UNILEVER – BEN & JERRY’S: A MERGER FOR GOOD?

The purpose of this paper is to analyze, comparatively, the triple-bottom-line impacts and operations of pre-merger Ben and Jerry’s and its acquirer, Unilever, which has been the parent and owner of the Ben and Jerry’s brand since the April 2000 merger.
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I. Introduction to Unilever

A. Unilever Company History: A Narrative of Innovation and Service

Unilever has its roots in social responsibility. Late in the 19th Century, with the British industrial revolution in full swing, a growing population\(^1\) and an increasing gap between rich and poor\(^2\) had created a shortage of butter, which was, at the time, an essential ingredient in maintaining the health of the wider population. Consequently, Britain began importing butter from the Netherlands, where fierce competition between the rival Jurgens and the Van den Berg family businesses was driving innovation. As the Netherlands approached its agricultural limit for butter production, the families developed margarine as a means of increasing production, and embraced refrigeration as a means of improving shelf-life. Facing increasing competition, the families merged to form Margerine Unie, and invested in research for the supplementation of vitamins in the margarine to improve flavor and nutritional value.

In Britain, Lord William Lever had devised a strategy for merchandising mass-produced soap directly to the public rather than selling it to shops in bulk, which improved the hygiene of the poverty-stricken working class of Victorian England.\(^3\) Lord Lever also innovated in his concepts of labor and productivity: he posited that, “by paying people properly, reducing their hours and treating his employees fairly he could boost productivity. Unheard of at the time, he started pension schemes, unemployment and sickness benefits, work canteens and the concept of the eight-hour working day. He used his wealth to build Port Sunlight, a village for his employees to live in and enjoy.”\(^4\)

This was a particularly humane and timely act of service in light of the Poor Law Amendment Act of 1834 (“New Poor Law” or PLAA). Under the PLAA, the Old Poor Law practice of supporting the poor until jobs were available was abandoned as cost-prohibitive; the PLAA replaced it with a provision discouraging the provision of relief to anyone who refused to enter the workhouses, where those unable to support themselves were given employment and accommodations. While that may at first appear equitable, The New Poor Law also instituted the concept of “less eligibility,” which stated that “each workhouse working conditions in the workhouse had to be worse than the worst job possible outside the workhouse.”\(^5\) While the

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\(^1\) The population of England almost doubled from 16.8 million in 1851 to 30.5 million in 1901. statistics.gov.uk

\(^2\) Barbara Daniels, Poverty and Families in the Victorian Era. ("Hideous slums, some of them acres wide, some no more than crannies of obscure misery, make up a substantial part of the metropolis... In big, once handsome houses, thirty or more people of all ages may inhabit a single room.") http://www.hiddenlives.org.uk/articles/poverty.html

\(^3\) For a thorough discussion of the social plight of the working class in 18\(^\text{th}\) and early 19\(^\text{th}\) Century Britain, the seminal work by E.P. Thompson, The Making of the English Working Class, is extraordinary. (“Their crafts and traditions may have been dying. Their hostility to the new industrialism may have been backward-looking. Their communitarian ideals may have been fantasies. Their insurrectionary conspiracies may have been foolhardy. But they lived through these times of acute social disturbance, and we did not. Their aspirations were valid in terms of their own experience; and, if they were casualties of history, they remain, condemned in their own lives, as casualties.”)


\(^5\) Marjie Bloy, PhD., The principle of “less eligibility,” http://www.victorianweb.org/history/poorlaw/eligible.html, citing Charles Dickens, Bleak House, “we have come to this absurd, this dangerous, this monstrous pass, that the
principle existed to deter people from claiming poor relief, it also ensured that even the poor who were working would be forced into abject work and living conditions, and were often separated from family upon entering the workhouse.

B. Unilever Company History: A Global Coopetition Strategy

Since before the Lever-Margarine Unie merger, the Unilever conglomerate has pursued a diversified portfolio strategy through joint venture-, merger-, and acquisition-based growth. In 1888, Jurgens and Van den Bergh captured market prospects in Germany by establishing factories through Foreign Direct Investment, and merged with two European companies, Centra and Schicht, to form ‘Margarine Unie’ in 1927. In the mid-1890s, Lord Lever and his brother formed Lever Brothers, and expanded its operations to Europe, America, and British colonies through Foreign Direct Investment in factories for soap manufacturing and exports. By the 1910s, Lever Brothers had established soap factories all around the world, and had plantations in many developing countries. In 1917, Lever Brothers began to diversify into foods through acquisition acquiring fish, ice cream and canned foods businesses. Both Margerine Unie and Lever Brothers were competing for the same raw materials (e.g. oilseeds), and were using similar distribution channels. They merged to create Unilever on January 1, 1930. Between them, they had operations in over 40 countries.

The 1930 merger gave way to an increasingly international competitive strategy driven by global sourcing and first-rate research and development, paired with local branding. Although Lord Lever’s initial approach of direct retailing was phased out given the size and expansiveness of Unilever’s operations, the strength of local brands combined with the margins accrued through economies of scale make Unilever one of the strongest food producers and home products manufacturers in the world. Today, Unilever is the second-largest of the top three largest food producing companies, along with Nestle (largest) and Kraft (third). It is the global leader in ice cream and oils and fats.

C. Unilever PESTEL Analysis

Political Analysis

Because of Unilever’s extensive focus in developing and emerging markets such as China, Mexico, South Africa, Brazil, Indonesia, Turkey, and Russia, any political changes such as those in foreign direct investment regulation, fiscal stimulus or changes in tariffs or taxation could have profound consequences for Unilever’s operations in over 180 countries. Unilever should engage in continuous scanning not only to mitigate political risks, but to seize and seek out new, attractive opportunities for political incentives.
Economic Analysis

The recessionary effects of the 2008 financial meltdown have not yet subsided and continue to impact consumer spending and create overall instability economic environment. Developments in Greece and Italy, as well as other European Union countries will be particularly important not only to Unilever’s European strategy, but to global opportunities as well. Globalization and the growing ethnic population in the US will also continue to broaden the consumer goods industry and create new market segments. Keeping up with changing wants and needs of the consumer will be necessary in order to remain competitive in the industry, and doing so will increase the need for investment in research and development. Trends in how consumers shop also affect the industry; “beginning in the 1990s into the 2000s, consumers began purchasing these types of products at mass discount centers, such as Costco and Sam’s Club, rather than at upscale department stores.”

Consumers will continue to be influenced by price and convenience for most such products.

Future performance in the personal products industry will be tied to global consumer spending patterns and raw material prices. Expansion into global markets will be important for future growth, and “low consumption of household products in emerging markets – such as China and India – represents an opportunity for companies to expand their revenues and escape from the stale performance of their home markets.” The fastest growing and emerging markets include the Pacific Rim, Latin America, and Eastern Europe.

Social Analysis

Unilever has developed a strong corporate reputation for over a century now for its continuing focus on social and environmental issues, including promoting sustainable development and utilization of renewable resources. Unilever’s vision is to “help people feel good, look good and get more out of life with brands and services that are good for them and good for others.”

Unilever has successfully maintained high standards for the design and production of products that are safe for consumers. Unilever is also actively engaged in many social welfare projects like the World Food Programme and promoting access to safe drinking water. Unilever has undertaken substantial efforts to build its image as an environmentally friendly and socially responsible company.

Technological Analysis

In order to expand into the Asia-Pacific emerging markets, Unilever has been investing heavily in technology to facilitate research and development of low-cost alternative product offerings for the low income region. Unilever has also continued to develop its E-business strategy; initially, it was a member in a B2B marketplace, then participated in GDSN (global data synchronization), and then implementation of RFID technologies. Currently Unilever utilizes a proprietary supply chain management system to optimize performance. Competitively,
Unilever’s technologies in e-business are not inimitable or even rare or unique, and Unilever needs a high level of scanning of the technological environment because, “according to the Dynamic Resource-based Model of Competitive Advantage, Unilever will need to continue to add new and industry-leading IT resources to build and sustain a resource-based advantage.”

**Environmental Analysis**

Unilever is exceedingly cognizant of the environmental concerns surrounding its operations. It already measures its carbon footprint and has plans to reduce by 50% the greenhouse gas impact of products across their lifecycle by 2020. It also plans to halve the water associated with the consumer use of its products by 2020. And, it intends to halve the waste associated with disposal of its products by 2020. Unilever also plans to source 100% of its agricultural raw materials sustainably, although no precise definition of sustainability accompanies the statement, so it carries little weight with this reader. Finally, within the Unilever supply chain the company plans to link over 500,000 smallholder farmers and small-scale distributors into supply chain.

