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Rebuilding a Greener Unilever

CEO Polman Continues Centralizing Behemoth's Command Structure While Filling in Market 'White Spots'

By PAUL SONNE

LONDON—When Paul Polman was chosen in fall 2008 to run Unilever PLC, the consumer-goods giant behind Dove soap, Magnum ice cream and Lynx deodorant, the global economy was on its knees.

Lehman Brothers Holdings Inc. was collapsing; governments were preparing bailouts; shoppers had begun closing their wallets; and Mr. Polman had inherited a company that, despite boasting well-known brands and deep histories in markets like India and Indonesia, was panting to keep pace with its competitors.

Now, more than two-and-a-half years since Mr. Polman officially became chief executive on the first day of 2009, key markets like Europe and the U.S. are still gasping for air. But the 55-year-old Dutchman is gradually proving to investors that he can handle the "new normal"—and refashion a consumer-goods colossus into a company agile enough to deal with volatility and aggressive rivals.



Bloomberg News

Paul Polman says the European debt crisis provides politicians the same challenge to act boldly that the 2008 global downturn provided for Unilever.

Paul Polman

Age: 55

Nationality: Dutch

Position: CEO of Unilever PLC

Based: London

Time In Job: Since Jan. 1, 2009 (roughly 2.5 years)

Previous positions: CFO, Nestlé SA, 2006-2008; president, Europe, Procter & Gamble Co., 2001-2006; president, Global Fabric Care, Procter & Gamble Co., 1999-2001

In an interview with The Wall Street Journal at Unilever's Art Deco headquarters by the Thames, he says the economic crisis has helped Unilever. It has provided a clear reason to push through long-needed changes at the Anglo-Dutch company, he says.

"The economic environment we were facing, especially at the end of 2008, was clear enough for everybody to understand," Mr. Polman says. "It's quite a difference to say, 'Here's a new CEO coming in from the outside, and he's on a soapbox, asking us to do more' versus 'There's a burning platform.' "

He thinks Europe should follow the same approach: "Europe is going through a very difficult phase right now that I think is an ideal opportunity—when the crisis is high, and we should take this very seriously—to take some bold decisions." The continent, he says, "has become incredibly self-occupied and internally focused."

So far, Mr. Polman's changes at Unilever have included a major revamp of the management structure, a reorganization of the innovation team that creates new products and industrial processes and a massive cost-cutting drive. He has moved to take existing Unilever products to new markets—a strategy of "filling in white spots" that has brought Magnum ice cream bars to the U.S., Dove soap to China and Clear dandruff shampoo to Mexico.

His long-stated goal is to double Unilever's sales while reducing its environmental impact. So far, it has moved from sales of €39.8 billion (\$56.8 billion) in 2009 to more than €45 billion expected this year. The golden number is €80 billion, but Mr. Polman says he "will not be obsessed to just go for the 80 number for the sake of the 80 number."

"We're talking here about a mindset of growth after a long time of not growing, or declining," he says. Though he hasn't set a deadline, Mr. Polman says the company would need sales to rise by about 7% a year in order to double in roughly 10 years. He believes Unilever can achieve at least 90% of that growth on its own, without acquisitions.

"We have 54% [of our business] in the emerging markets and we are only reaching 2 billion consumers a day," he says. "There's no reason why we cannot reach 4 billion consumers. We have introduced, over the last two years, 130 of our products in countries where they were not in."

If Mr. Polman sounds impatient, it's because he is. He is eager for change at Unilever, a company that spent years tripping over itself. For a long time, it was divided between headquarters in the U.K. and the Netherlands and had two chief executives. Internal divisions, bureaucracy and inefficiency depressed performance. Annual sales growth slowed from 5.0% in 1998 to a low of 0.7% in 2004, for instance, and remained in the low single digits for years.

Many of the problems had their roots in history. Unilever was founded in 1930 when British soap company Lever Brothers merged with Margarine Unie, a Dutch food firm that was itself a product of mergers. Unilever became one of the first modern multinationals, pushing into the developing world on the coattails of British and Dutch colonialism, with early businesses in India and Indonesia.

The result was a sprawling empire—a mishmash of companies operating independently in disparate regions but sending checks back to the head office. It was the opposite of U.S. rival Procter & Gamble Co., known for its centralized command structure controlled tightly from Cincinnati, Ohio.

Unilever's heritage has been both a curse and a blessing. It has spent years trying to shed its sluggishness, which as recently as 2007 made it a target for buyout firms. But it has also enjoyed an entrenched presence in the developing world—helpful now Europe and the U.S. are nursing economic woes.

"If you go to Hindustan Unilever or our Indonesian company, or any for that matter, you find companies that are very much in tune with local society," Mr. Polman says. "That's true for Bangladesh, as much as for Indonesia or Brazil. That's becoming an increasing advantage."

Mr. Polman's predecessor, Patrick Cescau, started cleaning up the company's organizational structure and slimming the work force through a campaign known as "One Unilever." Mr. Polman is continuing the transformation.

In the first half of 2011, sales rose 4.1% to €22.8 billion. Since January 2009, Unilever's shares on the London Stock Exchange have risen to 1,984 pence from 1,621 pence, an 18.3% rise on Mr. Polman's watch.

The Unilever boss hails from Enschede, a Dutch textile-manufacturing town on the border with Germany, where his father worked at a tire company. He considered becoming a priest before deciding to study economics at the University of Groningen, about an hour-and-a-half's drive from his hometown. After graduation, he moved to the U.S., arriving in Ohio to stay with friends of his parents and later completing MBA and MA degrees at the University of Cincinnati. Nearby was the headquarters of Procter & Gamble, the consumer-goods behemoth which Mr. Polman joined in 1979 and where he remained for 26 years. He rose through the ranks, eventually becoming president of P&G's European operations in 2001, before jumping to Nestlé SA five years later to become chief financial officer.

Today, one of Mr. Polman's main tasks is to fight off P&G, his employer of 26 years, and the maker of Pantene shampoo and Ariel detergent. On the day Unilever announced its first-half financial results, Mr. Polman was sporting cufflinks in the shape of the company's logo—a clear communication of his new loyalties.

In recent years, P&G has been slashing prices on its products and increasing promotional activity to gain market share. Unilever, meanwhile, has tried to raise its prices to protect margins.

"There is definitely a lot of value that has been taken out of the market," Mr. Polman says, when asked about P&G's strategy of price-cutting and promotion. "That's one of the reasons I think we increasingly see the retailers wanting to work with us and moving us up into the preferred-supplier status, because we are driving true value with innovations into these markets."

He says Unilever isn't following a similar strategy, because "it's not a long-term successful strategy, we believe."

In addition to fending off rivals, Mr. Polman has been implementing policies that would allow Unilever to reduce its environmental impact. It's a tough task because Unilever is now growing, and it includes not only its own operations in the calculation, but also those of its suppliers and retailers.

"Our total carbon impact, across the total supply chain, is 300 million tons, and our own factories and travel is only 3 million tons," Mr. Polman says. "So if we would focus on our own shop, that's one thing, but if we influence the total supply chain, we have a much bigger influence."

The company has 50 targets in all. They include carbon-emissions aims, goals to increase the number of small farmers supplying Unilever, and water-usage objectives. In many cases, the goals are forcing big changes to the way Unilever does business.

Still, the sense of change isn't limited to sustainability initiatives. Asked what the biggest change he has seen so far in his more than two years as chief executive, Mr. Polman is quick to answer. "I have seen a shift in confidence," he says.

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