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Faculty of Business Economics

Master of Management

Masterthesis

Mergers and Acquisitions and Open Innovation as a Business Growth Strategy. The Mega Cases of Procter & Gamble and Unilever.

Hüseyin Akgün

Thesis presented in fulfillment of the requirements for the degree of Master of Management, specialization International Marketing Strategy

SUPERVISOR :

Prof. dr. Wim VANHAVERBEKE



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2017
2018



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Executive Summary

The central goal of this research paper is to analyze the determinants of choice among different business-growth strategies of multinational companies in the Fast-Moving Consumer Goods (FMCG) sector. This sector is a highly competitive and mature, which renders the growth of a business extremely challenging. In this sector, companies are required to develop and implement growth strategies not only to gain competitive advantage but also to survive. Most managers base their decisions to realize these growth strategies either internally, through internal development, innovation, or externally, through mergers and acquisitions, joint ventures, and strategic alliances.

The primary objective of the present research is to explore the choice of companies belonging to the FMCG sector between two alternative growth strategies; i.e. growth through open innovation and growth through acquisition. In spite of the presence of broad economic and managerial literature on open innovation as well as mergers and acquisitions, nothing is said about the strategic choice of firms when it comes to selecting between open innovation and mergers and acquisition. This research aims to fill this void. It examines the circumstances under which FMCG companies go for open innovation or mergers and acquisitions, and it analyses how these choices are influenced. The central research question in this study is as follows: Between the organic (internal) or inorganic (external) business growth strategies, which one is the better choice for companies belonging to the Fast-Moving Consumer Goods (FMCG) sector?

To formulate an answer to this question, first, a general literature review of business growth strategies will be conducted and an overview of the FMCG sector will be described. Next, Procter & Gamble and Unilever's Open Innovation and Mergers and Acquisitions case studies will be discussed and analyzed accordingly. Finally, the results from case studies and cross-case samples will be utilized to determine the choice of business-growth strategies of the case companies.

Four crucial findings have been identified to be direct complementary couples: the findings show that (1) case companies grow through both organic and inorganic growth strategies; (2) several challenges exist in the selection of both strategies; (3) the term "open innovation" is used differently by different case companies; (4) Mergers and Acquisitions and Open Innovation are crucial strategies for case companies in both the short-term and long-term period.

Key Words:

Business Growth, Strategy, Mergers and Acquisitions, Open Innovation, P&G, Unilever, FMCG

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Acknowledgement

My sincere thanks go to my dear sister, mother, and father for their support and encouragement, they always believed me and supported me. My deep appreciation and thanks go to my supervisor Prof. dr. Wim Vanhaverbeke for his endless academic support and guidance during the writing this thesis.

Many thanks also go to my Master of Management class, the professors, Erasmus Student Network, AIESEC, UHasselt United, the StuRa Hasselt and rest of staff at Hasselt University for their encouragement when things were tough.

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Dedication

To my dear mother, father, and gorgeous sister, you are the greatest gift on this earth to me, without you certainly I would not have come this far with my studies and thesis. Additionally, a special dedication also to my grandfather and grandmother, I know it is still difficult to accept that you are not among us, you were the greatest grandfather ever in this earth, you and we had a huge and long fight against cancer but we could not do it any longer.

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List of Abbreviations

M&A: Mergers and Acquisitions

OI: Open Innovation

FMCG: Fast Moving Consumer Goods

SMCG: Slow Moving Consumer Goods

CPG: Consumer Packaged Goods

P&G: Procter and Gamble

R&D: Research and Development

UPS: United Parcel Service

U.S: United States

EBIT: Earnings Before Interests and taxes

GBU: Global Business Units

GAAP: Generally Accepted Accounting Principles

CEO: Chief Executive Officer

CFO: Chief Finance Officer

BOD: Board of Directors

C+D: Connect and Develop

USLP: Unilever's Sustainable Living Plan

SMEs: Small and Medium-Sized Enterprises

VP: Vice President

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Chapter 1: Introduction

One of the most fundamentals of any company would be grow their business. It is quite evident that companies have to grow continually in order to be successful in their respective businesses. Regardless of the size of the companies, there is always a need for further expansion. In other words, it is imperative for firms to have business growth.

