A break with history

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When the UK's Lever Brothers merged with Margarine Unie of the Nether-lands to form Unilever, western economies were approaching a precipice: it was September 1929.

The companies were joining forces not out of any great foresight; rather, the deal came merely because each had started to impinge on the other's business, with the British moving into spreads and the Dutch into soap. But when Wall Street crashed the following month and prices of fats and oils tumbled in the Great Depression that ensued, the creation of Unilever helped the former family businesses survive the crisis.

As the decades passed, Unilever moved into ice cream, frozen vegetables, tinned food, tea, shampoo, deodorants and more, giving it thousands of different brands around the world. At one point, it operated in more countries than any other company. Now, with parts of the financial system imploding and the spectre of depression again in the air, it is the sort of basic consumer goods company to which investors look for shelter - and some believe it has just made another timely move.

Last month, Unilever appointed Paul Polman as its next chief executive, the first outsider to fill the role. The 52-year-old Dutchman - who arrives at the group's London headquarters next week in preparation for taking over at the end of the year - has spent his career working for the group's two closest rivals, Procter & Gamble of the US and latterly Nestle of Switzerland, where he was chief financial officer.

The news came as a welcome surprise to investors used to complaining, as one puts it, of an "insular executive team" that ran the business "like the civil service". It was even more startling to those who know the group from the inside. After years of under-performing its peers, had Unilever finally found the man to return it to its former glory? "What they have done is absolutely amazing," says Michael Dowdall, a former Unilever board director. "I just can't imagine P&G taking on someone from Unilever."

For years, the Anglo-Dutch group has battled to produce the same kind of sales and profit growth as its main rivals. Successive management teams have come up with different restructuring plans to cast off its status as industry laggard. In the past decade alone there have been two - "Path to Growth" followed by "One Unilever" -but neither resolved its core problem: how to increase sales and profit margins simultaneously.

"There are two key metrics for consumer goods companies: margin expansion and sales growth," says Julian Hardwick, food analyst at RBS. "At various points in time Unilever hit one or the other but not both, whereas Nestle and Reckitt Benckiser or P&G in food and HPC [household personal care] respectively have managed to deliver both." Last year, Unilever's underlying sales growth of 5.5 per cent lagged behind European peers, while profit margins of around 13 per cent were in the middle of the pack.

Certainly, there are incremental ways Mr Polman can strive to improve Unilever's performance when he takes over from the Frenchman Patrick Cescau at the end of the year. But there is also one radical option. Will he address the long-standing question of whether Unilever would do better to split its food brands, which account for slightly more than half of its €40bn ($55bn, £31bn) in annual sales, from its household and personal care products and put them in a separate company?

Having both categories under one roof is Unilever's underlying weakness, argues John Welch, a professor at Harvard Business School. "The problem with Unilever is that it is caught in the middle - it is neither a food company nor a personal care company... so there is always tension between decentralisation and centralisation."

Yet much the same is true of P&G, at least in terms of product mix. The difference, suggests another former Unilever executive, who went on to head a rival company, is one of culture:

"Everything is about consensus and internally facing rather than looking outwards. P&G is externally focused and lever's Birds Eye frozen foods brand in 2006, says the negotiations highlighted the "paternalism" of the Unilever culture. "One of the reasons they were willing to sell to Permira rather than other buyers was because Permira was committed to investing in and expanding Birds Eye/Iglo, working with the existing management team."

Historically, Unilever has favoured a decentralised approach, giving local managers autonomy to make decisions. This works well in food companies because it allows local managers to adapt products to different tastes (Nestle, for example, sells masala-flavoured instant noodles in India). It is less effective in household and personal care companies where the same products - nappies, toilet rolls, razors -can be marketed and sold globally.

P&G's "command and control" management style is the opposite of Unilever's. A handful of executives run the global business from its headquarters in Cincinnati and employees are dubbed "proctoids" for their supposedly conformist and systematic style. Those who underperform soon leave.

Mr Treschow, who joined Unilever in his non-executive capacity after chairing both Ericsson and Electrolux, has suggested Mr Polman would not be revolutionary. The new chief would stick with Mr Cescau's "One Unilever" cost-cutting programme, the Swede declared this month - perhaps increasing the pace of change but not the direction.

Still, although the prospects of a demerger have receded (see above), there is much else Mr Polman could do. "I would like to see him bring down the vast number of products," says Douglas Ober, chairman of Adams Express, a US investment fund that is a Unilever shareholder. Divisions that investors would be happy to see sold are oral care, spreads and European laundry.

There are also strategic questions about how Unilever should run its brand portfolio. Does it carry on cutting regional brands - it has just 400 today compared with 1,300 at the turn of the millennium - to develop global brands, as P&G has done with Pampers, Gillette, Tampax and Tide? Andrew Seth, a former chairman of its Lever Brothers UK subsidiary, says Unilever has struggled to create global brands, particularly in food. "These days you have to have brands that cross borders," he argues.

As he prepares to take over, Mr Polman will be aware that he was not everyone's first choice. Many investors would have preferred to see Bart Becht, the Dutchman who runs Reckitt Benck-iser, take. Unilever by the horns. He has proved that he knows how to make money out of even the most basic products, such as household bleach. "Polman has never been in charge in the way that Becht has been," says Andrew Wood of Bernstein Research, who has been a Unilever critic.

But although Mr Polman never became chief executive at either P&G or Nestle, he knows how they work from the inside and can ask the hard questions his predecessors may have not known how to ask. "I can't say Polman's a superstar, it's too soon to call that," says Mr Wood. "But he has the raw material and the opportunity."

Fonte: Financial Times, London, October 3 2008, Primeiro Caderno, p. 11.