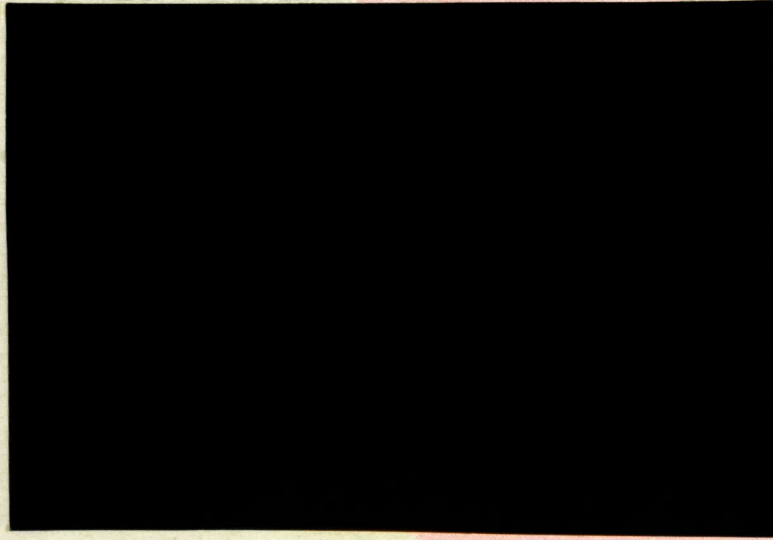


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**UNILEVERS POSITION AND STRATEGIES IN
CHEMICALS AND RELATED ACTIVITIES.**

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0. BASIC FACTS ON UNILEVER.

Unilever was founded in 1929 in a merger between two worldwide operating companies:

- Van den Bergh & Jurgens, specialized in margarine
- Lever Brothers, specialized in soaps

Both had already a much longer history.

Since 1929 the new company operates under the name Unilever from two holdings and headquarters: Unilever PLC, based in London/UK and Unilever NV, based in Rotterdam/Netherlands.

And also since 1929 sales and profits divide between edible fats and other foods on the one side and soaps, detergents and other chemical related interests on the other side.

Some recent basic figures:

(in Dfl. bln)

	<u>1980</u>	<u>1985</u>	<u>1988</u>
Net sales	51.4	66.7	61.9
Operating profits	2.9	3.8	5.5
Profits as % of sales	5.6%	5.7%	8.9%
Employment (in 1.000)	300	304	291
Employment in Europe	176	135	110

Breakdown sales by productgroups (in %)

Foods	47%	51%	50%
Detergents/Personal Products	21%	24%	32%
Specialty Chemicals	6%	7%	8%
Others	26%	18%	10%

Breakdown sales by region (in %)

Europe	70%	65%	60%
North America	11%	17%	20%
Rest of the world	19%	18%	20%

1. MAIN CHANGES IN UNILEVERS BASIC STRATEGIES.

The figures on sales, employment and profitability reflect profound changes in the company strategy in the eighties.

Unilever belongs to the small group of multinationals that reacted very fast on the new market conditions in the consumerproductsmarkets in the eighties.

In the period 1980-1982 management took the decision that the fundamentals of economic development would structurally be different compared to what was the rule in the sixties and seventies.

It took for granted that:

- OECD markets would grow slowly for two reasons: stabilization of population size and saturated markets for products.
- competition between producers would therefore be much stronger.
- concentration in the retail branch would mean a much greater pressure on margins from the big retail chains.

Based on these assumptions Unilever started as one of the first multinational companies a fundamental change in its strategies.

The most important changes are:

- * **CONCENTRATION ON CORE ACTIVITIES**
- * **GLOBALISATION; THE ATTACK ON THE NORTH AMERICAN AND FAR EASTERN MARKETS**
- * **FUNDAMENTAL CHANGE IN LABOUR RELATIONS.**

The geographical impact and timing of each of these strategies was different. That can best be explained by a short comment.

A. Concentration on core-activities.

Instead of a continuation of the old strategy of diversification by take-overs and subsequent consolidation in new productgroups, Unilever made the choice to concentrate on a smaller range of core-activities. It took some time before it became clear what management had labelled core and what not.

Starting from 1982 one of Unilevers core-activities was:
the sale and acquisition of companies.

It sold many companies in no longer defined as core activities. And many were bought to strengthen Unilevers position in the core-activities. In 1988 and 1989 Unilevers appetite grew that big that every week a new company was taken over.

Between 1983 and 1988 Unilevers shopping account was:

- * disposal of 90 companies for the total sum of Dfl 8 bln.
- * acquisition of 100 companies for the total sum of Dfl 15 bln.