Business growth has been a popular topic for numerous researchers and academics in the field of management and economics. Major contributions on the subject of firm growth has come from Andrews, 1971; Ansoff, 1958; Chandler, 1962; Christensen et al., 1965; Penrose, 1959, among others.

Recently, in academics, the question of how growth can be driven in a company has become one of the major questions. It is true that most companies are growing. However, the challenge remains that there exists a gap between the rate of growth the companies achieve and the rate of growth that they want and need to achieve in order to remain competitive. Many companies face their own version of growth gap, realizing that cost-cutting and acquisitions of other companies, while being important, cannot help them grow organically (Tucker, 2008). At this challenging point, companies try to figure out better ways to grow, and one of the methods for that would be to grow through mergers and acquisitions.

Certainly, growth through acquisition has been widely adopted across different sectors. However, the business growth strategy of companies should not be only mergers and acquisitions (M & As). M & As can play a role, sometimes even a major one, in a company's growth strategy. However, there has to be a lot more to a company's growth strategy than just M & A (Gaughan, 2013). Therefore, leading companies seek fundamentally new ways to grow, one of which would be growth through open innovation. Open innovation (OI) is a quite new model of growth that helps the companies to increase their cooperation with the internal and the external parties. With the OI model, companies can develop products and services of a high quality. In addition to that, OI improves the performance of the companies with more innovative ideas. However, the question that remains unanswered is whether M & As and OI can actually help the companies to achieve their objectives?

The present research explores the choice of FMCG companies between two alternative growth strategies; i.e. growth through open innovation and growth through acquisition. In spite of the presence of broad economic and managerial literature pertaining to OI and M & As, nothing is said about the strategic choice made by firms while making a selection between the two. This research intends to fill this void. It examines the circumstances under which FMCG companies choose OI or M & As, and it analyses what influences these choices.

To achieve the aforementioned aims, I have formulated the following central research question: Between the organic (internal) or inorganic (external) business growth strategies, which one is the better choice for companies belonging to the Fast-Moving Consumer Goods (FMCG) sector?

To be able to analyze the central research question, I have formulated research sub-questions that are given below. These following questions have the purpose of aiding me in my investigation of the central research question:

- What are the main growth strategies of the case companies?
- Why do business growth strategies have a crucial importance in the FMCG sector?
- Should companies choose growth through acquisitions or go for growth through innovation? Which way do the case companies choose to grow?
- What is the strategic objective behind the mergers and acquisitions of the case companies?
- How do case companies connect OI and M & A to their business strategy?
- What are the benefits of the OI for case companies?

The present thesis has been composed in five chapters. The first chapter presents the main objective of the research, and the research questions that guide this study. The second chapter goes on to describe the literature review pertaining to the general thesis topics. In the third chapter, the methodology followed in this research has been described in details. Additionally, the chapter aims to provide additional information about the case study research. The following chapter provides information about the collected data in the case studies, which includes company backgrounds, acquisition deals, implementation of open innovation, the conclusion of each case studies, and the cross-case analysis that have been done to compare the case studies. The analyzed case studies and literature review enabled the researcher to address the central research question and the sub-questions. The final chapter presents the conclusion, managerial contributions, the limitations of the research, and recommendations for future research. Figure 1.1 given below illustrates the flow of this thesis.

