



UNILEVER

▶ WORLD'S MOST ADMIRABLE RANK: **NO. 38**
▶ 2016 REVENUES: **\$58 BILLION** ▶ 2016 PROFITS: **\$5.7 BILLION**
▶ EMPLOYEES: **169,000** ▶ NUMBER OF BRANDS: **400+**

SELLING SOAP AND SAVING THE WORLD

▶ **UNILEVER** CEO PAUL POLMAN HAS REMADE HIS COMPANY AS A MODEL OF RESPONSIBLE CAPITALISM. BUT CAN THE CONSUMER GOODS POWERHOUSE GROW FAST ENOUGH TO PROVE THAT HIS NEW MODEL WORKS?
BY VIVIENNE WALT

○
Paul Polman
photographed
at Unilever's
London
headquarters
on Feb. 1, 2017.





THE QUESTION IS, 'DO YOU RUN THIS FOR SOCIETY OR NOT?' SAYS POLMAN. "THE REAL PURPOSE OF BUSINESS HAS ALWAYS BEEN TO COME UP WITH SOLUTIONS."

STEP OUT OF THE FRIGID DRIZZLE into Unilever's factory outside Liverpool in northern England, and the brightly lit, automated assembly line gleams in stark contrast to the gloom outside. Thousands of bottles shoot down a conveyor belt with a click-clack sound, in a streak of bright purple. Look more closely, and there is an important detail. The new bottle is squatter than the older, taller style on another assembly line, with a smaller dispenser and a label explaining that this version of Comfort brand fabric conditioner is good for 38 washes, rather than the 33 of the last-generation package. The message is clear: Customers need to help save one of earth's most precious resources—water.

This might appear to be a clever bit of marketing by one of the world's biggest consumer product companies, and marketing it surely is. But to Unilever, its updated, concentrated liquid is also a crucial innovation. It's one of countless tweaks underway by the Anglo-Dutch company in its more than 300 factories across the world, which churn out more than 400 brands for 2.5 billion or so customers—an astonishing one in every three people on the planet. Central to these changes is a message Unilever is determined to convey to its investors, as well as to other companies: Big corporations need to change the way they do business, fast, or they will steadily shrink and die.

To most of Unilever's customers, the state of the world is probably the last thing on their minds as they push their shopping carts through the supermarket, tossing in Ben & Jerry's ice cream, Dove soap, Lipton tea, Hellmann's mayonnaise, and other Unilever products. It's hard to imagine that eco-disasters might someday lead to those items disappearing from shelves. But to Unilever, which was born as a solution to a crisis, the potential for calamity seems real enough. The company got its start in the 1880s, right here in this picture-perfect redbrick village near Liverpool called Port Sunlight—named after the world's first packaged, branded bar of soap and the company's founding product. It was created in an effort to stop rampant epidemics and child deaths amid the grinding poverty and squalor of Victorian England. Nearly 130 years later, there is still an acute sense at Unilever that the world needs fixing.

The person most responsible for that feeling of urgency is 60-year-old Paul Polman, the tall, soft-spoken Dutchman who has led Unilever as CEO for the past eight years. Folded into an armchair more than 200 miles south of Liverpool, in the company's London headquarters on the Thames River, Polman rattles off figures more commonly heard in the UN General Assembly than the C-suite of a company with \$58 billion in sales. Indeed, this past November the French government pinned a knighthood on him, not for his ability to drive profits but for his vociferous global campaigning to rein in climate change.

When I meet Polman on a chilly February morning, it's just a few days after he has released Unilever's 2016 earnings. Yet he is

not particularly interested in discussing the results. (Unilever reported \$5.7 billion in net profit for the year on slowing sales growth.) The figures that seem more pressing to him are ones that he's convinced have greater potential to put his and other companies in peril. More than 160 million children in the world are stunted from malnutrition, he says. Eight million people die prematurely each year from pollution. The world's richest 1 billion people consume 75% of its natural resources. "We're wasting 30% to 40% of the food in this world, whilst millions of people go to bed hungry," he says, as if amazed that the situation is even possible. "Why do we not have the moral courage to attack that?"