Because in 1980 70% of Unilevers turnover was realized in Europe the impact of the disposal program was mainly felt there. The reduction of total employment in Europe from 176.000 to 110.000 was mainly due to this disposal program.

The best known and most important acquisitions are:

- * 1978 National Starch and Chemical USA
- * 1984 Brooke Bond UK
- * 1985 Shedd's Food Products USA
- * 1985 Anderson Clayton Brazil/Mexico L.America
- * 1986 Chesebrough Pond USA
- * 1986 Naarden International Neth
- * 1987 PBI/NSDO UK
- * 1988 Durkee Industrial Foods USA
- * 1989 Calvin Klein Cosmetics USA
- * 1989 Faberge USA

B. Globalization: more North America and Japan/Far East.

The acquisitions mentioned here were so called **strategic** acquisitions; they functioned to give Unilever a strong foothold in a product area where it was small compared to others. In the same time it gave a strong position in a geographic market in which Unilever felt itself under-represented: in most of these cases the USA/North America.

For example: in personal products Unilever was smaller than many others and in fact barely represented on the North American market. It planned a strategic take-over to overcome these two weaknesses. The acquisition of Richardson-Vicks in 1985 failed: Procter & Gamble swallowed this company. But one year later brought the successful take-over of Chesebrough Pond what Unilever looked for: a turnover in personal products that placed Unilever in the top league world wide and the critical mass to rationalize operations and gain more market share by lower cost operations.

A number of small **tactical** acquisitions function to fill in market niches.

The period 1980-1986 can be seen as the period in which the main priority was to raise market shares in core-activities in North America. Unilever succeeded here along two lines: by take-overs and market investments in existing activities through many product innovations and introductions and massive marketing campaigns.

Since 1986 the emphasis has been shifted partially to manifold Unilever market shares in the Far East/Pacific area.

Unilever wanted to step up its turn over in this region between 1985 and 1990 fivefold. As has been made clear during a recent trade union conference in this region it means: a multiplication of net sales without any expansion of employment.

C. New labour relations

These are mainly the effect of production- and labour strategies which are in fact identical all over the world.

Over the last years Unilever started in all regions a combination of new employment policies with similar impacts everywhere:

- first of all by subcontracting many services and even parts of production (small volumes, new products).
- very tough cost-cutting measures introduced world wide in all production plants under names like Big Scale Value Analysis, Total Systems Cost, Best Proven Practices .
- the computerization of production and administration with the attached introduction of Total Quality Management in all operations.

The effects are:

- a fast reduction of permanent employees.
- a stronger identification of workers with company goals.
- more flexible working times and contracts.
- "new look" contracts in which these new elements are formalized and management by stress will be the standard.

2. THE STRUCTURE OF THE CHEMICAL OPERATIONS.

A. The coordination structure

In its reshaped structure Unilevers 'core-activities' split up between:

- * 3 food coordinations (Edible Fats/Dairy, Frozen Products and Food & Drinks), since Sept. 1989 brought under the responsibility of a super coordination: the Foodexecutive.
- * detergents
- * personal products
- * specialty chemicals
- * agribusiness
- * others, and in this restcategory medical products is a rising group.

The underlined coordinations form the activities on which EFCGU affiliated unions have to concentrate themselves.

During the past decade their relative importance in the total company has grown very hard: combined sales of these coordinations were 27% of total Unilever sales in 1980 and 40% in 1988. But what is much more important, in many aspects these coordinations set the pace also for the other coordinations.

B. Decision-making structures.

In the period 1965-1970 Unilever changed its basic structures. Until then the national management teams were first responsible kings in their kingdoms. Around 1970 this structure was changed in Europe into an activity-oriented decision making structure. A number of product coordinations was formed and they took first responsibility for all European subsidiaries in their coordinations. The principal reason for this shift of responsibility was the competition of US-companies who behaved from the start in Europe as if it was one market, e.g. Procter & Gamble, Colgate. The European coordinations were Unilevers reaction.

The coming to age of global markets in recent years was much more visible in the chemical-related businesses of Unilever than in the food-related ones.

Here was anew the first change in decision-making structures.

In detergents and personal products the coordinations have since a few years world wide first responsibility for all subsidiaries.

In specialty chemicals this new structure started already in 1982 when it was founded as successor of the old chemical coordination.

The reason is simple: a small group of competitors is selling everywhere in the world similar products under the same brandnames.

The formal position of these coordinations is such that **they never had any consultation with unions or works councils.**

The most important decision making bodies were placed outside the framework in which unions or works councils can consult or negotiate with management.