**Legal Analysis**

Unilever is subject myriad laws and regulations, some of which are discussed in more depth below. The legal environment covers diverse areas such as product liability, intellectual property, antitrust, health and safety regulations, foreign investment regulations, and environmental regulations. Important regulatory bodies include the European Commission, US Federal Trade Commission, and US Food and Drug Administration. Given Unilever’s strategy of brand acquisition, and given the constant movement toward consolidation, Unilever must be careful to avoid mergers and acquisitions that will generate attention from the FTC or analogous antitrust governing bodies in foreign countries.

**D. Unilever Competitive Strategy**

Unilever’s strategy focuses primarily on the acquisition of existing brands, rather than the development and introduction of new ones. Firm rivalries drive the acquisition strategies of competitors. For example, when Unilever acquired Ben and Jerry’s Homemade Ice Cream in 2000, Nestle acquired General Mill’s stake in Ice Cream Partners USA, which included ownership of Haagen-Dazs, and then in 2002 Nestle acquired a majority stake in Breyer’s Grand Ice Cream.

Unilever has recently divested itself of many brands in noncore product categories to focus on acquiring more brands in its core product competencies. From 2004 to 2009, Unilever divested 1200 underperforming brands that lacked brand recognition in the relevant markets. Unilever presently owns more than 400 brands, although the 25 largest brands account for over 70% of total sales. Unilever focuses its resources on 13 "billion-Euro brands," each of which has annual sales in excess of €1 billion. It also invested in more research and development for

16 Id.
18 Id.
20 Id.
products in the European market to maintain differentiation amongst other brands in that increasingly saturated marketplace.

Because Western markets have become saturated and income and population growth is accelerating more rapidly in regions of Latin America and Asia, food producers are seeking footholds in developing and emerging markets. Large firms like Unilever attempt to hone in on the specific tastes and preferences of a region – typically a weakness of a global firm entering a new market – by diversifying the product portfolio to include locally popular brands. Traditionally, multinationals will utilize their core competencies – specialties in certain product categories, which provide them with technological and marketing advantages – to gain a foothold in a new market before expanding to encroach on the market shares of competitors in alternative product categories. A strategy report commissioned by Unilever from faculty at the University of Maryland University College found that, as mergers and acquisitions continue, “this industry will likely become more consolidated, which, along with strong entry barriers and substantial rivalry among existing members, will favor sustainability for incumbents. Cost and availability of raw materials may continue to pose a threat to smaller firms lacking adequate capital reserves to compensate for additional costs.”

21 Chris Bolling and Mark Gehlhar, Global Food Manufacturing Reorients To Meet New Demands, Chapter 5, New Directions in Global Food Markets, Economic Research Service/USDA.
22 Id.
Although there is not substantial concentration in overall global packaged food sales, because multi-national firms adopt a core-competency-focused acquisition approach, firms become dominant within specific product and country markets. For example, Nestle has only a 6.3% market share of total packaged food sales in Latin America, but has an over 60% position in core baby food products there. Its market position in baby milk formula in Brazil is over 91%. The market share of Unilever, by contrast, varies substantially from country to country within its own core product competencies: Unilever emphasizes different core products in different markets. For example, it captures nearly 60% of ice cream sales in Austria, but nearly none in Norway; and it captures nearly 84% of Indonesia’s spreadable oils and fats market because the Dutch-based “Blue Brand” is highly recognizable in the Indonesian market. This evidences a trend that leading multinational food producers will only target opportunities in which they can dominate the local marketplace.

The core three multinationals’ focus on acquiring extensive market shares through local brands in core categories has resulted in “higher firm concentration among certain high-margin products.” The top four firms account for over 50% of global sales in pet food, soups, breakfast cereals, and baby food collectively. Nestle, for example, accounts for over 26% of global baby food sales, while Unilever accounts for nearly 50% of global soup sales. Small firms are less successful in markets, such as soups, “where differentiation is achieved through heavy advertising of popular brands.”

II. The Effect of Large Firms in Local Markets

It would be wrongheaded to engage in an analysis of large firm sustainability without considering the intrinsic economic effects of a large firm operating in an oligopolistic market setting – particularly in the context of a firm which has adopted an acquisition-focused strategy. The Occupy Wall Street movement, and before it, economists such as Michael Shuman, founder of BALLE (the Business Alliance of Local Living Economies), advocate localized economies, wherein, purportedly, businesses are more accountable to local stakeholders and therefore more sustainable and more conscientious members of the community. Since a purpose of this paper is to compare small firm sustainability endeavors to large firm sustainability endeavors, an analysis of the economic consequences of large firm entry into local markets through the acquisition of local businesses and brand values is essential.

24 Chris Bolling and Mark Gehlhar, Global Food Manufacturing Reorients To Meet New Demands, Chapter 5, New Directions in Global Food Markets, Economic Research Service/USDA.
25 Id.
26 Id.
A. Barriers to Entry in Local Food Producer Markets

Multinational firms face resistance to expansion into local markets in countries with a strong sense of nationalism or customer loyalty. In Scandanavian countries, national firms lead total food sales; in East Asian countries, consumers show strong support for locally owned and managed companies. In both Korea and Japan, the top four food manufacturing firms are nationally owned. Unilever’s lackluster ice cream showing in Norway is directly attributable to Scandanavian buyer avoidance of foreign-owned brands.

In addition to ethical consumerism and nationalism as barriers to entry into local markets, financial regulations regarding foreign direct investments and national antitrust laws can serve as impediments to mergers or acquisitions. While liberalization of investment laws in Latin America have allowed companies like Nestle, Unilever, and Danone to retain leading food manufacturer statuses, investment laws in Asia are far more restrictive and require participation by local entities and the use of local raw materials. In the U.S., Nestle’s takeover of U.S. Hershey was blocked by the State of Pennsylvania under strong pressure from the local public; in more traditional settings, such mergers may be blocked by the Federal government if concerns regarding industry concentration attach to the acquisition.

B. The Benefits of Staying Local

British Prime Minister Margaret Thatcher coined the term “TINA” to describe the appropriate approach to the globalized economy: There Is No Alternative. Inherent in TINA are ideas of globally active corporations bringing new jobs to communities, providing lucrative opportunities for suppliers, and creating wealth in new regions through each actors’ comparative advantage. However, economist Michael Shuman has traced the value-creating benefits of staying local, dubbing the model “LOIS,” for Locally Owned, Import-Substituting. LOIS “aims to move the community toward greater prosperity through greater self-reliance.”

According to Shuman, going local is preferable for four salient reasons.

First, when ownership coincides with the location of the business, the business is likely to produce jobs, income, and charitable donations for local residents for multiple generations, allowing each generation of transactions to grow the local economic multiplier. The local economic multiplier refers to “the benefits that accrue to a local economy when a dollar is re-spent many times in the same place.” Second, local ownership minimizes the possibility of calamitous departures wherein, once ownership interests are sold to outsiders, the hometown plant is shut down and moved to areas with cheaper labor, lower taxes, or looser environmental regulations. Third, if a company is committed to staying local, the community can shape its laws and policies accordingly, rather than the other way around. Typically, communities are held

27 Id. at 67
28 Id.
29 Id.
30 Id.
31 Id.
33 Id.
hostage to large corporations, which threaten to leave town if wage rates are raised or environmental regulations are strengthened. Finally, “locally owned business are, in fact, more likely to succeed than those with absentee shareholders.” For example, an absentee shareholder may demand a 22% rate of return or threaten to shut down the business because the shareholder can make more money investing elsewhere otherwise, but the community – and the business’s employees – may well favor keeping a business which generates a 17% rate of return to shutting it down entirely.

There are also numerous intangible benefits of building a self-reliant community. Such a community has a reduced vulnerability to products of questionable quality, and by supporting diverse enterprises, the community enhances its skill base and creates an economy based on the community’s unique culture. In brief, although arguments about increasing the wealth and wellbeing of the poor in developing countries do lend some support to globalization, there are myriad arguments and empirical data supporting the proposition that locally owned businesses create a more pleasant, more accountable, and more sustainable community.