Polman hands me just one document to read: a report of the Business & Sustainable Development Commission, a group of CEOs and NGOs that advocates business growth by applying the UN's development goals. In 2012, Ban Ki-moon, then the UN Secretary-General, picked Polman as one of 26 people to craft 17 goals for the world body—the only business executive in the group. Introduced in 2015, the UN's Sustainable Development Goals, or SDGs, include eliminating poverty and gender inequality. When I ask Polman how much time he spends on Unilever business compared with lobbying politicians and heads of state or addressing NGOs, the World Economic Forum, Stanford's Graduate School of Business, and others, he draws a blank. "To me it is the same," he says, sipping a cup of green tea. "I don't separate that. I think it is an integral part of the way we run our business."

Proving that point is now Polman's—and Unilever's—major challenge. There is certainly ample evidence that the world is in trouble. This century has seen an acceleration of global-warming trends, as well as an extreme widening of the gap between the world's richest and its poorest. But it is less clear whether Polman can succeed in convincing his peers in the business world that it's their job to fix those problems—or at least, whether he can succeed in doing that during his remaining time as CEO of Unilever. When the company named Marijn Dekkers as its new chairman last year, investors concluded that his first task would be to find a successor to Polman.

If Polman is concerned about his job status, he doesn't show it—perhaps because he is so intent



Workers test new shampoo formulas in a lab at Unilever's facility in Port Sunlight, England. The company spends more than \$1 billion annually on R&D.

on making his development strategy work. To the CEO, his logic seems irrefutable. Environmental risks and poverty are fundamental problems for almost every part of business operations, from storing data to manufacturing laundry detergent to growing tea. More customers will begin to shun companies that fail to grasp that, he believes, while businesses that practice gender equality and environmental preservation will inevitably become more profitable. In that sense, he thinks that Unilever can play a vital role in showing other companies the best path forward. "This is not a charity we're talking about here, you know," he says. "We are running a business."

Polman's embrace of sustainability as a core management principle has helped bolster Unilever's reputation globally. The consumer goods company ranks No. 38 this year on *Fortune's* list of the

World's Most Admired Companies Top 50 All-Stars, up from No. 41 in 2016. It's the sixth straight year Unilever has made the list, which is determined by surveying thousands of executives and analysts.

But in the unsentimental world of markets, Unilever's good intentions count for little compared with its bottom line. And over the past 12 months, the company's stock has slipped by more than 2% while the S&P 500 has soared 25%. "A minority of investors I speak to give two hoots about Unilever's Sustainable Living Plan," says Jefferies analyst Martin Deboo in London, referring to Polman's signature blueprint for Unilever, dubbed USLP. Polman introduced the plan in 2010, and it now informs every aspect of the company's sprawling worldwide operations. The dizzying array of 50 goals includes stopping all nonhazardous waste going to landfills, training 5 million women, and halving the water waste in its factories.

As a stagnant global economy has hit Unilever's growth during the past two years, Deboo says, some investors have begun to question whether the strategy should trump other factors. Unilever says 80% of its investors see the approach as boosting long-term value. Still, Deboo suggests that there's a sense Polman has morphed into the classic Davos Man, more intently focused on fixing global problems than the nitty-gritty details of operations. Indeed, Polman says as much. "I am really more interested in development," he says. "And there is no better way than using companies like this to

► **ONE PLANET, MORE THAN 400 BRANDS**

UNILEVER IS RETHINKING EACH BRAND UNDER ITS SUSTAINABLE LIVING PLAN, WHICH DEMANDS IT HALVE ITS WATER USE AND CARBON EMISSIONS, STOP SENDING WASTE TO LANDFILLS, AND HELP FIGHT DISEASES. HERE ARE FIVE EXAMPLES:



**BEN & JERRY'S
SAVE OUR SWIRLED**

The company invented this marshmallow flavor to mark the global climate talks in Paris in 2015. The ice cream even has its own motto: "If it's melted, it's ruined!"



**LIFEBUOY TOTAL
TO HANDWASH**

The hand-soap brand is central to Unilever's global handwashing campaign to help prevent deadly infectious diseases. Currently 5 million children die yearly of diarrhea.



DOVE BODY WASH

Unilever says the new MuCell technology it uses to make its bottles requires 15% less plastic. It has made the technology open-source, encouraging other manufacturers to do the same.