3. CHARACTERISTICS OF THE CHEMICAL COORDINATIONS.

A.DETERGENTS.

(in Dfl. bln)	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Turnover worldwide	13.7	12.8	12.2	11.9	13.5
Operating profit	0.8	0.5	0.6	0.9	0.9

Coordination: at London headquarters, a team of 30 persons.

The companies in this coordination operate under two different lines and names:

Lever Brothers : distributive trade line, produces hard soaps, personal washing products, fabric detergents and softeners, hand and machine dishwashing products, liquids, household cleaners.

Lever Industrial : industrial detergents trade/IDT. It comprises all cleaning and hygiene business outside the domestic environment.

Both operate worldwide and have production plants in many continents and countries.

One big difference is:

Lever Brothers operates in a oligopolistic market. Everywhere in the world it competes with the same competitors: Procter & Gamble, Colgate, Henkel, Lion and Kao.

The ways in which Lever Brothers competes are:

* between 1980 and 1987 it reshaped its US operations to compete with P&G and Colgate in their home market by:

- investments of \$ 270 mln in 4 brand new computerized factories.
- introduction of 5 new products supporting them by more than \$ 500 mln advertising campaigns.

The results: in a stagnant market sales went up from 1980 \$ 650 mln to 1987 \$ 2000 mln.

* in Europe the main strategic line is :

- forming Lever Europe which means Europeanisation of the activities. Headquarters will be located at Brussels.
- in the LTP 1988-1990 the most important step was: concentration of investments in 5 factories where mass production should take place for the European market.
- specialisation of these factories on a few products. That resulted in shifting products over Europe.
- formation of European Brand Groups. Central management groups got responsibility for Europeanwide activities for Europeanwide brands (Lux in Mannheim, CIF/JIF in the UK).
- centralization of buying raw materials /chemicals.

All these steps together lead to the new formation of a company Lever Europe where the executive responsibility for all European Lever Brothers operations will be centralized. Also marketing and logistics will be managed from this new company. Closures of smaller plants will follow. Research was already concentrated in two main R&D labs, Port Sunlight (UK) and Vlaardingen (Neth).

Over the last years coordination formed at both locations Lever Development Centres: there product development is concentrated. It meant the reduction of the size of development units at production plants.

To raise the efficiency in the modernized plants coordination introduced two new management strategies:

- * total systems cost: it is a computerized system to compare on a permanent base the most efficient production -ways. It includes also third-party activities as distribution, packaging and so on.
- * total quality management: direct personnel oriented strategies to create a small core-workforce, company dedicated, well skilled and paid, an dispensable in a flexible way "to meet the clients demands".

Lever Industrial on the other hand operates in a much more fragmented market. First target of this part of coordination is to raise market share in a short time. Starting with the European market it clearly aims to develop a leading world wide position. Acquired in Europe were: (Aug/Sept. 1989)

- Othars Neth./Belgium/ France/Denmark/Norway
- Sicca Hygiene France
- Jeyes Hygiene UK

In Lever Industrial the consolidation of the already bought companies and the many more to follow will lead to job losses.

Within these companies same type of developments will take place as described for Lever Brothers. There is one distinction:

Lever Industrial is very much customer oriented and much less a mass producer. Forms of Total Quality Management have been introduced earlier and further there. It has a Detergents Application Centre in the Netherlands.

B. PERSONAL PRODUCTS.

(in Dfl bln)

	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Turnover worldwide	3.6	3.4	3.4	5.0	5.9
Operating profit	0.2	0.2	0.2	0.4	0.6

Coordination: located at London Headquarters, 16 persons

Sales: 60% outside Europe 40% Europe.

This coordination had a long (troublesome) existence mainly under the name of Elida Gibbs.

The acquisition of Chesebrough-Pond in 1986 started a new period. More acquisitions followed.

* Calvin Klein Cosmetics (1989) for \$ 306 mln

* Faberge (1989) for \$ 1.55 bln)

In a very short time the balance changed from predominant European sales to mainly north american sales.

Chesebrough-Pond has been integrated in two ways:

* in the USA existing Elida Gibbs activities are integrated in CP.

* In Europe CP activities were integrated in Elida Gibbs.

Basically the new formed companies were quite soon split in one part for cosmetics/perfumes and one for the dental/hair/skin and deodorant business.

This split was strengthened by the acquisitions of Calvin Klein and Faberge last year.

The cosmetics/perfumes activities got a further impetus and were split between massproducts and top-range perfumes/cosmetics.

These take-overs highlight also one of Unilevers new strategies, to enter top of the market niches in the global markets in their core-activities.