C. Cooperatives and Local Producers

Historically, member-owned cooperatives have been a favored avenue for local producers to market their farm products. Cooperatives are controlled by the members who also share the benefits of the organization, and are viewed as a means of mitigating market failures. Typically, cooperatives involved in value-added products “have not been able to compete and respond to market signals as well as investor-owned firms.” For example, Tri Valley Growers, once the largest fruit and vegetables cooperative in the US, used to compete directly with Hunts, Heinz, Campbell’s Soup, and Del Monte, producing raw products at noncompetitive prices from members and selling processed goods through a portfolio of marketing channels. Because of its “overly generous payment to producers, it accumulated excessive debt and was forced to declare bankruptcy in 2000.” It appears the failure of Tri Valley stemmed from its inability to meet rising consumer demand for alternative tomato products – demand spawned by the entry of multinationals into its target market. Similarly, while large multinationals are positioned to immediately retool their brand portfolio to meet evolving consumer demands, cooperatives have been slow to make the necessary restructuring.

The problem does not appear to be inherent in the cooperative form, however. For example, U.S. cooperative Sunkist Growers has begun sourcing its products from foreign suppliers to meet consumer demand for off-season citrus. Foreign coops have also adopted international orientations, in some cases exporting over 80% of products. However, such orientations appear to contradict the market failure premise of the coop form, which ties vocation to ownership and control. While “an allegiance to suppliers, control and flexibility of the supply chain, product traceability, member loyalty, and the growing positive attitudes of consumers

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34 Id.
35 Chris Bolling and Mark Gehlhar, Global Food Manufacturing Reorients To Meet New Demands, Chapter 5, New Directions in Global Food Markets, Economic Research Service/USDA.
37 Chris Bolling and Mark Gehlhar, Global Food Manufacturing Reorients To Meet New Demands, Chapter 5, New Directions in Global Food Markets, Economic Research Service/USDA. at 71
toward cooperatives portend well for future growth possibilities of the entities, reorienting the coop to serve market demand by importing goods appears to undermine the very consumer perceptions of and policy advantages imparted to the organizations. Coops may indeed be better off tackling recent trends in consumer values and preferences for specific product attributes such as organic and free range.

D. Effects of Acquisitions on Concentration

Given Unilever’s strategy of acquiring brands with locally popular producers, it is necessary to question whether the effects of those acquisitions are net positive in terms of economic, social, and environmental value. It is widely assumed that concentration is the byproduct of competitive processes in which firms compete to produce better products and lower production costs, and those that succeed gain short-term monopoly power. Mergers and acquisitions have an important role in this process; indeed, a prominent theory of takeovers is that “well-run companies acquire poorly-run companies and improve their performance.”

While many point to large takeover premiums as evidence for that hypothesis, Michael Salinger’s study out of the Brookings Institution has seriously called into question the assumption that the combined value of acquirers and targets increases at the time of merger announcements, “as opposed to just the value of the target's shares.” Empirical studies by numerous economists now show that acquiring firms experience large and statistically significant negative returns in the two years after mergers, and those studies have simultaneously failed to find any evidence of increases in profitability from mergers.

Salinger remarks that, “in the most convincing evidence to date of such efficiencies, Frank Lichtenberg and Donald Siegel show that plants changing ownership have, on average, lower productivity than plants in the same industry that do not change.” Only seven years after the ownership change does the productivity of those plants return to nearly the same level as the productivity in plants that did not change owners. By merging two formerly independent firms, the newly emerging corporation “often experiences a loss of 5 to 10 per cent of its customers as a direct result.” McKinsey states that, on average, merged companies grow 4 per cent less than their peers in the three following years. Thus, “neither the stock market nor the accounting evidence provides support for efficiencies resulting from mergers.” Salinger concludes, “although increases in concentration resulting from mergers cannot be assumed to have the same

38 Id.
40 See Jensen(1988); and Jensen and Ruback (1983)
44 Catherine Robens, Master Thesis, Consumer perceptions on the incorporation of established brands: The acquisition of Body Shop by L’Oréal
cost-reducing benefits as endogenous increases in concentration, they could have the same effect on margins. The empirical results presented here suggest that markets should be viewed as oligopolistic. In virtually any oligopoly model, a merger of two firms makes the market less competitive.”

III. The Ben & Jerry’s Merger

So the only question remaining is how are you going to manage exits? Nobody wants to end up like Ben and Jerry’s, where soon after a multinational acquired it, key facets of its social mission were cut from the company. What kind of social mission was lost? The ethical rule that Chunky Monkey would never have bovine growth hormone was kept under the Unilever regime; it was a value that consumers bought every time they bought a pint and was on the label. What was gone? Hidden charitable subsidization of a social mission through non-profit partner ice cream shops. At those shops, 40 percent of the workforce was composed of at-risk youth who learned from social workers and job supervisors how to have a bank account and to complete a high school equivalency exam.

A. Ben & Jerry’s Homemade, Inc. Company History

Ben & Jerry’s Homemade, Inc. was once heralded as a for-profit corporation that did not pursue profits solely and above all, but rather pursued a “double bottom” line, seeking to advance progressive social goals while still yielding an acceptable financial return for its investors. It advanced its social mission in many ways, such as by committing 7.5% of its profits to a charitable foundation; conducting in-store voter registration; and buying ingredients from suppliers who employed disadvantaged populations.

Ben & Jerry’s founders, Ben Cohen and Jerry Greenfield, held out their double bottom line approach (they called it the “double-dip”) as a model for others who wished to “Lead With [their] Values and Make Money, Too.” They described it as “an experiment to see if it was possible to use the tools of business to repair society.” For its “Chocolate Fudge Brownie” ice cream, Ben & Jerry's purchased brownies from Greyston Bakery, an entity whose “mission is to provide employment and support services to former homeless, low-income and disenfranchised people and their families,” and which applies profits to housing programs, child care, and so forth. “It’s no stretch to say,” according to Ben & Jerry’s, “that when you eat our Chocolate Fudge Brownie ice cream, you’re striking a blow for economic and social justice.”

47 Id.
Vernate - “Vernate is a survivor. Coming of age during the Vietnam War, when social upheaval, political protest, and a potent drug culture beckoned, he knows a lot about time lost to “trouble, trouble, trouble.” Married and the father of four, he arrived at the Bakery when he was 48 and resolved that “enough was enough.” Here, he found strength in the workplace, in being focused, and in the trust placed in him by the management team. After a year of training, he was promoted to Supervisor. Vernate has been at Greyston Bakery for 13 years.”

The company also paid a premium to Vermont’s dairy farmers “despite a volatile dairy market and the withdrawal of government dairy subsidies.” Another strategy was to create special flavors to help benefit charities or suppliers; one example, “Rainforest Crunch,” used Brazil nuts grown in rainforests by indigenous people. “They also used their ice cream cartons to advertise and explain the various social causes they supported, such as their vehement opposition to bovine growth hormones, and support of rainforest preservation or One Percent for Peace.”

B. Ben & Jerry’s Homemade Inc. Financial Strategy

Cohen and Greenfields’ social values guided their choices in how they expanded the company. In 1984, the company needed to raise money for a new plant so they conducted a public stock offering, available only to Vermont residents, because they feared that venture financing recommended by their bankers posed a greater threat to their continued control over the company. By that time, moreover, they wanted the company to devote more resources to addressing social issues and believed that greater financial success would increase the money available for corporate philanthropy. As they put it: “[W]e believed that business was a machine for making money. Therefore we thought the best way to make Ben & Jerry’s a force for progressive social change was to grow bigger so we could make more profits and give more money away. We’d decided to give away 10 percent of our profits every year. Ten percent of the

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51 www.Greystonbakery.com
52 Elizabeth Kolbert, An "Inspirational" Ice Cream Factory, N.Y. TIMES, Sept. 11, 1991, at A16. “In a less savory development, Ben & Jerry’s played to xenophobic fears by portraying Häagen-Dazs as a foreign intruder that did not reflect the local, community-based values of Ben and Jerry’s.” See Calvin Trillin, Competitors, New Yorker, July 8, 1985, at 31 (citing Ben & Jerry’s questioning “What’s the Doughbor Afraid Of?”). In truth, Häagen-Dazs was created in New York, albeit by a Polish immigrant. Id.
54 Victor Fleischer, Brand New Deal: The Branding Effect of Corporate Deal Structures, 104 Mich. L. Rev. 1581, 1607–08 (2006); Lager, at 90 (“The biggest drawback of soliciting venture capital was the potential for losing control of the business. As a precondition of their investment, most venture capitalists have input into how the business is managed, and they’re apt to take over if things start going poorly.”).
profits of a $100 million company could do a lot more good than 10 percent of the $3 or $4 million we were currently doing.”