COMFORT ONE RINSE

A newly released version of the fabric conditioner uses 20% less water than previous editions, saving the equivalent of 10 million Olympic-size swimming pools per year.



**SURE COMPRESSED
AEROSOL DEODORANT**

Unilever says it redesigned the product in 2013 to use 50% less propellant gas and 25% less aluminum. And the entire package is now recyclable.

drive development." As for being the boss, Polman, who has refused increases on his base salary of \$1.27 million, says, "I never wanted to be a CEO, and I don't really care about that."

While that might be sincere, it could also suggest to investors that Polman's energy is not entirely focused on his company. "People indulged Unilever on USLP in the early years when the reporting numbers were going well," Deboo says. "Now they want to hear more muscular language about earnings and returns."

Nearly a decade into his tenure at Unilever, the jury is still out on the lasting impact of Polman's grand plan. Can he help save the world and still sell enough soap, snacks, and other goods to please shareholders? And is his version of Unilever going to be the new model for successful multinationals?

I **T IS ON THE SUBJECT** of climate change that Polman is most passionate. During the global climate talks in Paris in December 2015, Polman drummed home the point to business leaders and politicians that companies' survival depended on averting environmental catastrophe. Polman believes that naysayers are losing the argument on climate change—notwithstanding the climate skeptics in

President Trump's administration. He credits a wired, savvy younger generation that's intensely concerned about the planet. Among CEOs, too, Polman says he has noticed a dramatic change in attitude. "Five years ago I could not get a single CEO to be on a panel about climate change," he says. "They were worried about being attacked by people in beards and sandals. Now many can talk about climate change."

Even so, Polman's argument that it is the job of businesses to help fix these problems requires a mental shift for many companies. Typically, most have carved off issues like the environment and poverty into corporate social responsibility (CSR) programs, separating them from revenue-generating business. To Polman the distinction makes no sense. In 2009, when he landed as CEO at Unilever from its Swiss competitor Nestlé in the depths of the financial crisis, he scrapped the CSR department, instructing Unilever's 169,000 employees instead to embed the company's



HERE WAS A COMPANY WHERE, BECAUSE OF THE LEADERSHIP, IT WAS OPEN TO THE PROBLEMS WE THREW AT THEM.” **Rachel Wilshaw**, ethical trade manager at nonprofit Oxfam

extensive social commitments into their business targets. The strategy extends companywide, to “every brand, every market. No exceptions,” as Keith Weed, who heads Unilever’s sustainability program, described it in a LinkedIn post.

It was part of a bold makeover. Polman said his goal was to double revenues from \$40 billion to \$80 billion, while halving the company’s environmental footprint. Unilever staff say that the aggressive targets helped instill a “growth mentality” within the company and that, although revenues have not doubled, they have increased more than 10 billion euros since Polman arrived. (But only about \$4 billion because of dramatic currency fluctuations.)

Polman quickly understood that it would take years for the company’s sustainability plan, the USLP, to show concrete results, and that some of its targets could run counter to growth. So he scrapped quarterly earnings guidance for investors, a system he calls “absolutely ridiculous.” Polman sides with those who argue that the tyranny of quarterly goals traps public companies into continually trying to drive up share prices for investors, while downgrading more long-term, complicated missions, like improving working conditions and the environment.

“The question you ask is, ‘Do you run this for society or not?’” Polman says. “The real purpose of business has always been to come up with solutions that are relevant to society, to make society better.”

THOUSANDS OF MILES from the London headquarters, with its motivational wall posters and health-food canteen, Polman’s strategy is playing out in real time, exposing not only the growth potential he says is inevitable, but also the big obstacles to making it work.

The hurdles are especially steep in countries with a long history of discrimination and environmentally bad practices. Unilever has about 76,000 suppliers, and it produces or sells in 190 countries—all but six in the world. Nearly 60% of its turnover now comes from emerging markets in Asia, Latin America, and Africa (compared with under 40% for Cincinnati-based competitor P&G). Those regions are home to a soaring number of middle-class shoppers, who represent much of

Unilever’s growth potential. They’re also places where putting Unilever’s sustainability goals into action has proved tricky.