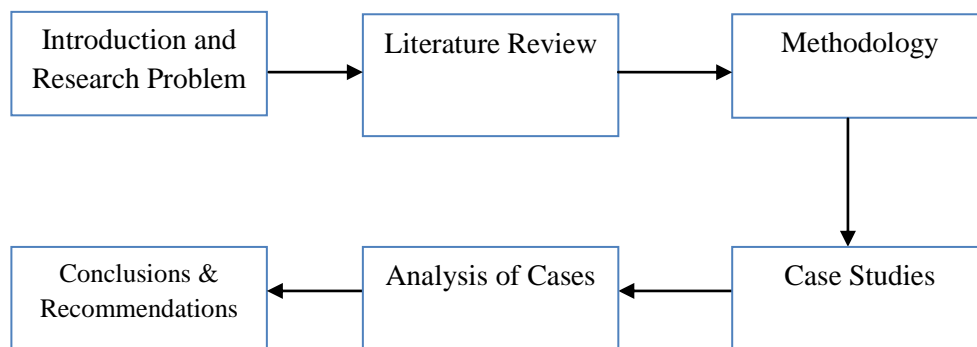


Figure 1.1: The Structure of the Thesis

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Chapter 2: Literature Review

2.1 Business Growth

Growth is one of the most commonly used strategy of companies. The commonly used business growth terminology represents the processes that are involved in improving a company's success through sales, new product development, assets, and net profits.

Business growth is quite a popular field of research for numerous researchers and academics, especially in the field of management and economics (Ansoff, 1958; Andrews, 1971; Chandler, 1962; Christensen et al., 1965). Some of the significant contributions to the growth theory of firms came from the research and studies of Edith Penrose (1959, 1995). She defined firm growth as the "increase in size or an improvement in quality as a result of the process of development." Penrose also defined growth as "the continual extension of the range and nature of the activities of an organization." Business growth is frequently referred to as firm growth.

Chandler (1962) conducted a research that included around 100 of the largest firms in the U.S. He used the concept of strategy to describe the growth of a firm with regard to its volume expansion, geographic expansion, vertical integration, strategy, and diversification.

Ansoff (1965) created a growth matrix, which is known as the Ansoff Matrix— a strategic planning tool frequently used by executives and senior managers. Moreover, this tool describes the growth of a company with regard to the relationship between existing products or markets and new products or markets.

While the traditional economic analysis focuses on the advantages and disadvantages of a certain firm size, Penrose compared the growth of a firm to the natural biological process, in which an interacting sequence of changes leads to enlargements in company size, accompanied by modifications in the characteristics of the growing object. Penrose realized that these developments are created not just from a company's internal activities, but it also affects the external activities or actions, such as changing opportunities for the companies (Söllner, 2009).

2.1.1 Business Growth Strategies

According to Penrose (1959), business growth strategies are broadly divided into two types— organic and inorganic.

Organic/internal business growth strategies comprises the internal business activities of a firm. Some of these internal activities include market penetration, new product development, market development, and diversification. Organic business growth is a gradual process that is spread over a few years (Bruner, 2004). On the other hand, inorganic/external business growth strategies involve acquiring new businesses through M & A and takeovers. However, both organic and inorganic business growth strategies have their own advantages and disadvantages when it comes to the performance of a firm. (Delmar et al., 2003). Moreover, both the strategies lead to an increase in margins or profit of a firm. Nowadays, competitive pressure in the business environment necessitates for firms to grow. Through business growth, a firm can increase in size. A large firm could have more control in its environment, and it can have more benefits and derive more efficiency from its general activities. Generally, growing companies also have a greater chance in increasing their market share, thereby acquiring more market power. By

carrying out research and development activities, or through the introduction of new products and services, firms get an opportunity to enhance their competitiveness and ensure their survival in the market. That is the reason business growth is desirable for many companies. Without having business growth, it would be unmanageable to fight the competition from the operating market.

To sum it up, a business can develop either through organic growth or by inorganic growth. The following part of the thesis explains the organic and inorganic business growth strategies. Figure 2.1 given below illustrates the salient features of both growth strategies along with the motivations behind them.