Ben & Jerry’s business decisions frequently reinforced the company’s social mission and, at least by its own report, improved the company’s financial condition. In Ben & Jerry’s final annual report, the company reported that it “believes that implementation of its social mission, which is integrated into the Company’s business, has been beneficial to the Company’s overall financial performance.” The report also cautioned that there may be limits: “it is possible that at some future date the amount of the Company’s energies and resources devoted to its social mission could have some material adverse financial effect.”

Although Ben & Jerry’s social initiatives continued and thrived throughout the 1990s, their financial performance suffered. In 1992, initial investors in Ben & Jerry’s owned stock worth fifteen times what they had paid, but by 1999, the stock was languishing at $17, and, in the words of a securities analyst, “[t]he stock had done nothing for the past 10 years.” In 2004, the company posted its first loss of net earnings of $1.9 million on $150 million in sales. Growth prospects appeared weak – as low as 5% annually for the super premium segment – as consumers started to pay more attention to health concerns over fatty foods like ice cream.

Some analysts suggested the company’s manufacturing and distribution operations needed improved efficiency as it was less efficient than other companies in its revenue range. Other investors believed that the company “should relax its commitment to social values and focus on delivering more profit.” One financial commentator wrote that the policy of donating 7.5% of profits to charity had “lost its luster when the company failed to deliver reasonable results to its long-term investors.” And the Economist chided that “[e]ven caring shareholders would rather that Ben & Jerry’s gave its profits to charity than becoming a charity itself.”

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57 Id.
58 Buyout Sweet Enough for Ben & Jerry’s Founders; Ability to Pursue Social Causes Key Factor in Deal, The Pantagraph, May 12, 2000, at 4, available at 2000 WLNR 4343876 (quoting Jeff Kanter, who added, “‘Something had to be done’ to give Ben & Jerry’s shareholders a better return on their investment”). See also Richard McCaffrey, In the Hunt for Ben & Jerry’s, THE MOTLEY FOOL, Dec. 2, 1999, ttp://www.fool.com/news/1999/quicknews991202.htm (stating that the company’s
61 Raspberry Rebels, at 62.
C. The Merger

Since at least 1998, when Dreyer’s had offered to buy the company, Ben and Jerry’s mediocre stock gains had attracted buyout interest and offers. In early 2000, Cohen responded to takeover rumors by leading an attempted leveraged buyout of the company at $38 a share by a group of social investors. The value reflected about double what the stock had been trading for a few months earlier. “Dreyer then offered a $38 per share all stock deal, which in turn prompted international conglomerate Unilever to bid $43.60.”62 The Ben & Jerry’s board announced that it had accepted Unilever’s offer on April 11, 2000.63

Scoop shop franchisees organized rallies against the sale,64 and consumer adulation dropped off significantly in 2000,65 news of the sale “sent shudders and shivers through the socially responsible business community.”66 And it contributed to doubts about the long-term viability of for-profit firms that pursue a double bottom line.67 As one writer lamented, “virtually every mission-driven entrepreneur knows the sad ending to the tale of Ben & Jerry’s: the forced sale of one of the country’s premier socially responsible businesses to a giant multinational clearly focused on the financial bottom line.”68

However, the Unilever acquisition agreement included several groundbreaking provisions. First, Unilever decided to keep much of Ben & Jerry’s operations separate. Second, the agreement committed Unilever to creating a board of advisors that was composed primarily of the members of the Ben & Jerry’s Homemade board of directors. Third, Unilever agreed to retain all Ben & Jerry’s employees for a minimum of two years following the acquisition. Fourth, the board would have primary responsibility over managing the social mission of the company: “[T]he Surviving Corporation Board shall have primary responsibility with respect to the enhancement of the Social Mission Priorities . . . of the Company, as they may evolve, and the preservation of the essential integrity of the Ben & Jerry’s brand-name.”). Unilever, however, would “have primary responsibility in the area of financial and operational aspects of [Ben & Jerry’s] and in all areas not allocated” to the board.69 Unilever also agreed to continue to pay the greater of $1.1 million or 7.5% of pretax profits to charity, maintain in Vermont its “corporate presence and substantial operations” for “at least five years,”134 maintain the existing method of production and not lay-off a material number of workers for at least two years.70 Unilever also promised to contribute “$5 million to assist minority-owned and undercapitalized businesses, $5 million to employees to be paid within six months, and $5 million to the Ben &

70 Id.
Jerry’s Foundation.” Cohen also agreed to work with Unilever on “social audits,” including its treatment of the environment.

Nevertheless, Cohen and Greenfield were reluctant to sell: “We did not want to sell the business; it was a very difficult time. But we were a public company, and the board of directors’ primary responsibility is the interest of the shareholders. So that is what the decision came down to. It was extremely difficult, heart-wrenching. It was a horrible experience for me and I can probably say it was horrible for Ben too. . . . It is not as if we sold it feeling great about the situation and ended up regretting it – we didn’t feel great about it from the start and throughout. It was nothing about Unilever; we didn’t want to get bought by anybody.” Cohen called the relationship with Unilever a “forced marriage” in an interview with The Observer.

D. Integration

It was not clear from the start whether increased access to capital and new foreign markets within Unilever would stimulate Ben & Jerry’s social mission growth as well as economic growth. Indeed, research above indicates that most mergers result in a significant period of languishing economic performance followed by dubious long-term results. Initially, internal relations seemed to progress pleasantly: one employee remarked, “I don’t know about other European companies, but there was some symbiosis between [Unilever and Ben & Jerry’s staff]. They were very supportive.” Another remarked, “I thought it was a nice match – I was pleasantly surprised, actually.” Of course, their long-term job prospects may have been on the line at the time of the interviews. But in time, the inefficiencies of the change from small business to a large and publicly traded business shined through: remarked one employee, “you spend a lot more time talking within your company. You spend a lot more time presenting to each other.”

Then followed the series of stereotypical post-merger layoffs and restructuring. Employees watched the clock tick down to their termination date at the end of the merger agreement’s 24 month shelter period, as widespread layoffs in back end administration jobs were expected in Unilever’s shake up. At the end of the safe harbor period, hundreds of jobs were severed, including the closing of a manufacturing plant in Springfield, VT and a distribution center in Bellows Falls, VT. Plant closings and overall restructuring were driven by Unilever’s need to “look at the way Ben & Jerry’s was organized… “It was very inefficient: Way too much transportation, which frankly had a negative impact on the environment... they [had] to organize and find $15-20 million in operating inefficiencies…” Yet, the layoffs were directly impactful to the social mission, through which the company had sought to provide employment in VT.

71 Id.
75 James Austin, James Quinn, Ben & Jerry’s: Preserving Mission and Brand within Unilever, HBS Case Study 9-306-037, REV January 18, 2007
communities that were distressed. Efficiency and mission, at least in this instance, were opposed.

Another change entailed Unilever’s prohibition on company-sponsored political partisanship. For example, a group of employees wanted to take a trip to a “Stop the War” march and put Ben & Jerry’s on the side of the bus. Unlike the company of ten years prior, Unilever did not permit the open statement of a political position, and instead permitted the employees to write “Peace Now” but without the Ben & Jerry’s logo. Advisory Board member Furman stated that Ben & Jerry’s social and political involvement not only contributed to national dialogue, but also “created a huge amount of brand loyalty.” The willingness to take risks for the set of values, Furman observed, ceased to exist; board member Ferrari concurred: “Ben & Jerry’s became an icon [because] it always was an edge dweller, not only in business practices but also in progressive politics and social issues, and that edge-dwelling behavior is what enamored a lot of people…”76

But efficiencies were achieved. The supply chain was more closely integrated into the Good Humor-Breyers line in Wisconsin. And through the improvements, Ben & Jerry’s cost structure was reduced while also bringing more ice cream to market through better manufacturing methods and improved distribution. Growth targets were met and exceeded.77

IV. Comparison of Sustainability and Reporting Practices

This section will analyze Ben & Jerry’s Brand and Unilever company contributions to sustainability, according to the framework below: first, identifying corporate strategy (see above), second, identifying sustainability key performance indicators and initiatives, and finally, identifying sustainability stakeholder touch points that drive long-term success.78

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77 Id.
A. Ben & Jerry’s Key Sustainability Reporting and Practices

Ben & Jerry’s sustainability practices have been recounted in the annual SEAR (Social & Environmental Assessment Report) since 1999. From 1999 to 2001, the SEAR was complemented by an annual report commissioned from the independent nonprofit Ceres, whose mission is to “integrate sustainability into day-to-day business practices for the health of the planet and its people.” There are substantial branding and legitimacy benefits from acquiring third party certification and audited reporting: customers are more likely to believe the company’s claims and trust that the company’s mission and values statements are being taken seriously. And Ceres’ work included facilitating stakeholder engagements to help develop engaging sustainability strategies and meaningful performance improvements. It is not entirely clear why the Ceres reporting initiative was abandoned and whether the decision was tied to the Unilever merger.