R&D for this coordination is concentrated in 3 main labs: Port Sunlight and Colworth House (UK) and Edgewater (USA).

Most important developments in this coordination:

- at the end of 1988/start 1989 the coordination was restructured to give it global responsibility.
- cutting costs where possible e.g. by centralizing buying of most ingredients and supplies.
- centralization of transport and distribution.
- introduction of Total Quality Schemes.
- introduction of Just in Time, already in use in Chesebrough: management goes to the US to study how to introduce it in Europe.

C. SPECIALTY CHEMICALS.

(in Dfl bln)	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Turnover worldwide	5.0	4.8	4.2	4.4	5.3
Operating profit	0.5	0.5	0.4	0.5	0.7

Sales come from North America ca. 40%, Europe 45% and rest of the world 15%. The Asia/Pacific sales are growing fast.

Although it makes 8% of total Unilever sales, more than 13% of total profits come from specialty chemicals.

Coordination: based at London headquarters, 4 persons.

Employment in this coordination is a little more than 14.000 worldwide.

Chemicals coordination is the smallest in central management, because it consists in fact of 4 separate multinational companies. Central coordination is has the end responsibility for acquisitions, investment programmes, selection and rotation of management and overall research policies. And of course setting the targets for the business.

This coordination was founded in 1982 as successor to the chemicals coordination that was much more based on bulkchemicals.

And in 1982 the most important part of this coordination was National Starch and Chemical, from the US, acquired in 1978.

Based on this company and on some companies already active in the speciality chemicals area in Unilever the company build a new coordination.

Mainly by setting two main goals:

- internationalization from National Starch & Chemical from the USA to other regions, mainly Europe and Asia/Pacific
- internationalization from Europe to the USA and Asia/ Pacific for the older Unilever chemicals units.

Many smaller and a few very important big acquisitions were the ways to implement this policy.

The constituent parts of this coordination are:

1. National Starch & Chemical: headoffice at Bridgewater USA. Produces industrial adhesives, resins and modified starches from corn (USA), potatoes and corn (BRD) and from tapioca (Thailand) for industrial and food use.

An indication of the explosive growth of this company: sales in 1978: \$ 419 mln., in 1988: \$ 1.420 mln. Between 1986 and 1989 22 companies were acquired all over the world: production plants are located in 25 countries. Sales outside the USA rose from 24% in 1984 to 55% in 1988. It is now the largest producer worldwide in industrial adhesives and modified starches. The growth target for sales and earnings is set on 10% a year.

2. Quest International : headoffices at Naarden Netherlands for food and at Ashford UK for fragrances. Produces flavours and fragrances for the food, drinks, and consumer products industry.

This coordination started as PPF International, a combine of various Unilever subsidiaries in this branch, mainly producing for in house use. From 1982 to 1985 it developed by the acquisitions of smaller companies in the USA, Canada and Mexico into the number 3 position worldwide. Decisive was the acquisition of Naarden International, then number 5 in the top league.

In 1988 it got the new name Quest International. Now it is together with International Flavours and Fragrances leader in the world market. An important new development is illustrated by the last acquisitions in this subdivision: Sheffield Products in the USA and Biocon Chemicals in Rep. of Ireland.

Both specialists in the production of natural flavours and ingredients. This trend will continue without doubt and Unilever builds already its position in conjunction with all the experience it has in biotechnology and fermentation technology.

3. Unichema: headoffices in Gouda Netherlands. Specialist in oleochemicals and probably leader in the world market for oleochemicals.

The main European production plants are located in the Netherlands (Gouda), West Germany (Emmerich) and the UK (Bromborough). A big modern plant has been built in Malaysia amidst of the oilpalm plantation area. And companies have been acquired in Italy (Simel) and the USA (Darling). It operates world wide: and in production and in sales.

4. Crosfield Chemicals: headoffices at Warrington UK.

Specialization: (specialty) silicates, catalysts and concrete admix chemicals. This is probably the smallest in the chemicals coordination. But also active through acquisitions in Italy (Gottardi) and Brazil (an ICI silica operation) to expand from its existing bases in the UK, Netherlands and USA.

All production plants report first to their headquarters and this reports to chemicals coordination in London.

This coordination was the first to have world wide responsibility for all chemical activities. Important to note is that around 25% of this coordination is sold to the food-industry.

4. CENTRAL THEMES FOR UNION STRATEGY.

As it will be the main theme of this conference to discuss union strategy, I will only point out some important challenges:

- * formulation of a union strategy on Total Quality Management.
- * find ways to create permanent information exchange on relevant themes like:
 - investment/disinvestment
 - health/safety
 - (flexible) employment.

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