

finance flies high

HOW **UNILEVER** REDESIGNED ITS
FINANCE FUNCTION TO
BUILD BRAND VALUE AND
DRIVE GROWTH

By Barbara Tarasovich, CPA, and Bridget Lyons

It's hard not to know about Axe, the number one deodorant product in the U.S., or Dove, with its "real beauty" campaign featuring ordinary women rather than models.

Unilever's finance team played a key role in the success of these brands and others. The company achieved its fourth consecutive year of accelerating organic sales growth from less than 0.5% in 2004 to more than 7% in 2008, according to Jim Lawrence, Unilever's CFO. Its strategy is to focus on volume growth and strengthening the competitive position of the company's brands.

While growth has slowed to 4% in 2009, this is still strong relative to the market. In August, CEO Paul Polman stated, "While conditions remain difficult in many markets, I am encouraged by the return to volume growth across all regions and the majority of countries and categories. More of our brands are improving share again behind strong innovations, greater consumer value, increased marketing support, and better execution. We continue to focus on restoring volume growth while protecting margins and cash flow for the year as a whole." In terms of actual recent performance during this difficult economic time, volume growth went from -1.8% in the first quarter of 2009 to +2% in the second quarter.

In this article, we examine how the finance function at Unilever was redesigned to deliver the firm's strategic goals, including an emphasis on volume growth and competitive position of its brands. Beginning in 2005, the finance team at Unilever asked: How should the finance function operate to achieve these goals? The result was the creation of a five-step process dubbed "Finance of the Future." The steps in the process are detailed below.

STEP 1

Define "Finance of the Future"

In order to understand the context of the finance team's current participation in achieving Unilever's goals, we need to first look at the origin of the finance team's redesign. At a meeting several years ago, Unilever's top 200 finance professionals set a strategic direction for the team to become "Partners in Value Creation." The team identified what they would look like 10 years into the future. They determined a major transformation was nec-

essary, not only in the leadership and culture of the team, but also in the underlying financial systems and processes. In the past, Unilever had operated with a very decentralized organization structure, and, as a result of this structure, the finance team had collaborated on projects but had never truly worked with one consistent directive globally.

STEP 2

Develop Strategic Thrusts

The team developed strategies known as "Strategic Thrusts," which aligned with Unilever's overall strategy. These five strategies include innovative business partnering, people and organization, dynamic performance management, world-class financial processes, and financial flexibility. Here's a look at each of them.

Innovative Business Partnering (IBP)—Upgrade capabilities to better enable the finance team to add direct value to the business and influence and support Unilever's strategy. This thrust included developing a practical toolkit for decision support and focused on finance professionals who work with brands and customers specifically.

People and Organization—Develop a leading-edge finance team to focus on changes required in behavior, design and implement a learning plan, and create a compelling career proposition to attract and retain the best talent.

Dynamic Performance Management—Apply IBP to the organization's framework. This thrust focuses on the forecasting processes and developing relative performance targets, rolling forecasts, and trend reporting.

World-Class Financial Processes—Simplify financial processes and improve underlying transactions processing, accounting, and information management by forming shared finance services as well as enterprise-wide financial systems.

Financial Flexibility—Optimize tax, finance, and legal structures to provide funds for growth and improve the effectiveness and transparency of external dialogues with investors and management around value creation.

These strategic thrusts drive the agenda for the finance team and help frame their objectives in a consistent manner to drive change in every Unilever business.

UNILEVER FINANCE TEAM

Seizing opportunities and delivering against aggressive targets

INPUT TO THE END RESULT

Unilever finance team members continuously try to bring products to customers that meet their needs and at a price they can afford. Everything they do is based on this premise. For example, finance has direct input into Unilever's long-, medium- and short-term plans as well as their cost-reduction programs and innovation projects.

IMPROVING PERFORMANCE

Within one of Unilever's operating companies, the finance role offers a single view of the business—from its processes and operations to the ways it can improve performance. Moving on from there, finance team members can specialize in areas such as financial control or internal audit, treasury, or mergers and acquisitions.

Finance professionals deal with challenges that cross brands, professions, and geographical regions. Developing a deep understanding of the strategies that drive Unilever's growth and profitability, team members are at the forefront of delivering the company's strategic goals.

HOW FINANCE TEAM MEMBERS WORK

The company's operating structure is divided into three work streams. Finance Business Partners embed best practices and enhance decision-support skills. Accounting and Information applies information management processes to create value for the business. Expertise services work across everything from insurance and risk to investor relations and pensions.

This structure is designed to make Finance an influential force at the heart of the business by offering world-class expertise in areas where they can add real value.

Key Facts about Unilever:

- ◆ In 2008, worldwide turnover was €40.5 billion.
- ◆ Unilever employs 174,000 people in around 100 countries worldwide.
- ◆ The company's foods, home, and personal care brands are global market leaders in skin and deodorants and in food categories including: savory and dressings, spreads, weight management, tea, and ice cream.
- ◆ The company has 13 €1billion brands: Axe/Lynx, Knorr, Becel/Flora, Hellmann's, Lipton, Omo, Surf, Lux, Dove, Blue Band/Rama, Sunsilk, Rexona, and its Heartbrand ice creams.
- ◆ In 2008, Unilever invested €927 million in research and development—for example, in opening new Centers of Excellence for product research and development in Italy, Poland, and the U.K.
- ◆ In 2008, Unilever invested €91 million on community projects worldwide.
- ◆ Unilever has 270 manufacturing sites across six continents.

