Brand sell-offs accelerate but food remains Unilever’s cash cow

Over the past two years Unilever has been accelerating the selloff of food brands and manufacturing facilities. From 2000-2010 this was called the “Path to Growth” and “One Unilever”, a process which shrunk the company’s brands from 1,600 to less than 400 and reduced the number of global employees by half. CEO Paul Polman now calls this “pulling weeds to let the flowers grow”, and has said that the company is “nearly done” with its portfolio review. When Unilever announced the sale of its market-leading North American Ragu and Bertolli pasta sauces in May, Unilever North America President Kees Kruythoff said: “This sale represents one of the final steps in reshaping our portfolio in North America to deliver sustainable growth for Unilever.”

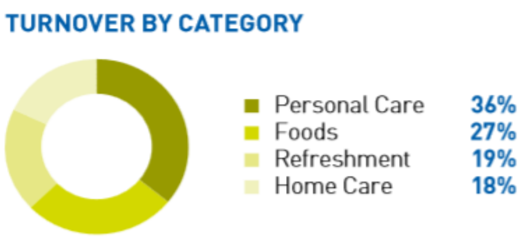
If there is a lesson to be learned from the past 15 years, however, it is this: restructuring is permanent. There are no “final steps”.

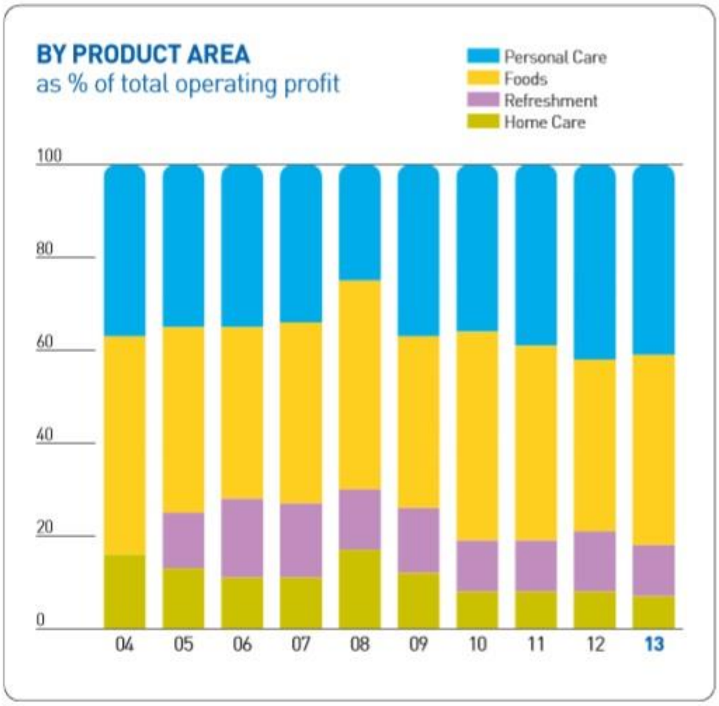
Selloffs this year so far include SlimFast diet products (to private equity group Kainos Capital), Ragu/Bertolli sauces with 2 US factories (to Japanese rice vinegar maker Mizkan, a company with no experience in making or marketing sauces), Peperami meat snacks in Europe and Royal pasta in the Philippines. Last year it was Wish-Bone salad dressing in the US (to private equity-owned Pinnacle Foods), Bertolli and P.F. Chang's US frozen meals brands (to ConAgra), Unipro oils and fats in Turkey and Skippy peanut butter (to Hormel Foods). In some of these deals, Unilever has kept a stake; in others they have kept the brands, securing low tax royalties: in the Unipro deal they retained the factory and will be manufacturing under contract to buyer AKA.