Soon after Polman began at Unilever, the nonprofit Oxfam began investigating working conditions in the company’s factories. It picked as its test case Vietnam, where the company had operated since 1995. Today about 15,000 Vietnamese work for Unilever making products like Lifebuoy soap and Knorr broth granules. Oxfam’s findings, published in 2013, showed that factories routinely ignored Unilever’s stated principles, including Polman’s dictate of paying workers decently. “People were earning much less than they ought to have been to work their way out of poverty,” says Rachel Wilshaw of Oxfam, which led the study. Many workers pieced together second or third jobs to make ends meet, she says—a surprise to Unilever, which believed it was treating its workforce fairly. “The company didn’t understand that though they were paying above the minimum legal wage, it was far below a living wage.”

For all of Polman’s good intentions, getting suppliers to comply with guidelines from London has not been easy. Driven by Polman, Unilever issued its first human rights report on its operations in 2015—much as the U.S. State Department does each year. Among its contractors in India the company found hundreds of cases of poor health and safety conditions in factories, as well as workers being underpaid. Only 13% of cases were resolved, according to Unilever’s report.

Both union officials and NGOs say Unilever seems serious about tackling the problems, which are common in the supply chains of giant corporations producing across the globe. After Oxfam’s Vietnam report appeared, the company reviewed its factory workers’ wages globally and introduced tougher requirements for suppliers, according to Oxfam, which published a follow-up study last year. For that, Wilshaw credits Polman. “Here was a company where, because of the leadership, it was open to the problems we threw at them,” she says.

Absent from Oxfam’s report was just how those improvements might also boost Unilever’s sales in Vietnam. There, with 90 million people and a fast-growing middle class, Unilever could ill afford a public backlash over poor labor conditions. Tapping into those millions of new customers in markets like Vietnam is key to growth in emerging markets. Three years ago Unilever rolled out a program in Vietnam it called “perfect villages,” in partnership with the Communist government there. In about 1,000 rural communities it now promotes products through programs around hygiene—for example, by handing out free packages to schools that include toilet cleanser and toothpaste while building playgrounds and upgrading clinics. “You can see the impact in terms of more penetration of our brands,” says Van Nguyen Thi Bich, Unilever’s vice president of customer development in Vietnam. The perfect villages, she says, are much faster-growing



markets for Unilever than other parts of the country. At the schools, for example, “we teach them to use the products,” and children then “talk about that with their moms.”

The tactic of pushing its products while doing good is hardly unique to Unilever, and for the company it extends far beyond Vietnam. In 2008 it helped launch a global “handwashing day” in more than 50 countries. To promote the effort, Polman regularly flies into rural areas and scrubs his hands with soap—Unilever soap, whose Lifebuoy brand is now closely identified with the campaign. The company aims to reach 1 billion people by 2020, and says it has already reached nearly half that number. In South Africa, where a severe drought has devastated many communities, the company erected Sunlight billboards made from drums of water—essential, of course, to using Unilever’s soap—and distributed the water to drought-stricken areas.

The strategy harks back to the company’s first business model, crafted by Lord Lever in Liverpool in the 1880s to help improve hygiene among English families. The results back then were impressive, as were Lever’s profits. The company is hoping history will repeat itself. “The problems were horrendous,” Polman says. “Today they have just moved to sub-Saharan Africa and India.”

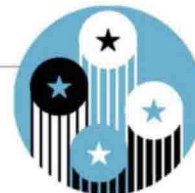
FOR UNILEVER TO BEAT its competitors, it will need to do a lot more than sell laundry soap and toilet cleanser in emerging markets. Crucial, say investors, is appealing to millions of millennials with money to spend, from New York to Berlin to Tokyo, whose demands have upturned decades of consumer habits at lightning speed.

○ In Vietnam, Unilever has partnered with the government to promote good hygiene, creating new customers for its brands in the process.

Increasingly they are opting for local, smaller brands rather than the traditional mass-market items that until now have constituted most of Unilever’s offerings. Despite Unilever’s more than \$1 billion annual R&D budget—it has six research centers around the world, including the original one in Port Sunlight—the company simply cannot invent enough new products to match its growth demands. So Polman has increasingly turned to acquisitions.