The Ben & Jerry’s Foundation
Ben & Jerry’s Homemade Inc. was founded on a belief in “linked prosperity,” and when, in 1985 the company undertook a public stock offering, the Ben & Jerry’s Foundation was created with an initial gift from Ben of 50,000 shares and an unprecedented decision of the company’s Board of Directors to commit 7 ½% of the company’s annual pretax profits to philanthropy. When the Foundation was started, it was with a belief that the company and the Foundation were distinct, and the company’s role was to generate profits for the Foundation to give away. In 1991 the Foundation and company staff held a retreat with experts in social change work and philanthropy who decided to incorporate Ben & Jerry’s employees into the decision-making process of the foundation. This led to a complete redesign of the grantmaking process to include employees directly in grants decisions. Through the creation of Community Action Teams and employee members on the Employee Advisory Committee, decision-making was placed in employees’ hands. That practice continues to this day. 79

This is a remarkable instance of stakeholder engagement with employees, with the result that Ben & Jerry’s philanthropy is not a siloed, isolated part of company culture. Bringing employees into the grantmaking process is likely to build morale, attract greater talent at lesser cost, and motivate employees to believe in the company they work for, thus heightening productivity and building the financial bottom line. Indeed, one employee remarked, “I took quite a big pay cut to come to Ben & Jerry’s, and I came because I had been working in corporate America for 17 years and I was sick of it. I wanted to see what was different, and it was very, very, very different.” 80 Another noted, “[the employees] would come in on their own time, on Saturdays and Sundays – they wouldn’t expect to be paid – to check things out, to make sure everything was set up, ready to go.” The co-branded foundation obviously provides additional public-facing good will and public relations effects on its own.

Fair Trade Certification & Advocacy
As of 2010, according to the company’s SEAR report, Ben & Jerry’s is “going Fair Trade for all of the commodities that we buy from developing countries where we can have a significant, positive impact on farmer livelihoods.” According to the report, all Ben & Jerry’s flavors

79 http://www.benandjerrysfoundation.org/who-we-are.html
produced and sold in Europe will include Fairtrade-certified ingredients by the end of 2011; in the United States, the transition to Fair Trade vanilla and cocoa will be made over the course of 2011. Although in the U.S., Ben and Jerry’s already uses a growing percentage of Fair Trade coffee and will begin to use Fair Trade sugar in the coming years, the report goes on to explain: “the truth is, we haven’t figured out every last detail of the transition, but we’re committed to going as far as we can to align our purchasing of key commodities with the Fair Trade movement.”81 This sort of nebulous language leaves open questions as to just how many commodities will be certified and by when; without benchmarks, it will be difficult to gauge success. There is a change in language from “all” commodities to “key” commodities between the first and last sentences; what effect, if any, is that phrasing supposed to have? Greater transparency would benefit activists, consumers, and potential investors.

To the extent the hiccups in the Fair Trade implementation plan derive from lackluster demand in US Markets, the above concerns may be mitigated by the Ben & Jerry’s Fair Trade Towns and Universities campaign, as it seems Ben & Jerry’s is trying to generate demand for Fair Trade products in order to satisfy the cost that will be incurred in making the transition: “we’re teaming up with local Fair Trade activists in the U.S. to get their towns and universities to go Fair Trade.” This is especially essential since a professional consulting analysis commissioned by Unilever remarked that, “Future performance in this industry will be tied to global consumer spending patterns and raw material prices,” so as Unilever boosts costs for materials like Fair Trade certified goods, it needs to ensure consumers will understand the rationale for paying the price premiums for the added-value goods. The Fair Trade Universities and Towns effort is a brilliant endeavor in consumer stakeholder engagement.

**Cage Free Leadership**

Ben & Jerry’s move to implement cage free eggs across its American and Asian ice cream products is remarkable improvement over its status in 2005 of only having cage free in its European market. The report states that presently 99% of all ice cream products are made with cage free eggs, and plans are in place to solve logistical issues for the last 1%. The report states, substantially, “We are happy to see many more companies and brands following us on the journey towards cage-free eggs.”82 This indicates, first, that Ben & Jerry’s has been a market maker, and second, that it will need to continue to differentiate itself as a leader in sustainable sourcing in order to retain the brand’s competitive advantage.

**Clean Energy**

Ben & Jerry’s has undertaken substantial steps to green its manufacturing plants. In its Vermont plants, Ben & Jerry’s has invested aggressively in energy-efficient technology including cooling systems, lighting, water, and waste management systems. In an effort to close loops in the supply chain, Ben & Jerry’s now sends dairy waste from its Vermont plants back to two of the farms that supply fresh dairy ingredients. The waste is put into methane digesters with other waste, and generates energy to power the farm. For the tenth year, Ben & Jerry’s offset all of the emissions associated with our Vermont manufacturing facilities and employee air travel with the help of Vermont-based NativeEnergy, a nationally recognized provider of high quality carbon offsets. These practices evince strong efforts towards environmental stewardship.

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82 *Id.*
B. Unilever Sustainability Reporting and Practices

Unilever’s sustainability initiatives are guided by the 2010 Unilever Sustainable Living Plan, and updates on progress are provided through the annual Unilever Sustainable Development Overview. The Overview and Ben & Jerry’s SEAR Report cross-reference each other, but only infrequently. This is understandable given Unilever’s current profile of approximately 400 brands (and previous portfolio of over 1,500).

The Unilever Sustainable Living Plan focuses on creating three significant outcomes by 2020:

1. Help more than a billion people take action to improve their health and well-being.
2. Decouple growth from environmental impact, and achieve absolute reductions across the product lifecycle; halve the environmental footprint of the making and use of Unilever products.
3. Enhance the livelihoods of hundreds of thousands of people in our supply chain.

Health & Hygiene

The Sustainable Living Plan establishes a key metric and target for health-and-hygiene-focused sustainability practices, namely, “The number of people reached on a cumulative basis by an intervention which, based on past studies, can be expected to result in sustained, positive behaviour change,” (the metric), and “by 2020, we will help more than a billion people to improve their hygiene habits and we will bring safe drinking water to 500 million people” (the target). These statements are followed by colorful descriptions of the health problems and concerns Unilever attempts to address. Each problem and solution is strategically aligned with Unilever’s product sales goals. This creates synergy between financial and social bottom lines, but creates questions as to whether the initiatives are simply glorified marketing campaigns.

Lifebuoy Soap - “Every year 3.5 million children die from diarrhoea and acute respiratory problems. To combat this Lifebuoy soap runs a hygiene education programme in India and other parts of the world. We have demonstrated that when children wash their hands with Lifebuoy diarrhoea is reduced by 25% acute respiratory infections by 19% and school absence by 40%. It has reached 130 million people since 2002.” It goes on to state the following goal: “Reduce diarrhoeal and respiratory disease - By 2015, our Lifebuoy brand aims to change the hygiene behaviour of 1 billion consumers across Asia, Africa and Latin America by promoting the benefits of handwashing with soap at key times.” It is not clear from this language whether the soap is delivered below cost or at some discount through the program, or whether the education program is simply a marketing tool for Lifebuoy soap. It is also not clear how Unilever plans to expand the campaign almost tenfold.