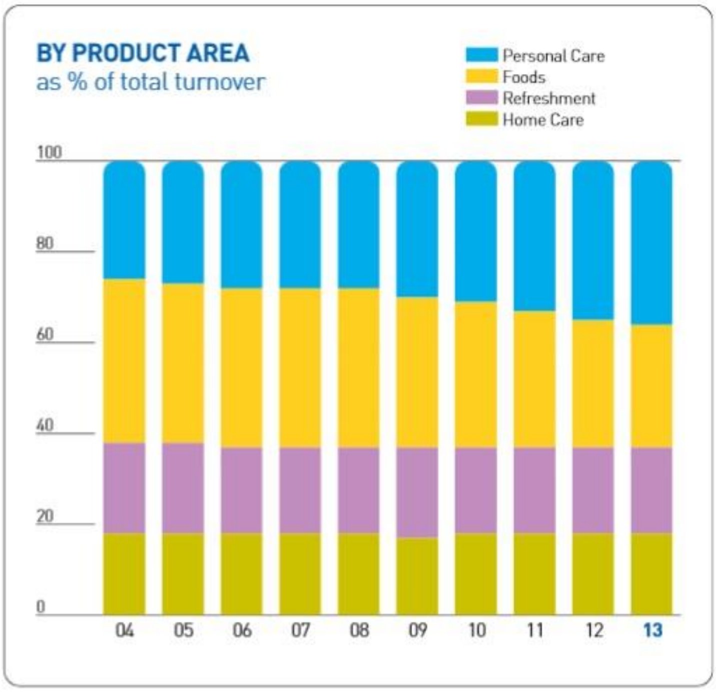
Chief Financial Officer Marc Huët is showing powerpoint slides to investors titled “reducing our dependence on foods”. What, then, is the role and the future of foods at Unilever, a topic which has long engaged the financial press? Is the company “nearly done”?

Five years ago food accounted for some 46 percent of turnover and personal care 24%; food now accounts for 36% and personal care 33%. However, the recently-created “refreshment category”, essentially tea and ice cream, together with food, still account for 49% of all Unilever revenue.

Even more importantly, the food division generates a greater share of profit per unit of revenue than all other categories, as the following 2013 figures from Unilever show:







For now, at least, food remains the indispensable cash cow feeding expansion in other areas. As the company wrote in their 2013 annual report, “Foods has been a major cash contributor for Unilever, allowing us to finance faster expansions in Home Care and Personal Care.”

Disposals and acquisitions are pragmatic and opportunistic; today’s “core products” and market leaders are tomorrow’s “underperformers”. Sauces are out in North America, but in Russia Unilever buys Baltimor ketchups and sauces. Is a Knorr “cook-in-bag” more integral to the company’s product lines than, say, a salad dressing? Do sauces move from the periphery to the core when they cross the Russian border? The truth is that opportunism and the quarterly report (which Unilever had pledged to abandon) drive decisions, and cash is king.

There has been a modest increase in capital expenditure following the extreme shrinkage of the Path to Growth Years, when the company promised investors that capex would be reduced to 2.5% of revenue. It now stands at around 4%, still ridiculously low by historical standards. Some of that is being invested in foods, including major investments in spreads in North America. Everything else being equal, the uptick in investment would signal a more favorable situation for workers. But everything else is of course not equal. Where unions are weak, sites will be closed and production moved to non-union facilities which may receive new investment. Cash from sell-offs will continue to dope returns, rendering all jobs potentially vulnerable. Unilever continues to grow sales despite persistent high unemployment in Europe with no end in sight, anemic growth in consumer spending in North America, and the inevitable failure of revenue growth in emerging markets to hit targets which were never realistic. The company's market position allows it to grow turnover through price increases when sales growth disappoints (and 2013 was a case in point).

For workers, the main point is that dividends continue to grow (even faster than net profits), while r&d and capital investment stagnate or decline in relation to revenue growth. In 2013, dividends were up 10% over the previous year, although net profits as reported for 2013 were up by 9%. The first dividend for 2014 was up by 6%. The portfolio continues to be constantly mined. At Unilever, there is much talk about sustainable living, sustainable sourcing etc. There are sustainable dividends in the presentations to investors (but not in the sustainable living presentations). Workers are still waiting for sustainable investment and sustainable employment.

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