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An Analysis and Evaluation of the Financial Performance of Unilever Plc

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Abstract

Firm performance measurement is a measure of success of a business. It supports in answering questions such as, has the business achieved its goals? Is it profitable and utilizing its assets efficiently? Will it be able to meet its creditors in a crisis? During adverse times many firms fail or become bankrupt such as, the 2007 recession. Adequate management of efficiency and liquidity can result in survival and profit. This report analyses and evaluates the financial performance of Unilever Plc over 10 years for time period 2007-2016, in order to assess whether the company flourished or merely survived the recession and how it compares within the industry. The evaluation would be conducted through profitability, liquidity and efficiency ratios and Unilever Plc will be compared with the top five companies in the food producer industry, data will be obtained from FAME.

Keywords: Performance, measurement, *management, efficiency, profitability, FAME*

Introduction

The global recession of 2007 adversely affected many companies. Some of these went bankrupt, redundancies increased and household income fell drastically.The UK recession and the global recession left its mark on many UK industries.Changes in consumer behaviour affected the economic situation of the food industry (Grier, 2009) and the most affected segments were those that had a bigger elasticity based on income levels of consumers. The food and drink industry contributes £28.2bn to the economy (Malone, 2017) and Unilever Plc is a market leader within the industries sub-sector of Food Products, with market capitalisation of 56%. Its operations affect the UK economy through taxes paid, jobs offered, revenue generated and community services provided. It is important to understand how well the company is performing and what affect the recession had on the company. The performance of a company can be measured through financial and non-financial indicators. Many financial tools can be used to evaluate a company's position-profitability being the most preferred tool. As profit maximisation plays an important role in the development of a business. Financial indicators include profitability,liquidity, solvency, efficiency and other financial ratios, whereas non-financial indicators are customer perception, employee retention, and product reliability amongst others. All of these help to judge the position of a business: internally compare targets to budgeted aims: externally evaluate the position within the industry and competition.

The focus of the article: Unilever is one of the top selling products company with a share of 22% of the global market in ice-creams (Forbes, 2016) and 56% market capitalisation. A company whose 400 products are used globally is an important aspect of the UK and world economy.

This research is foremostly being undertaken to evaluate the financial performance of Unilever and secondly to understand the impact of the financial crisis on Unilever's performance. Analysing the financial ratios and variables of Unilever will illuminate its grasp and future development within the industry.

The aim of this research is to analyse and evaluate the financial performance of Unilever over a ten year period (2007-2016). It is vital to ascertain whether Unilever merely survived or excelled after the financial crisis. To accomplish this, the subsequent objectives need to be met:

- To determine the trend of Unilever’s profitability over the ten year period.
- To measure the liquidity of Unilever over the ten years.
- To study the efficiency of Unilever’s management over the given time of ten years.

Review of the literature:

Unilever was established in 1885, at the launch of Sunlight; the first branded and packaged laundry soap, introduced by William and James Lever (Unilever, 2015) .Unilever was formed when the Lever Brothers merged with Margarine Unie in 1932.Unilever has diversified and expanded worldwide over its trading years. As listed on the Unilever (2017) website, it made many acquisitions; Wall’s (1922- a sausage company which started making ice-cream); British Oil & Cake Mills (1925- major competitor); Lipton (1971); Frigo (1973- ice-cream in Spain); Pond’s (1986): Calvin Klein and Elizabeth Arden (1989); Best Foods (2000); Alberto-Culver (2010) and Dollar Shave Club (2016). It operates in the fast-moving consumer goods market in over 150 countries with over 400 brands including 11 “billion-dollar brands”, which achieve sales in excess of €1 billion (theGuardian, 2017) . The company has a turnover of £34 billion and employs 172000 people worldwide with two headquarters, one in London and the other in Rotterdam. It operates in various sectors; food, beverages, household goods, home care, personal care and refreshments: 16 out of its 40 brands in the UK are market leaders including Persil, Dove, Magnum, Flora, Marmite, Lynx (Unilever, 2015) . The biggest competitors of Unilever are Nestle and Procter & Gamble. As published by Unilever (2016), its products can be found in nine out of ten UK homes and are used by 2 billion people globally every day. Unilever contributes around £8million to charitable projects such as sustainable development, education, arts, nutrition and health. The existence of Unilever is important for the UK and the world economy as its presence is in every household, especially during the unstable economic climate of Brexit. The company employs 7500 people in the UK but as Allen (2017) reports in theguardian Unilever will not be scaling back its operations in UK,which is important as major businesses such as JP Morgan are hinting at quitting Britain. It is ranked 10 th in the FTSE-all share index (StockChallenge, 2017) and has survived the recession of 2008 as depicted in FTSE (Moore, 2016) .