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83 The Unilever Sustainable Living Plan, 8
84 The Unilever Sustainable Living Plan, 9.
Toothbrush and Toothpaste - A similar concern is warranted with regard to Unilever’s “Improve oral health” campaign. Its goal states that “We will use our toothpaste and toothbrush brands and oral health improvement programmes to encourage children and their parents to brush day and night. We aim to change the behaviour of 50 million people by 2020. Clinical data has shown that brushing twice a day with a fluoride toothpaste can reduce tooth decay in children by up to 50% compared with brushing once.” For the third largest consumer good producer in the world with hundreds of billions of dollars in annual revenues, it is not clear why a glorified marketing campaign for toothpaste should make it into a Sustainable Living Plan. Clearly Unilever is finding strategically aligned opportunities to “make a difference.” But it also appears that the opportunities are so strategically aligned that they have a negligible marginal impact above the impacts that would occur through simple effective marketing of their products. Indeed, “making a difference” and marketing seem synonymous in these instances.

Nutrition - “We will continually work to improve the taste and nutritional quality of all our products. By 2020 we will double the proportion of our portfolio that meets the highest nutritional standards, based on globally recognised dietary guidelines. This will help hundreds of millions of people to achieve a healthier diet.” It appears Unilever is simply making uniform the traditional nutritional guidelines mandated in developed countries. Going “beyond the law” in this manner could in truth just be a political environment risk mitigation strategy, ensuring that if the developing and emerging market authorities do improve health and nutrition regulations, Unilever will be able to comply easily. These “improvements” could also simply be modifying recipes and processing methods to be more uniform and more efficient across factories. Finally, they may be a simple financial bottom line strategic move by Unilever to differentiate in emerging markets.

The plan goes on to state: “Our Nutrition Enhancement Programme will continue to drive improvements in both existing products and future innovations. This, combined with our behaviour change programmes, will help to address two major public health challenges – obesity and cardiovascular health.” Since 2003, all Unilever food and beverage products – over 30,000 – have been screened for levels of four priority nutrients: salt, sugar, saturated fat and trans fat. Each product has been assessed against nutritional benchmarks for those nutrients; the benchmarks were created using dietary recommendations from international and national authorities. Again, the concern is whether Unilever is really going above and beyond, or simply staying slightly ahead of the regulatory curve and pursuing a differentiation and market defender strategy in markets in which it establishes itself as a monopoly or oligopoly player with market power. And again, the pricing concern regarding whether the products are offered at below-market prices or at extremely competitive prices in needy markets is essential: they could be creating great improvements in their foods and then charging a commensurate high price.

The Environment

Environmental sustainability appears to be a strong suit in Unilever’s efforts to become more sustainable and responsible. The Sustainable Living Plan states that 1 in 3 households worldwide use a Unilever laundry product, resulting in 125 billion washes per day. What is unique about Unilever is that they not only look at their own manufacturing footprint, but the

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85 The Unilever Sustainable Living Plan, 11
86 The Unilever Sustainable Living Plan, 10
87 The Unilever Sustainable Living Plan, 10
footprint of consumers’ use of their products as well. For its laundry detergent, Unilever aims to reduce the greenhouse gas impact of the laundry process by concentrating liquids and compacting powders, reformulating products, and encouraging consumers to wash at lower temperatures at the correct dosage. Unlike some of the endeavors referenced above, encouraging consumers to wash at lower temperatures and at the correct dosage (which is likely to reduce consumption of the detergent) have a negative impact, if any, on profitability, all other things constant. This is important because it distinguishes the detergent endeavor from initiatives which may not be efforts actually intended to produce a green result: this initiative is least likely a greenwashed, repackaged profiteering model. Moreover, the initiative is tackling its largest contributor to greenhouse footprint by category - soap, shower gel, and skin care – in the greatest-polluting segment of its overall value chain (consumer use).

In addition to the detergent campaign, Unilever sets some audacious manufacturing emissions goals: by 2020, the firm intends to reduce emissions to at or below 2008 levels, despite the fact that the firm will be producing significantly higher volumes of product. Versus a 1995 baseline, if accomplished this endeavor will result in a 43% absolute reduction and a 63% per-ton reduction. Moreover, all new factories will aim to have less than half the impact of current ones. And renewable energy use will be doubled to represent 40% of total energy usage, with a goal of reaching 100% renewable energy sources in the long run. While these initiatives may be commendable in some regards, it is not clear that they are truly laudable: the 2008 baseline reduction is effectively a promise to not get any worse. A true vanguard firm may voluntarily suffer reductions in volume or profitability in order to effect real environmental change and GHG reductions. If new technology is not yet affordable enough to allow it to produce more at substantially lower levels, the responsible move is simply to not produce more. The world may not yet be at a tipping point where companies the size of Unilever are willing to make that
reduction, but it may well be necessary soon. An alternative approach would be to leverage the profits reaped from volume growth to fund clean-tech research and innovation projects that are designed to green key high-emission Unilever processes and inputs - for example, the electricity it uses, which accounts for over 40% of its emissions. Unilever has already agreed to purchase an additional 850,000 freezers with climate-friendly refrigerants on top of the 450,000 it has already purchased; if refrigerants comprise only 2.3% of the overall footprint, why not take measures to develop innovations in energy technology that will help reduce both cost and impact in the future, and perhaps even generate license-able intellectual property that would drive further revenues? Measures should be taken to engage stakeholders in planning efforts to innovate for a cleaner Unilever.

![Graph showing greenhouse gas emissions](image)

**Sustainable Sourcing**

Unilever has set forth an ambitious sustainable sourcing plan, through which it expects to achieve 100% sustainable sourcing for all agricultural raw materials by 2020. The plan goes on to set forth a number of intermediate goals: certify all tea bags for Lipton teas with the Rainforest Alliance by 2015; sustainably source all soy beans by 2014; source 75% of paper and board for packaging from certified sustainably managed forests or recycled material by 2015; source all Ben & Jerry’s ingredients from Fair Trade by 2013; move to 100% cage-free eggs for all products. Unilever also is developing plans to source all its non-agricultural, chemical raw materials sustainably as well. Unilever anticipates challenges to achieving full 100% sustainability for its agricultural products in approximately 20% of the raw materials because in those products, their volumes are small and market leverage weak. This segment of the plan appears to be the most ambitious, most difficult, and most honest, openly citing forthcoming difficulties as well as intermediate benchmarks to meet along the way to the lofty goal. However, no substantive definition of sustainability is offered in order to clarify what sort of certification or standards Unilever intends to meet for 100% of its products.
Economic Development

Unilever’s suppliers and distributors include thousands of small businesses around the world, and its economic development plan aims to link smallholder farmers and microentrepreneurs into the supply and distribution networks. Unilever operates Shakti, a door-to-door selling operation “which provides work to large numbers of people in poor rural communities.”88 However, it is not clear from the Plan or reporting what sorts of wages those employees make absolutely or comparatively. Indeed, the 2009 Sustainable Development report admits that the International Union of Foodworkers lodged two complaints with the OECD about Unilever’s use of temporary and contract labor at two factories in Pakistan.89 Apparently, the Unilever factory had engaged in the practice of hiring nearly all temporary workers rather than full-time workers in order to minimize labor costs. The 2009 report is also riddled with statements such as this: “To reach consumers in developing countries we offer many products at low cost per unit.”90 It is not clear whether Unilever is acting out a pricing strategy to help the poor, or simply exercising good business judgment and price differentiating in order to capture greater revenues.

V. Conclusion

What I hope I have accomplished above is the painting of a complex scenario where neither small nor large is inherently good. Smaller organizations are more able to adapt to changes, and more readily respond to stakeholder concerns. Small businesses are accountable to the communities that spawn them, and communities that support small locally owned businesses are likely to keep money recirculating therein. Locally owned businesses are also less likely to be shut down than if they are owned by an absentee shareholder or external conglomerate, because the interests of the latter organizations are not inextricably linked to the wellbeing of the community, as are the interests of the small locally owned business.

But, large firms do have their advantages. Harvard’s Kennedy School and FSG Social Impact Advisors commissioned a report on “The Role of the Food and Beverage Sector on Expanding Economic Opportunity,”91 which found that large firms (1) have extensive knowledge of market demand; (2) are able to impact the entire value chain from growers to consumers, and (3) the resources and credibility to disrupt entrenched interests in supply chains with goals for positive change.