STEP 3

Create Global Finance Excellence Center

To build a compelling vision that all finance team members globally would embrace, the finance team organized the five Strategic Thrusts under the umbrella of the Finance Excellence Center, which is a team with only nine global members. The team includes vice presidents of finance and finance directors from different Unilever businesses around the world. The team created a world-class website whose mission is to:

- ◆ Leverage local best practices globally,
- ◆ Help finance professionals create value as influential business partners,
- ◆ Equip the team with world-class capabilities, and
- ◆ Enable Unilever Finance to deliver consistently outstanding performance.

The Finance Excellence Center was developed to bring financial strategy to life. This is accomplished by:

- ◆ Stimulating and facilitating best-practice creation and sharing,
- ◆ Providing learning opportunities,
- ◆ Translating external trends into Unilever initiatives, and
- ◆ Identifying necessary financial competencies and skills.

STEP 4

Develop Innovative Business Partners

Unilever embraced innovative business partnering to maximize the value of finance to build brand value and drive growth. As one of the five thrusts, IBP helps Unilever achieve its goal of delivering top one-third total shareholder return among its peer group and the growth it promised to shareholders. According to David Calle, the founding leader of this thrust and currently vice president of finance customer development, this involved identifying competencies required to deliver the company's overall strategy with:

- ◆ Better measurement (consistent, external, brand health focus),

- ◆ Improved return on brand/customer investment,
- ◆ Better planning (brand and customer orientation, value-creation focus), and
- ◆ Improved innovation success rate through better analysis.

“The global team developed best practices and specific examples for finance business partners that provided them the context for how they should work with their local teams. These tools were organized in a framework for brand development, brand building, customer development, and the supply chain. In addition, the entire program was underpinned with a robust training and recognition program,” David Calle says. Table 1 features three of the tools.

The following underpinned specific tools from Table 1.

Business Partnering Skills—Providing skills that help finance partner with internal and external customers more confidently and competently. These include building rapport, managing differences, and highlighting value.

Balanced Scorecard Approach—Providing a balanced scorecard approach to external analysis (strategy, marketing, financial, customer, and culture), including methodologies for war gaming, benchmarking, and financial analysis.

STEP 5

Organize for Success: The New Finance Structure

The final step in the finance team's transformation was to reorganize into three main areas to quickly adapt to a new strategic direction. The finance business partners were separated from financial shared services and expertise services. Finance business partners include planning and analysis, sales finance, supply chain finance, and brand finance. Shared services includes all financial transactions and information management. Expertise services includes tax, treasury, and mergers and acquisitions. This new structure now allows the 1,000 finance business partners to focus on brand development, brand building, customer development, and supply chain by becoming Innovative Business Partners so they can better:

- ◆ Analyze decisions,
- ◆ Ensure alignment of investment with business insight,
- ◆ Monitor business performance with financial and non-

Table 1: TOOLS FOR FINANCE BUSINESS PARTNERS

TOOLS	RESULTS
Decision making under uncertainty (DMUU)— This two-stage toolkit improves the quality of decision analysis, including decision-framing and structuring tools to clearly establish the decision, identify options, understand key issues, and de-bias information. Also included are probabilistic modeling and analysis tools, such as decision trees and Monte Carlo Simulations.	These tools supported the Axe deodorant brand launch that helped propel Unilever to first place in the deodorant category in the U.S. The tool also supported the Bertolli frozen prepared meals introduction.
Brand building (brand health and scorecard)— This tool aims to improve brand health by ensuring visibility and alignment around key brand-health measures.	Dove Real Beauty Campaign—This tool supported a global marketing campaign to celebrate the natural physical variation all women embody and inspire them to have the confidence to be comfortable with themselves.
Customer Development Guide for Finance— This tool provides the finance team within Customer Development with tips on structure, resources to stay abreast of retail trends, and a framework for assessing customers and channels based on opportunity and risk using financial and nonfinancial metrics.	This tool drove significant improvement in trade ROI (return on investment), which fueled increases in advertising and share growth.

financial metrics relative to the external markets, and
◆ Provide growth-orientation analysis.

Uniquely Positioned to Deliver Growth

Ultimately, the success of any change program lies in the business results, and 2008 was Unilever's fourth consecutive year of accelerating organic sales growth. Organic sales grew by 7.4%, and the underlying operating margin improved by 10 basis points. Although early results for 2009 have been impacted by difficult economic conditions, Unilever has continued to deliver growth in 2009, with first-half growth at 4.4%.

The finance function has played a key role in driving growth and a leading role in the growth agenda. "The Unilever finance team understands the strategies that drive growth and profitability and is at the forefront of how we change and develop to meet our goals," says Neal Vorchheimer, senior vice president of finance for Unilever United States. "Finance business partners are uniquely positioned across the business to integrate information, drive business planning, improve financial

analysis, and are already working with marketing, customer development, and supply chain to ensure that decisions are linked to business results." Unilever has developed a culture in finance of innovative business partnering, continuous improvement, and capability development, enabling the team to play an active role in delivering Unilever's growth strategy. **SF**

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