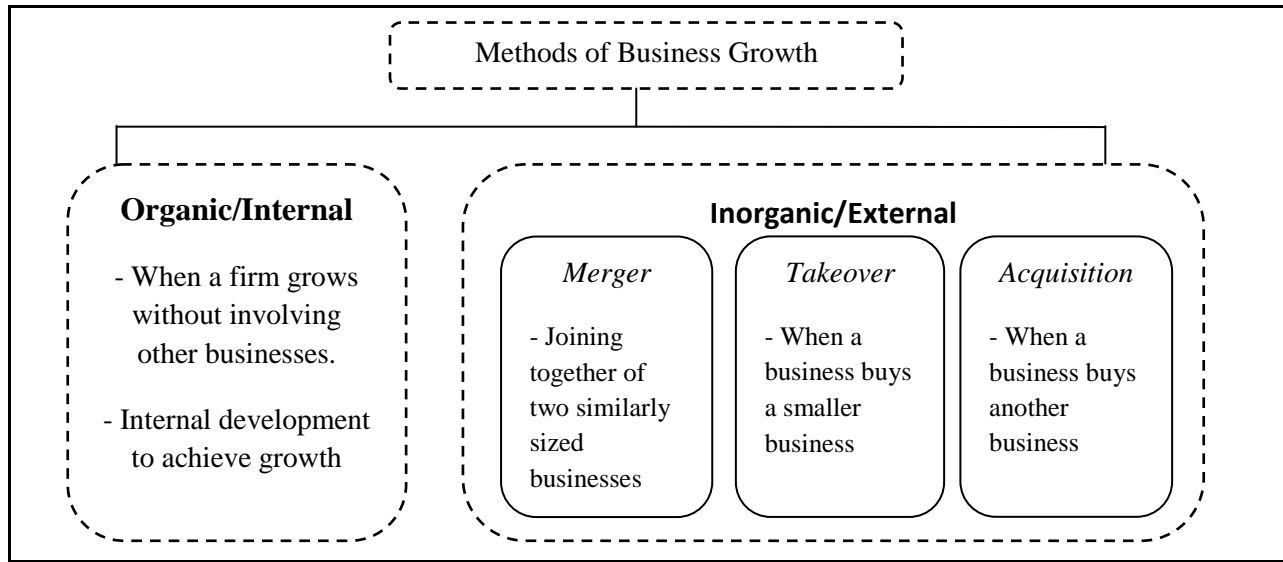


Figure 2.1: Methods of Growth of a Company (Penrose, 1959)

2.1.1.1 Organic Growth Strategies

Organic business growth is the rate at which business expansion takes place through a company's own activities. In other words, businesses relying on organic strategies use internal development to achieve their growth targets (Baines et al, 1999). Companies that develop new products to cater to a particular market employ this kind of growth strategy. Organic growth strategy begins since entrepreneurs started their business operations.

With this strategy, growth is generally measured in terms of increased revenue, profits, or assets. Businesses have the choice of building their in-house competency, investing to create competitive advantages, and differentiating and innovating in products and services.

Since the scope of organic growth is very broad, the research focuses on growth through innovation. More specifically, it is concerned with OI as an organic business growth strategy.

