

INSIGHT: Innovation drove volume rebound - Unilever

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Unilever's leading executives today (6 August) pointed to the food giant's innovation programme - and increased advertising spending - for the recovery in its sales volumes.

CEO Paul Polman and CFO Jim Lawrence both cited Unilever's programme of product launches as a key factor in the company's volume growth, which returned after falling in recent months.

The Knorr soup-to-Ben & Jerry's ice cream maker booked a 2% rise in sales volumes for the second quarter of 2009, beating some analysts' forecasts, and driving a 4.1% rise in underlying sales.



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Unilever said net profit was down 12% at EUR997m (US\$1.44bn) once the impact of restructuring, disposals and one-off items was stripped out of the numbers. On the same basis, operating profit fell 4% to EUR1.52bn.

On a reported basis, net profit was down 15% at EUR833m. Operating profit dropped 4% to EUR1.32bn.

Lawrence acknowledged that volumes were also helped as warm weather in June boosted ice cream sales, while Unilever also reduced some prices in Europe. However, innovation, he insisted, was key.

"We had a correction of prices in Europe and that undoubtedly helped," he said. "The volume drive in the first half was innovation. We did support it strongly with advertising and promotion. We put a lot behind those innovations."

Unilever saw sales in western Europe dip 1.1% but volumes inched up 1%, thanks, Polman argued, to product innovation. "If you look at where the growth is, it is where the innovation is and where we spent behind it," he told analysts.

The increase in advertising spending put pressure on Unilever's operating margin during the quarter. Operating margin was down 60 basis points but independent analyst James Amoroso said the fall was due to Unilever's "extremely aggressive" advertising strategy.

"The underlying decline of 60bp of margin needs also to be seen in the context of the 50bp of increase in advertising spend as well as declining media rates," Amoroso said.

"In other words, Unilever was extremely aggressive with its advertising activities in the quarter. This is unlikely to be sustainable or even desirable going forward."

Polman said the company would continue to look for "fewer and bigger" innovation projects going forward, although the Unilever boss said he would remain "realistic" about the prospects for economic recovery.

"Whilst it might have bottomed out, we do not believe there are any signs of a fast recovery," he said. "For us, the most important indicators remain consumer confidence and unemployment. We see grocery spend drop by about 10% when unemployment hits."

Amoroso, however, predicted that Unilever would soon return to profit growth. "In the seven quarters prior to Q4 2008, Unilever had already set a trend of uninterrupted growth in both organic sales and underlying profitability. There is no reason why this trend should not now be resumed," he said.

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