The market power of Unilever is undeniable. Unilever South Africa employs directly or indirectly almost 1% of the country’s workforce. Unilever Vietnam contributes 1% of the gross domestic product (GDP) of the country. But it is precisely its size and breadth that raise complicated issues regarding how it manages and implements its sustainability operations. Indeed, in an organization so vast and complex, it appears easy to be able to lose sight of what is happening right under the hood (e.g., the temp worker complaint). It is also the market power of

88 Unilever Sustainable Living Plan, 21.
89 Unilever Sustainable Development 2009, 35.
90 Unilever Sustainable Development 2009, 33.
the organization that allows it to force high prices in certain markets, and leverage its supply chain proficiency to acquire smaller brands and shut down their small town factories and comparatively inefficient businesses. But it is through that same power that they are able to leverage their resources to create massive change. Because large businesses such as Unilever bear such resources and have opportunities to create enormous impact, several actions should be undertaken to ensure greater transparency and sustainability planning efficacy:

1. Adopt a Third Party Auditor. Bringing in a third party will provide critical insight and crucial criticism to the plans and reporting. Interested reporters and analysts are often unable to see problems like the temporary employee issue coming because they are viewing activities in the best light possible. Although the Unilever Sustainable Development Group apparently comprises five external specialists, a legitimate standards organization should be commissioned to provide regular auditing and report certification.

2. Work with NGOs and third party organizations to create impact. Unilever is specialized in acquiring and building successful consumer products brands. It is not specialized in creating social and environmental impact, or in understanding the most pressing areas in which it could create such impact. Nor should it be. Partnerships with Nonprofits and NGOs can provide Unilever with access to first-rate knowledge and impact creation and assessment tools. One such relationship is already underway through a partnership with Oxfam: in Azerbaijan, Unilever is linking more smallholder farmers into its global supply chain through the partnership. Though such partnerships can pose difficulties, they will help Unilever accrue legitimacy to Unilever’s efforts, promote knowledge and resource sharing, and provide key insights that can prevent labor complaints like the one Unilever received in 2009.

3. Implement elements of network and virtual organization design. Already, Unilever is investing in advanced teleconferencing technologies that will allow employees to reduce travel (and related footprint) and communicate more efficiently with other Unilever employees. Successful organizations have organizational architectures that promote information-sharing within the organization, and with target consumers. By engaging stakeholders in an ongoing conversation about values, impact, labor, environment, Unilever will be able to stay on the cutting edge of employee and customer desires, and more quickly respond to problems that arise in the field. Current stakeholder engagement is more reactive than proactive.

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92 Unilever Sustainable Living Plan (“Delivering these commitments won’t be easy. To achieve them we will have to work in partnership with governments, NGOs, suppliers and others to address the big challenges which confront us all.”)


Appendix A: Unilever Stakeholder Classification Chart

Mitchell et al. have proposed a framework of three essential criteria - power, legitimacy and urgency – to inform the managerial process of stakeholder identification.\textsuperscript{95} “Salient” stakeholders are determined by combining the impacts of the three attributes on managerial cognition.\textsuperscript{96} Empirical studies have suggested that these perceptions may also be influenced by the managers’ value system, and the values set at Unilever presents a mixed scenario. On the one hand, Unilever has partnered with Oxfam to integrate local farmers into the supply chain in Azerbaijan, and is partnering with local NGOs in Tanzania to develop a supply chain of Allanblacka oil to be used in margarins and spreads.\textsuperscript{97} There, Unilever’s activities engage stakeholders extensively, including farmers associations, rural banking systems, and agricultural institutes.

On the other hand, Unilever is subject to a variety of claims from various stakeholders – labor unions, Greenpeace, and other NGOs – which have presented valid claims about the very supply chains Unilever is developing in partnership with NGOs in other countries. For example, some responses are simply ridiculous. For example, Greenpeace claimed that “suppliers of palm oil to Unilever were responsible for “fueling climate change and helping drive orang-utans to the brink of extinction.”\textsuperscript{98} The suppliers allegedly were clearing land without permits, destroying organ-utans habitats and decimating the countryside. Unilever responded by commissioning an independent investigation, which determined that Greenpeace’s claims were mostly true. Unilever’s handling of this situation could be due to myriad causes, the least of which certainly is not the fact that illegal acts were alleged regarding one of its suppliers, and it may have been found jointly liable for the damages if it did not act preemptively to remedy the harm. It is not clear whether Unilever views organizations such as Greenpeace as “legitimate” or “powerful.” But the thoughtful response and commissioning of an independent investigator seems to lend some credit to a finding that Greenpeace and similar complainants are both legitimate and powerful, and perhaps urgent.

Because Unilever holds itself out as sustainable and responsible, in many ways it must view NGOs such as Greenpeace as legitimate; to do otherwise would harm its brand in the public eye and betray the very principles of sustainability to which it attempts to adhere.

<table>
<thead>
<tr>
<th>Power</th>
<th>Legitimacy</th>
<th>Urgency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distribution Channels</td>
<td>Governments</td>
<td>Greenpeace</td>
</tr>
<tr>
<td>Suppliers</td>
<td>Labor Organizations</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Greenpeace</td>
<td></td>
</tr>
<tr>
<td>Legitimacy</td>
<td>NGO Collaborators</td>
<td>Greenpeace</td>
</tr>
<tr>
<td></td>
<td>Labor Organizations</td>
<td></td>
</tr>
<tr>
<td>Urgency</td>
<td></td>
<td>Temporary</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Employees</td>
</tr>
</tbody>
</table>


\textsuperscript{96} Id.

\textsuperscript{97} Marc Pfitzer and Ramya Krishnaswamy, The Role of the Food and Beverage Sector on Expanding Economic Opportunity, Economic Opportunity Series, FSG Social Impact Advisors and The Fellows of Harvard College

Appendix B: Unilever Company Snapshot\textsuperscript{99}

\textit{Vision}

“We work to create a better future every day. We help people feel good, look good and get more out of life with brands and services that are good for them and good for others. We will inspire people to take small everyday actions that can add up to a big difference for the world. We will develop new ways of doing business that will allow us to double the size of our company while reducing our environmental impact.”

\textit{Financial Objectives and Performance}

Unilever’s financial objectives are: (1) to drive volume growth ahead of the markets, (2) to achieve steady and sustainable underlying operating margin improvement, and (3) to maintain strong cash flow. In 2010, Unilever achieved underlying sales growth of 4.1\%, and a free cash flow of 3.4 billion euro. On a given day, over two billion consumers worldwide use a Unilever product in over 180 countries. 53\% of sales today come from emerging markets.

\textit{Legal Structure}

Unilever operates as a single business entity. NV and PLC are the two parent companies of the Unilever Group, with separate legal identities and separate stock exchange listings for their shares. To create unity of governance and management, they have the same Directors and are linked by The Equalisation Agreement, which regulates the mutual rights of the two sets of shareholders, including dividends. There is a one-for-one equivalence between the shares.

\textsuperscript{99} 2010 Unilever Fact Sheet.
Unilever implements a matrix organization structure. The Category President is responsible for Category strategies, brand development and innovation. Regional Presidents are responsible for managing the business, deploying brands and innovations effectively and winning with customers. They are supported by the Finance, Supply Chain and HR functions.
Appendix C: Unilever Five Forces Analysis Matrix

**Appendix C: Personal Products Industry, Five Forces Analysis**

**PERSONAL PRODUCTS INDUSTRY FIVE FORCES ANALYSIS**
(Industry Attractiveness Analysis from the Perspective of Major Incumbents)

