Case Analysis

COMPETING THROUGH SUSTAINABILITY

Introduction

Consumer goods giant Unilever is the result of a 1927 merger between a Dutch butter company and an English soap company that encountered each other in the commodities market due to their common use of palm oil. The companies diversified into each other's product markets becoming competitors before merging to establish Unilever in 1930. Unilever's founding philosophy held that companies can only prosper if they conduct business ethically and responsibly, which was coined: "doing well by doing good."

Unilever gained success through fast-growing local markets during the postwar consumer boom. However, it overdiversified leading to decreased profits and an ensuing stagnancy that lasted throughout the 1990s. In 2004, Unilever issued its first profit warning amidst deteriorating market share.

In 2009, the company brought in its first external CEO, Paul Polman, who committed to doubling revenues while reducing environmental footprint and increasing societal impact. In 2010, Polman introduced a bold sustainability-focused transformational strategy called Unilever Sustainable Living Plan (USLP). The highly measurable plan set three goals to reach by 2020: improve the wellbeing of a billion people, halve its environmental footprint, and enhance life for everyone in its value chain.

Problem Statement

Polman announced 2014 results, which were largely positive. The company grew ahead of slowing worldwide markets, saw internal growth for its fifth consecutive year, and produced an 18% increase in shareholder returns. USLP program results were also strong with 7 of 9 pillars remaining on track and only 7 of 67 metrics being off track.

However, Polman warned of "strong headwinds" created by external factors beyond Unilever's control, such as stalling developed markets and slowing emerging markets. He also pointed out that both pillars that were off-track were linked to consumer use, which can be a complex problem to fix, especially in the global marketplace.

With such complicated uncertainties ahead, it was time to reassess USLP as its core strategy.

Case Analysis

In today's global economy, issues around climate change affect every aspect of business. As McKinsey's sustainability report emphasizes, "the choice for companies today is not if, but *how*, they should manage their sustainability activities." Most companies act in response to sustainability issues, viewing "green" efforts as a costly but necessary evil. The following analysis discusses Polman's bold implementation of the USLP strategy, which aims to instead create shared value.

Situation Analysis

Polman assumed leadership of Unilever in 2009 amidst a global financial crisis. The company's stock prices had declined 35% in the year prior and its key competitor, P&G, had taken control of market share over the past five years. Globally, Unilever had 165k employees, 5 million people in its supply chain, and 2 billion consumers who used a Unilever product daily.

Externally, the UN's 2009 Copenhagen Climate Change Conference recognized that climate change was one of the greatest issues the world faced. This announcement would introduce an onslaught of intense debates and new regulations, significantly impacting how companies across the globe conducted business.

Corporate Social Responsibility

While most executives treated the increasing sustainability regulations as corporate social responsibility (CSR), Polman took a different stance entirely. CSR is mainly reputation-driven with limited connection to business objectives. Approaching something as unyielding as climate change regulations with such a short-term view is unlikely to produce sustainable competitive advantage.

USLP is, in many ways, the antithesis to CSR. In fact, rather than giving oversight of USLP to Unilever's existing CSR office, Polman abolished CSR and created a new role at the Unilever Leadership Executive level which gave its CMO control of both Communications and Sustainability. About this decision, Polman is quoted as saying, "We wanted to signal that sustainability was not about corporate social responsibility as an isolated activity. It was everyone's responsibility."

Creating Shared Value

Unlike CSR, creating shared value (CSV) is fundamental to a company's competitive position and profitability. Porter's view holds that it is created when societal impact is embedded into the core business of a company. His framework argues that economic values for society and those for companies do not have to be mutually exclusive.

Polman's USLP strategy is a clear example of CSV and though risky, was a bold way to lead Unilever out of what he considered an "internally focused and self-serving" culture. USLP was introduced with both broad and specific goals and gave Unilever the new corporate purpose of making "sustainable living commonplace."

USLP follows the 8 steps identified in the management framework of "Leading Change". The sense of urgency was created by the dire condition Unilever was in at Polman's arrival. USLP was a powerful guiding coalition with a clear vision that was communicated broadly. As the case states, within a year, almost all the business world was aware of USLP. Through its intensive communication campaign, Unilever empowered employees to act on the vision. USLP also had clearly defined short-term wins through its 67 metrics. With consistent measurement, USLP changed and institutionalized new approaches regularly.

If successful, the benefits of USLP would be wide-ranging. The company would double revenues while cutting costs, which would increase profits and maximize shareholder value. Consumers would be engaged, and employees motivated. Unilever would gain competitive advantage at a time when the key driver to success was sustainability.

The main risk of USLP was considerable. In order to achieve the long-term impact, Unilever would have to make significant upfront investments that many believed would not be sustainable in the environment Polman described as "volatile and complex…with more headwinds than trade winds."

Economics of Sustainability

USLP fits well within McKinsey's sustainability framework. To capture the full value of sustainability, the framework states that a company must establish a baseline performance on sustainability issues in order to decide on portfolio initiatives. The framework also states that companies create value by improving growth, returns on capital, and risk management, all three of which apply to Unilever.

A lever for growth is composition of an organization's business portfolio. In 2014, all Unilever products were subject to analysis of not only traditional metrics of growth and profitability, but also to how each contributed to USLP objectives. Of the top 30 brands, roughly one third were classified as "sustainable living brands." These 11 brands accounted for half of the company's growth and grew twice as fast as the rest of Unilever's business.

A lever for returns on capital are sustainable value chains. Unilever's "Partner to Win" program forged sustainable sourcing partnerships with numerous suppliers. Along the risk management value creation lever is reputation management. Unilever was praised for its transparency in its labor practices in Vietnam. It also led worldwide deforestation efforts at the 2014 UN Climate Summit in NY due to its reliance on palm oil, which was a large contributor to the problem.

Finally, the framework argues that most companies do not actively look for areas in which they can invest in sustainability. This was not the case with Unilever, who, as far back as 2006, had been working on "brand imprint" initiative, through which brand managers were tasked with assessing the environmental, social, and economic impact of their brands. This included Lipton's impact on tea plantations that ultimately led to sustainability certification by the Rainforest Alliance. Polman leveraged Unilever's rich history in sustainability to become a global leader, with Polman being the only corporate representative invited to advise on the elite Post-2015 Development Agenda.

Recommendations

Unilever's USLP strategy fits well within current thinking of creating shared value. USLP also has the five elements required in "The Ecosystem of Shared Value," namely: a common agenda, a shared measurement system, mutually reinforcing activities, constant communication, and a

dedicated “backbone” from one or more independent organizations. The latter being its partnerships with scores of national and local governments, NGO’s, and suppliers.

My recommendation is to “double down” on USLP until at least 2020, when the plan is scheduled to conclude. With the data it has collected on its brands, Unilever should push the number of sustainable living brands in the portfolio, divesting such brands as Axe. It should carefully consider future mergers and acquisitions, learning from Alberto Culver’s shower and hair products, which significantly increased customer water usage.

Conclusion

The mindset that investment in sustainability is nothing more than an added economic expense is obsolete. With climate change and green initiatives at the forefront of today’s business environment, companies will capture a competitive position through adapting strategies and business models with sustainability and CSV at the core.

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