

Unilever's Polman May Pass Old P&G Bosses With Cheap Margarine

By Jeroen Molenaar

Aug. 20 (Bloomberg) -- Chief Executive Officer Paul Polman gave Unilever's margarine managers 30 days to devise a plan to restore growth in Germany. They made Homa Gold a discount brand, following Polman's strategy to overtake rivals whose premium products are stumbling.

Unilever slashed Homa Gold's price by almost half and changed the packaging to woo penny-pinching shoppers. Since July 1, the company has sold more of the spread, according to Alexander Pess, who develops Unilever margarines globally.

"We thought about how we could turn the threat of losing a brand into an opportunity in this crisis," Pess said in an interview. The aim is "to keep volume in the portfolio, even if this means making less money on it."

The Homa Gold program is one of 15 fix-it plans Polman, 53, is running to win back shoppers seeking cheaper goods since he took over in January. Unilever this month unexpectedly posted volume growth in western Europe in the second quarter and is now set to outpace sales at Polman's former employers, Nestle SA and Procter & Gamble Co.

Unilever may pass Nestle for the first time since at least 2001, and may sell more items annually than P&G for the first time in at least five years as the Dutch-born Polman brings some prices in line with store-brand labels. Homa Gold now sells for 75 cents a tub at a Metro AG Real hypermarket in Dusseldorf, the same price as the store's private label.

"It's really impressive how Polman turned around a huge vessel like Unilever in such a short time," said Christian Vondenbusch, a fund manager at Robeco Asset Management in Rotterdam, which oversees 115 billion euros (\$163 billion), including Unilever shares. "This man achieved what others couldn't."

Maintaining Profitability

Unilever's stock has outperformed P&G and Nestle since June 30, rising more than 12 percent in London and Amsterdam. Nestle and P&G have gained about 4 percent in that time.

The executive's next task will be to maintain profitability at the London- and Rotterdam-based company as he slashes prices and lifts spending on new products. Polman scrapped Unilever's operating margin target of at least 15 percent by 2010 in February, one month into his new job, and said giving an outlook would be inappropriate amid declining economic growth.

"Margins will fall this year," said Richard Withagen, an analyst at SNS Securities in Amsterdam. Unilever's "growth comes at a greater expense to margins than at rivals like Nestle," he says.

Withagen recommends investors reduce their holdings of Unilever, where he expects profitability excluding one-time items, acquisitions and disposals to be 14.3 percent of sales this year, down from 14.5 percent in 2008.

Raw Materials

Polman plans to boost operating profit as a percentage of sales in the second half amid cheaper prices for raw materials like palm oil, which is used in margarine, sauces and ice cream.

Withagen says falling commodity costs are no panacea, with any benefit likely eaten up by increased marketing costs to propel the volume growth Polman seeks.

Polman was unavailable to comment for this story because he's traveling outside Europe, a spokeswoman said.

Unilever is taking "quicker actions where we're feeling that our brands are out-positioned or at a disadvantage, where we're losing share," Polman said in May. He said he's fighting an "inherited assumption that the company will not grow."

Stubble-Free

Polman, who worked at P&G for 25 years, may find himself a tough act to follow after increasing expectations in the second quarter, analysts said. He headed western Europe for P&G from 2001 to 2005, cutting prices and lifting sales while economic growth in the region stagnated. P&G was then led by Alan Lafley, who relinquished his role as CEO this year, remaining chairman.

"Polman's biggest challenge is to live up to those expectations while the market is still deteriorating," said Fernand de Boer, an analyst at Petercam in Amsterdam who recommends investors hold the shares. "Innovation is important. He's got to introduce new products, supported by spending on advertising and promotions."

So far this year, Unilever has introduced Dove Hair Minimising deodorant, which pledges to leave users feeling "stubble-free" for longer, and Lipton Sparkling Green tea in a venture with PepsiCo Inc.

P&G spent \$2 billion over the last year developing new products, including its Venus Embrace five-blade women's razor. Polman in May said that Unilever is spending 1 billion euros on developing new products, without giving a time frame for that expenditure.

Marathon Runner

Polman worked at Nestle for two years as chief financial officer. After being passed over for the top job, Polman became the first outsider to lead Unilever. Outside the office, Polman is a long-distance runner, rising at 6 a.m. to hit the treadmill in his London office and completing this year's Unilever-sponsored London Marathon in just over 4 hours and 12 minutes.

Vevey, Switzerland-based Nestle on Aug. 12 withdrew its revenue forecast and posted sales below analysts' estimates, as consumers shunned premium products including bottled water and vitamin-enriched powdered milk. P&G predicted on Aug. 5 that sales excluding currency swings will slide as much as 3 percent in the current quarter as consumers switch to cheaper alternatives to Tide detergent and Olay face cream.

Under other 30-day plans, Unilever added more chocolate to Klondike ice-cream bars in the U.S. and made Indian packages of Rin Advanced detergent bigger while maintaining the price.

Nestle 'Wake-Up Call'

Polman linked managers' bonuses to volume growth and sent salesmen to stock shelves in supermarkets. He also boosted Unilever's advertising and promotion spending and pledged more to develop new products and accelerate their introduction.

In the second quarter, Unilever sold 2 percent more goods by volume, and Nestle's volume rose by 0.7 percent. P&G's volume dropped 4 percent over the same three months, according to Bloomberg calculations. Unilever's underlying sales growth of 4.4 percent in the first half also outpaced Nestle's 3.5 percent gain in sales on that basis, while P&G's sales on that basis in those months was flat, calculations show.

"It's a wake-up call," said Jon Cox, an analyst at Kepler Capital Markets in Zurich. "P&G and Nestle are, to a certain extent, caught with their pants down. It's going to be hard for them to catch up in terms of volume."

Cescau vs. Polman

Polman isn't responsible for all the change. Since the fourth quarter of 2008, Unilever's volume declines have been less steep than at Cincinnati-based P&G. Polman's predecessor, Patrick Cescau cut jobs, sold assets and closed plants in his four years at the helm of Unilever. Cescau took over in 2005 after a plan to restore growth failed and investors criticized the company for being too slow to respond to consumer trends.

"Cescau looked at the organization and the production; Polman looks at how to sell the goods," said Robeco's Vondenbusch. "He will continue to look at the costs, but his focus will be on marketing."

As a result of Unilever managers' in-store experiences, Unilever is tweaking products to shoppers' demands. In the Netherlands, the company is selling miniature versions of its Twister ice pops at the C1000 chain after noticing more families shopped there. By contrast, Unilever sells a multi-pack of its pricier Magnum Temptation bars only at Royal Ahold NV's Albert Heijn stores, which cater more to double-income Dutch households.

"Polman basically fixed the imbalance between volume and pricing," said James Amoroso, a food industry consultant based in Walchwil, Switzerland. "That's nothing magical. The thing I'd say 'wow' to is the speed. This is a smart guy who thinks quickly and moves quickly."

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