<table>
<thead>
<tr>
<th>Barriers to Entry and/or Mobility</th>
<th>Yes (✓)</th>
<th>Comment/Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large firms do not have a cost or performance advantage in your segment of the industry. For example, costs do not decline significantly with volume. (No economies of scale)</td>
<td></td>
<td>Large firms do indeed enjoy economies of scale in this industry – and advantages of size, scale and diversity of products. 100</td>
</tr>
<tr>
<td>There are no “experience curve” economies in this industry. (This is different from economies of scale. The existence of experience effects in an industry means that incumbents are able to have lower costs due to past learning and experience, and that it would be difficult for less experienced firms to gain the same level of performance without going through the same learning process.)</td>
<td></td>
<td>This industry encompasses a wide variety of products and brands, industry leaders have been masterminds in developing innovative products 101 which suggests that they benefit from experience curve economies – in many aspects of their businesses, to include product development, distribution networks and supply chain.</td>
</tr>
<tr>
<td>There are no proprietary product differences in the industry. (For example, existing companies’ products are not protected by patents)</td>
<td></td>
<td>Patents abound in this industry. 102</td>
</tr>
<tr>
<td>There are no established brand identities in the industry. (Lack of brand equity for incumbents)</td>
<td></td>
<td>These segments are characterized as having well-supported, strong brands, and superior product development, commanding premium pricing in sectors that are less cyclical. 103</td>
</tr>
<tr>
<td>Not much capital is needed to enter the industry. (For instance, used equipment might be available, as in the airline industry, to start operations)</td>
<td></td>
<td>Industry entry requires capital to either acquire an existing company or to construct facilities and purchase all manufacturing (and R&amp;D) equipment.</td>
</tr>
<tr>
<td>Newcomers to the industry will be able to access existing distribution channels.</td>
<td></td>
<td>Incumbent companies establish contracts with firms in their distribution channels, and enjoy an advantage (particularly the industry leaders) due to size.</td>
</tr>
<tr>
<td>Newcomers to the industry will have little difficulty in obtaining the necessary inputs and resources (e.g., skilled people, materials, or suppliers) to start business operations</td>
<td></td>
<td>While human resources may be available, establishing partnerships with suppliers and distributors will take time. Incumbent firms have the advantage.</td>
</tr>
<tr>
<td>The industry rate of growth is high.</td>
<td>✓</td>
<td>“Global personal products market grew by 3.4% in 2004 to reach a value of</td>
</tr>
</tbody>
</table>

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| **The industry has well-defined product standards or specifications, which newcomers can implement.** | ✔ | **Product standards are fairly well-defined; many FDA regulations govern this industry, to include prohibiting manufacturers from making therapeutic claims based on the vitamin content of skin care products. Some U.S. states have instituted regulations limiting the use of volatile organic chemicals (VOCs) as a result of pressure to reduce the use of VOCs for environmental reasons.** Government regulation, intervention, consumer concern over animal rights and environmental concerns have affected the industry for more than 100 years. |
| Newcomers to the industry will be able to obtain the necessary licenses and permissions to start operations. | ✔ | Planning and establishing personal products manufacturing facilities involves permits and adhering to environmental and government regulations. |
| The industry offers newcomers one or more potential point of entry. (Incumbents haven’t attempted all possible viable strategies in the industry) | ✔ | There are many different market segments and niches where a new entrant might specialize, however competition is fierce, with leaders regularly introducing new products. |
| The industry has no history of retaliation by incumbents against new entrants. Industry economics (e.g., low fixed, high variable cost, low level of consolidation) is such that incumbents don’t typically react to new entries. | ✔ | No evidence of retaliation by incumbents against new entrants, however industry leaders are goliaths. |

**Note:** The greater the number of NO checks, the more attractive the industry to incumbents.
## II. Bargaining Power of Buyers

<table>
<thead>
<tr>
<th>Factor</th>
<th>Yes (✓)</th>
<th>Comment/Support</th>
<th>No (✓)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The buyer industry is more consolidated than my industry.</td>
<td></td>
<td>Buyer industry will continue to grow, as companies continue to expand globally. Many products in this industry are fundamental to health and cleanliness, and of use to people of all ages. Product lines target males and females.</td>
<td>✓</td>
</tr>
<tr>
<td>Buyers buy in large quantities.</td>
<td>✓</td>
<td>A draw here – consumers buy in small quantities; distributors (Wal-Mart, etc.) purchase in large quantities.</td>
<td>✓</td>
</tr>
<tr>
<td>My product is a small part of the buyer’s cost of inputs.</td>
<td>✓</td>
<td>Yes, for consumers as well as distributors.</td>
<td></td>
</tr>
<tr>
<td>The buyer does not face any significant costs in switching suppliers. (That is, my buyers can easily purchase from my competitors.)</td>
<td>✓</td>
<td>No significant costs associated with switching suppliers.</td>
<td></td>
</tr>
<tr>
<td>Does the buyer need a lot of important (technical) information to inform its purchasing decision? (In such situations, buyers tend to be more knowledgeable about what they are buying.)</td>
<td></td>
<td>While some products are becoming more sophisticated (anti-aging products; products with vitamins; natural products), technical information is not required in making purchasing decisions.</td>
<td>✓</td>
</tr>
<tr>
<td>The buyers can vertically integrate backwards into your business.</td>
<td></td>
<td>Many firms are vertically integrated in this industry – large multinational firms are engaged in every aspect of the production process. It is difficult for buyers to vertically integrate backwards into these businesses.</td>
<td>✓</td>
</tr>
</tbody>
</table>

## III. Bargaining Power of Suppliers

<table>
<thead>
<tr>
<th>Factor</th>
<th>Yes (✓)</th>
<th>Comment/Support</th>
<th>No (✓)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The supplier industry is more consolidated than my industry.</td>
<td></td>
<td>Supplier industry is not any more consolidated than personal care industry.</td>
<td>✓</td>
</tr>
<tr>
<td>My business is not important to the suppliers.</td>
<td></td>
<td>Business is important to suppliers.</td>
<td>✓</td>
</tr>
<tr>
<td>The quality of inputs is critical to my finished product.</td>
<td>✓</td>
<td>Many firms in industry are vertically integrated; quality is of prime concern in each step of production chain.</td>
<td></td>
</tr>
<tr>
<td>Factor</td>
<td>Yes (✓)</td>
<td>Comment/Support</td>
<td></td>
</tr>
<tr>
<td>--------</td>
<td>---------</td>
<td>-----------------</td>
<td></td>
</tr>
<tr>
<td>My inputs (materials, labor, supplies, services, etc) are unique or differentiated. That is, I cannot switch suppliers quickly and cheaply.</td>
<td>Each market has its own unique preferences and needs; one-size-fits-all approach will not work when supplying global markets. Therefore, supplies, services must be differentiated.</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>I don’t have many supplier alternatives.</td>
<td>There are many, many personal care contract manufacturing suppliers for this industry.</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>My suppliers can vertically integrate forward into my business.</td>
<td>There are many different components and ingredients, from raw materials (cultivation of plants and flora used in fragrances), through the final production stages of manufacturing and packaging and distribution. It would not be easy for suppliers to vertically integrate forward.</td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>

IV. Threat of Substitutes

<table>
<thead>
<tr>
<th>Factor</th>
<th>Yes (✓)</th>
<th>Comment/Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>My customers have one or more substitutes available to them. (For example, high fructose corn syrup is a substitute for sugar in many industrial applications.)</td>
<td>See appendix D – top four firms make up only 28% of market share; substitutes are readily available.</td>
<td>✓</td>
</tr>
<tr>
<td>At least one of the substitutes performs well and could pose a threat to my business.</td>
<td>While brand loyalty exists for some firms, substitute products perform well and can pose a threat.</td>
<td>✓</td>
</tr>
<tr>
<td>My customers will not incur much costs or critical uncertainties in switching to a substitute.</td>
<td>Little costs incurred in switching for consumers; distributors/retail giants will need to renegotiate contracts (to possibly include transportation). Proximity of manufacturing plants to distributors/retail stores is an advantage (lower transportation costs).</td>
<td>✓</td>
</tr>
</tbody>
</table>

V. Rivalry Among Existing Competitors

<table>
<thead>
<tr>
<th>Factor</th>
<th>Yes (✓)</th>
<th>Comment/Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>My industry is not growing rapidly or the industry is in the decline stage of its life cycle.</td>
<td>“Global personal products market grew by 3.4% in 2004 to reach a value of $152.4 billion…” Market is forecast to have a value of $182.9 billion in 2009 – an increase of 20.1% since 2004. Highest growth area expected in the Asia-Pacific region, due to</td>
<td>✓</td>
</tr>
<tr>
<td>Force</td>
<td>Yes (# Checks)</td>
<td>Comment/Support</td>
</tr>
<tr>
<td>-------</td>
<td>----------------</td>
<td>-----------------</td>
</tr>
<tr>
<td>Barriers to entry/mobility</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>Bargaining power of buyers</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Bargaining power of suppliers</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Threat of substitutes</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Rivalry among incumbents</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>Total No. of Checks</td>
<td>13</td>
<td>23</td>
</tr>
</tbody>
</table>

Note: The greater the number of NO checks, the more attractive the industry is to incumbents.