Firm Performance

According to Bourne & Bourne (2011) performance is success of achieving company objectives, Munir(2015) further adds that this success can depend on the efficiency ofthe firm in itself but consideration needs to be given to the market that the businessoperates in. The performance of the business is affected by company strategies andoperations in market and non-market environments (Orlitzky, et al., 2003) .Consequently, it is important to understand why and how firm performance ismeasured. Venanzi (2012) suggests that firm performance is calculated from twoviewpoints- externally it helps investors formulate expectations of potential earningswhilst internally it helps managers in operations, activity and managerial evaluation.The firm performance can be measured through financial indicators and non-financialindicators.

Non-Financial Performance Indicators

Ittner & Larcker (1998) state that non-financial performance indicators are importantfor business value and Stewart (1999) further calls for disclosure of these indicators asdrivers of firm value. The measures cannot be expressed in monetary terms and arequantitative in nature. Customer fulfilment and retention, employee satisfaction,product quality, brand development all form part of these measures. Customersatisfaction results in repeat business and loyalty, leading to an increase in sales anddecrease on marketing expenditure. Arlbjorn & Haug (2010) say it is important for“companies to be able to track the progress and performance that they are making interms of their non- financially related activities”. This can be achieved through theEFQM (European Foundation for Quality Management) excellence Model, the

Performance Prism and the Balanced Scorecard. The Balanced Scorecard offers a link between the financial and non-financial performance metrics by constructing bridges between the company’s visions, strategies and tasks (Ziegel, et al., 1998)

Financial Performance Indicators

Financial performance indicators are subjective measures to evaluate how well the assets of a firm are being used to generate revenue. Neely (2006) mentions the DuPont pyramid of financial ratios which links a wide range of financial ratios to return on investment. As Leach(2010) affirms ratios must be compared with other companies and trends to make it meaningful. Wahlen, et al. (2017) adds further thatthe most important step is to interpret and glean key insights from a financial ratio.There is a high dependency on the profitability ratios, but a high profit does notnecessarily mean the business is flourishing; the high profit could be due to incorrectusage of capital structure or sales strategies. Profitability is not the only universal

measure and more robust method needs to be used. Hence, this study will beevaluating profitability, liquidity and efficiency to measure financial performance as mentioned in the objectives.

Research methods:

This study evaluates the financial performance of Unilever Plc over the ten years,with an aim to analyse the company performance during and after the recessionperiod and compare to the industry as a whole. This study adopts the positivism andobjectivism view as it is a theory generation study and not theory testing.The studydata is secondary and information gathered is from external soources, such as, FAMEDatabase (approved and reliable). The inductive approach will be mainatined as itobserves and compares financial information for Unilever and the industry to analyseUnilever's financial performance and has no pre-determined theory requirements tocollect data and information (Selvakumar, 2015) . Inductive approach will be beneficialin generating trends and patterns from collected data. The data being used is beyond my perception and can be verified by external users. The research is quantitative in nature because numerical data is being used to ascertain appropriate ratios, along with some qualitative analysis to explain trends of data. The research design is a case study as it involves an in-depth analysis of Unilever, and longitudinal design along with comparative will be used, as data from last ten years will be studied and compared with the industry.

Findings and Discussion:

As per the profitability ratios (ROCE and ROA), Unilever was achieving greater results in comparison to the industry, with the ROCE being more than doubleand the ROA on average being 7-8% higher than the industry. However, the liquidityratios (CR and QR) were both significantly lower than the industry, which was animpact of the various acquisitions undertaken by Unilever over the sample periodwhich were financed through debt. On the other hand, Unilever had lower debtorscollection days and higher creditors payments days; this suggests that the company is managing its working capital more efficiently than the industry. It also signifies thatthe cash inflow is much faster than the outflow. However, high credit payment termscan signify that Unilever is unable to pay its debts and could increase their creditrating, along with the high gearing of Unilever this could result in hindrances in thesupply chain, ultimately affecting the turnover and profits. The inventory holdingperiod change is more for Unilever, with the inventory turning on average 11.2 timesin comparison to 8.6 times only for the industry. This portrays that Unilever is notexposed to slow movement of inventory and their products are being sold off the shelf quickly, which is positive news for shareholders and investors.

Conclusions:

The study met the three aims through analysing the data collected form Fame and annual reports of Unilever Plcwere relevant, and constructing relevant graphs. The profitability ratios for Unileverwere superior to the industry and indicate that Unilever’s capability to generaterevenue, achieve higher returns for shareholders wealth maximization is grander thanits competitors within the industry. The liquidity ratios however are lower than the industry, where the industry is able to maintain a current ratio higher than 1:1;Unilever was unable to reach above 0.93:1 throughout the sample period. This suggests that Unilever may struggle to meet its short-term obligations. However, even with the low liquidity, the efficiency ratios were Unilever are much higher than the industry and they enjoy good credit payment terms (even after low current and quick ratio). Unilever manage their cash flow very efficiently as they receive money faster from debtors in respect to paying their creditors. The inventory holding period is higher than the industry as well and they turn their inventory more times than the industry. It can be seen that the recession has not impacted the long term financial over view of Unilever and it has recovered well from any effects of recession.

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