2.1.1.2 Inorganic Growth Strategies

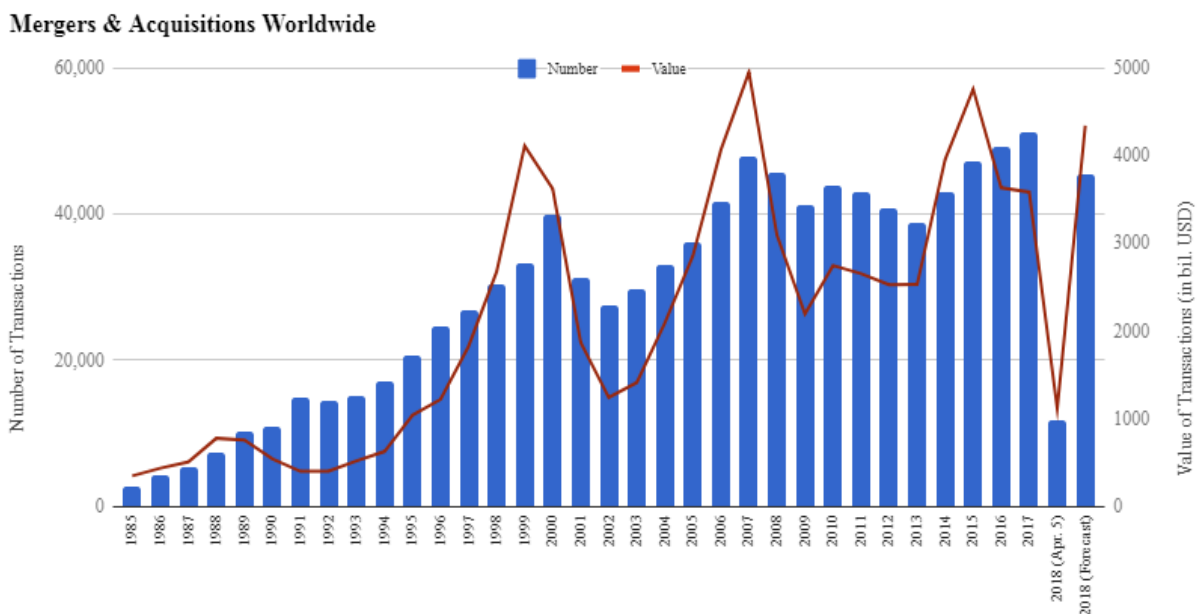
As opposed to organic business growth, inorganic business growth means that the company grows through mergers, acquisitions, or takeovers. There are different motivations for companies to choose inorganic business growth strategies over any others, such as low-level growth, competition, ambition to enter new markets, achievement of their growth targets, among others.

As the researcher's main focus is on M & As among other inorganic growth strategies, this thesis explains M & As as a business growth strategy in more detail.

2.2 Mergers and Acquisitions as an (Inorganic) Business Growth Strategy

Any business owner or manager is always in search of new ways to grow their business. If business owners and decision-makers want to gain more revenues or competitive advantage, they must serve a larger base of customers across more markets. Thus, the fundamental issue lies in selecting or identifying the best way to grow the businesses and acting on opportunities.

M & A is a fantastic strategy to grow any business without having to wait for years for the marketing and sales strategies to pay off. If a company requires rapid growth for their current business, M & A could be the best strategy to adopt, since it provides immediate results. Graph 2.1 given below illustrates the increase in demand, and the choice of M & A strategy for companies worldwide since 1995. It is evident from the graph that the number of transactions and the value of transactions has increased mutually year after year.



Graph 2.1: Mergers and Acquisitions Worldwide (Source: <https://imaa-institute.org>)

M & A is a strategy that gives opportunities for achieving business growth or expansion of new products, services, and markets. As we have seen from the graph, M & A is becoming the strategic choice for companies to meet their business objectives. According to above graph, over 50,600 M & A transactions were announced in 2017 having a total value of \$3.5 trillion. Since 1985, that is the highest number of transactions recorded.

2.2.1 Mergers & Acquisitions

Mergers and Acquisitions are two different concepts in a similar area. M & A are often used interchangeably. However, when considered together, they include more than merely acquiring the ownership of a company. In the new century, M & A has become one of the most important strategic tools to achieve business growth (Sudarsanam, 2003).

According to Sherman and Hart (2006), the term merger refers to "a combination of two or more companies in which the assets and liabilities of the selling firm(s) are absorbed by the buying firm. Although the buying firm may become a considerably different organization after the merger, it retains its original identity."

