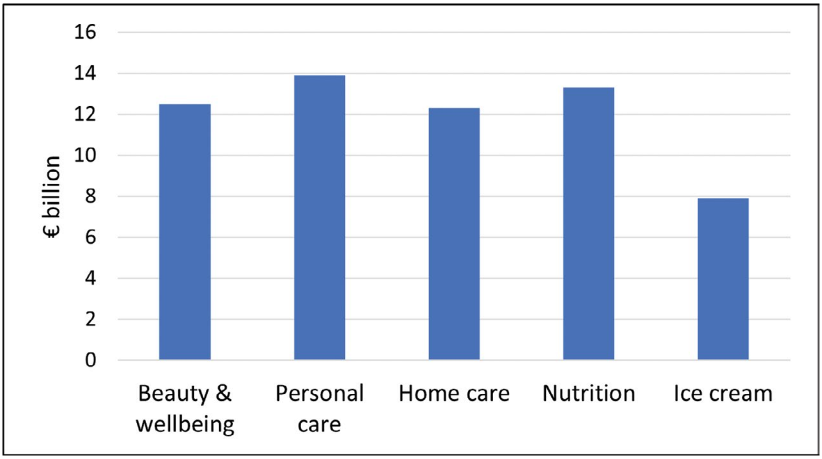


Figure 4.2: Unilever sales segmentation, 2023 (€ billion)



Sources

This case draws on a variety of sources, including two other case studies:

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Other material has been drawn from Unilever's annual report and accounts for years 2017 to 2023 and various newspaper articles.

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[1] The British Academy (2019) 'Principles for Purposeful Business A report by The British Academy', p.8. https://www.thebritishacademy.ac.uk/documents/224/future-of-the-corporation-principles-purposeful-business.pdf

[2] Fearn, Hannah (2016) 'In a final betrayal of the Cadbury brand, Kraft has quietly abandoned its promise to stick with Fairtrade', *The Independent*, 29 November. https://perma.cc/EBY3-97TS

[3] The source of much of the content in the section headed 'Kraft Heinz Corporation' is Harvard Business School case 9-317-127 'Battle for the soul of the corporation: Unilever and the Kraft Heinz Takeover Bid', by William W. George and Amram Migdal.

[4] Wilson, Charles (1954) *The History of Unilever – A Study in Economic Growth & Social Change.* Vols 1 and 2. London: Cassell & Co Ltd.

[5] The Economist (2017) 'The parable of St Paul – Unilever is the world's biggest experiment in corporate do-gooding', *The Economist*, 31 August.

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[9] Agnew, Harriet and Evans, Judith (2022)

[10] Agnew, Harriet (2022) 'Unilever has 'lost the plot' by fixating on sustainability, says Terry Smith', *Financial Times*, 12 January. https://www.ft.com/content/7aa44a9a-7fec-4850-8edb-63feee1b837b

[11] Speed, Madeleine (2023) 'Unilever's new chief says corporate purpose can be 'unwelcome distraction'. *Financial Times*, 26 October. https://www.ft.com/content/72ea5061-914a-4bfc-874f-94163bb10c2f

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