In the past two years, Unilever has used its mountain of free cash (about \$5.1 billion last year) to snap up small brands—ones that sell for higher prices in stores. In 2015 it bought Murad and Dermalogica, a pair of California skin-care companies, both of which Unilever says had double-digit growth last year. In July it spent \$1 billion to buy Dollar Shave Club, a Venice, Calif., company that mails its subscribers monthly shaving products. And in September it bought Seventh Generation, a Vermont company producing eco-friendly detergents and cleaning products, in a deal worth between \$600 mil-

○ COURTESY OF UNILEVER



lion and \$700 million, according to one source who spoke to *Fortune* at the time.

For all that excitement, Polman sounded almost somber on the telephone with analysts in late January when he announced the company's 2016 earnings. The newspapers that morning were giddy about the Dow breaking 20,000 the day before. But Unilever's revenues were down 1% year over year. (Unilever says corrected for currency moves such as a strengthening dollar, its sales grew 4.3%.) The company hopes to cut \$1 billion in costs this year. After listening in on the call, some investors concluded the company was partly driving up growth from higher margins rather than higher volume. "For Unilever, their issue is that they have quite a mass-market consumer products portfolio," says Warren Ackerman, an analyst at Société Générale in London. In addition to acquiring high-end products from companies like Seventh Generation, he says, "they really need innovation to grow volume."

That is just one challenge, however. Polman told analysts on the call that Unilever was being whipsawed by events that seemed to come from nowhere. The Brexit vote last May caused the British pound to plunge 20% against the euro and dollar. There have been months of economic upheaval in Brazil, a big market for Unilever. And in November, India's government scrapped the 500- and 1,000-rupee notes, which many people used to pay for regular household products. Polman foresaw a litany of other problems ahead, he told investors, listing these: "subdued economic growth, geopolitical tension, the resultant backlash against globalization and technology, a planet under increasing environmental stress, and the fragmentation of consumer trends, shopping channels, and media." Within hours the share price plunged 4.4% on the London Stock Exchange.

When I ask Polman a few days later why he painted such a stark picture of the world, he replies, "What's new? I'm surprised that people are surprised."

For him, the campaign to rein in climate change and improve working conditions no longer seems enough—there are even bigger problems threatening businesses. Those include the way global financial systems appear to benefit a minority of people. In January, Oxfam reported that the richest eight people now hold as much combined wealth as half the world's population. To Polman, the system seems doomed. What is needed, he says, is "a better form of capitalism."

"Global governance is broken," says Polman. "Since the financial crisis we have put \$63 trillion into the global economy. We have got zilch back in growth."

As gloomy as all that sounds, Polman is nevertheless optimistic about the future. He remains convinced that Unilever's sustainabil-

ity plan—including the initiatives on labor rights and zero carbon emissions—will inevitably lead to business growth, even if the two imperatives are not always in sync.

The difficult balancing act that Polman's vision requires became clear to the team that investigated the company's Vietnam operations, where some suppliers seemed uncertain which Unilever demand took precedence: delivering quickly and cheaply or delivering sustainably. "Unilever wants a product at a very good price at a good delivery time, and they want better standards for their workers," Oxfam's Wilshaw says. "But these two don't fit together neatly." Usually, she says, "the commercial demands win out."

Wilshaw believes that before Polman leaves Unilever he should try to reward suppliers who improve labor standards—something that might have a marked impact. Still, she doubts that the company can ultimately deliver what Polman calls "a better form of capitalism."

"At the end of the day Unilever is a shareholder-owned business, and shareholders are voracious for profits," she says.

Polman is nowhere done trying to fix the world. But it will take time. Even achieving Unilever's sustainability plan goals is an intensely complicated, long-term task. Last year the company admitted it would take until 2030 to halve its greenhouse gases, about a decade longer than it had hoped.

By then, Polman will be long gone. Yet he remains convinced his ideas will leave business in better shape. Already, he says, Unilever has seen big success in recruiting millennials, who want to work for a company that is engaged in the world; he says the company receives 1.8 million applications a year.

As our conversation wraps up, Polman emphasizes again that his economic development goals will certainly boost Unilever's fortunes too, especially since the company depends on hundreds of millions of people having enough money to buy staple items. "If 800 million people no longer go hungry, that is a big opportunity for us to sell our food," he says. "If we fight for them and do it well, our shareholders will do well." Even if that takes many years more. ■