On the other hand, an acquisition, according to Krishnamurti and Vishwanath (2008), "is the purchase made by one company (the acquirer) of a substantial part of the assets or the securities of another (target company). The purchase may be a certain portion of the target company or a large part (or all) of the target company's voting shares."

Mergers and Acquisitions are usually made as part of the growth strategy of companies, which is more beneficial to take over the operations of another company or niche of another existing firms as compared to expanding on its own through organic growth.

2.2.2 Types of Mergers & Acquisitions

In order to classify the M & As by type, it is necessary to identify why a deal made, what is the motivating the transaction, and how it contributes to a business growth strategy (Swaim, 2011). Mergers and acquisitions can generally be classified as horizontal M & A, vertical M & A, concentric M & A, and conglomerate M & A. The following figure illustrates the classification of M & A and the related growth strategies.

Classification	Motivation & Growth Strategy
Vertical	Backward (relationship with suppliers)
	Forward (closer to the customers)
Horizontal	Product extension
	Market Extension
	Diversification
Conglomerate	Financial Strategy
Hostile Takeover	Dominate Industry or Capture a Customer
	Eliminate a Competitor

Figure 2.2: M&A Classification, Swaim (2011)

2.2.3 Effects of Mergers and Acquisitions on Business Growth

There are numerous reasons for acquiring a company or merging with a company. However, there should always be a strategic reason behind the deals that take place. Generally, successful deals have a strategic reason and better integration processes behind them. Large companies, such as P&G and Unilever, grow increasingly through M & As. Broadly, M&As create benefits and values in different ways to large companies. Some of these values have been listed below:

- Improvement of performance, especially in the long-term.
- Removal of excess capacity
- Acceleration of business growth
- Acquirement of new skills and technologies
- Rolling-up of strategies to reduce costs through economies of scale (Cleverism, 2018).

2.3 Open Innovation as an (Organic) Business Growth Strategy

2.3.1 Innovation

Academics have conducted numerous research in the field of innovation. Innovation is a broad and complex field of study that takes under its purview various changes. In the literature, there exist many definitions and meanings of the term innovation. The word “innovation” comes from the Latin word “*innovates*”, which is connected both with change as well as the renewal of concepts. According to Schumpeter (1934), innovation is the driving force behind economic development. Schumpeter categorized the following activities to fall under the head of innovation: Launching of a new product, adding new features to a known product, implementing new production methods, launching a new market, acquiring new resources to supply raw materials or semi-finished goods, and creating a new industry structure. Kenneth Simmonds (1986) has stated that innovations are new ideas, consisting of new products and services, new use of existing products, new markets for existing products, or new marketing methods.

Broadly, innovation comprises two parts: The creation of an idea or the invention of something and converting that invention into a business or another other application that adds value to the user (Roberts, 2007). Freeman (1982) stated that innovation is carried out with the first commercial transaction. Chesbrough and Rosenbloom (2002) concurs with this view, saying that the inherent value of a technology remains latent until it is commercialized in some way. The process of innovation not only involves the operation of the technical component, but it also takes into consideration the commercialization of that technology at the same time. The technical component can be termed as invention, while the commercialization of technology can be termed as innovation (Bogers & West, 2010).

Nowadays, development of new ideas and innovation is the priority of a lot of companies, especially in the FMCG sector. The main reason for this is high-level global competition and technological development that has made innovation a source of competitive advantage.

In brief, innovation includes different processes, such as product innovation or process innovation, incremental and radical, market pull and technology push as well as closed innovation and open innovation (Lee, Park, Yoon, & Park, 2010). In this thesis, we focus on OI and its effects on the growth of multinational companies. Therefore, the following part of the thesis provides detailed information about the concept of OI.

2.3.2 Open Innovation

Since the last few decades, the focus of innovation has shifted from the internal R&D activities of a company to a more open and collaborative approach (Enkel et al., 2009). One of the commonly used and accepted definition of OI is “the use of purposive inflows and outflows of knowledge to accelerate internal innovation and to expand the markets for external use of innovation, respectively” (Chesbrough, 2006).

In the following years, Chesbrough and Bogers concluded that OI is better conceptualized as a process that “involves purposively managed knowledge flows across the organizational boundary” (Chesbrough & Bogers, 2014). In other cases, the actual flow goes beyond the boundaries of a company, the knowledge might help to create additional value in the current and the new markets.

According to these definitions, the following OI models have been identified:

- Inbound (outside-in) OI (Chesbrough, 2003),
- Outbound (inside-out) OI (Chesbrough & Crowther, 2006),
- Combined Coupled Innovation Process, which aims to combine both inbound and outbound models (Gassmann & Enkel, 2004).

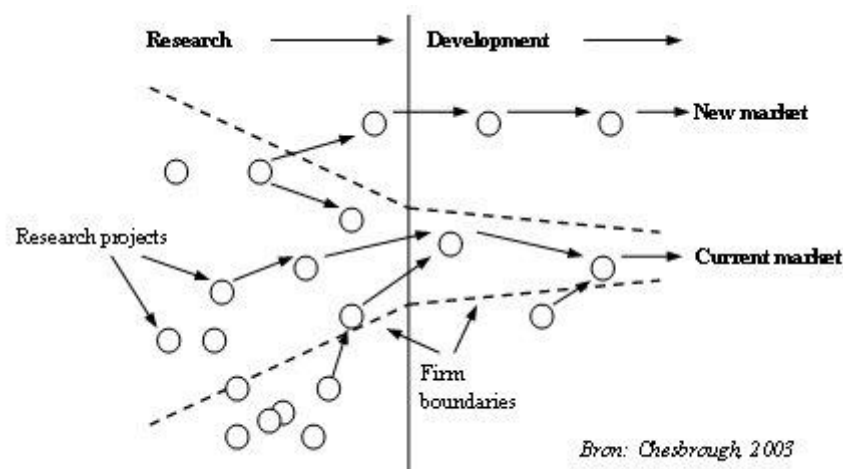


Figure 2.3: Open Innovation Model (Chesbrough, 2003)

The above figure illustrates the OI model of Chesbrough. With this OI model, projects of companies might be launched from either internal or external technology sources, and new technology might enter into the process of a company in several ways. Additionally, these projects might also go to market in several ways, as in through out-licensing or a spin-off venture company. Besides, the companies may also go to market through their own marketing and sales channels (Chesbrough, 2003).

Additionally, the following figure provides some of the significant principles of both closed and open innovation.

Closed Innovation	Open Innovation
1 - All the smart people work in our organization.	1 - Not all the smart people work in our organization.
2 - To profit from R&D we have to discover, develop and supply everything ourselves.	2- External R&D can create value for our organization.
3 - Only if we discover it will we manage to get it to market first.	3 - Internal R&D is needed to grasp that value.
4 - If our organization is the first to commercialize an innovation, we will beat our rivals.	4 - We have to be involved in basic research to benefit from it, but the discovery does not have to be ours.
5 - If we create the most and best ideas in our industry, we will win.	5 - If we make better use of external and internal ideas and unify the knowledge created, we will win.
6 - If we have full control over the innovation process our rivals will not be able to profit from our innovative ideas.	6 - We should optimize the results of our organization, combining the sale or licensing of our innovation with the purchase of external innovation process whenever they are more efficient and economic.

Figure 2.4: General Principles of Closed Innovation and OI (Chesbrough, 2003).

The concept of OI is quite a new model that helps companies to increase their cooperation with internal and external parties. With the OI model in place, companies can develop products and services of high quality. In addition to that, OI improves the performance of companies that have more innovative ideas. There are many companies that have received the benefits of this new model. Some of these companies are P&G, Unilever, Tesla, and Apple.

In Chapter 4, the OI implementation of Procter & Gamble and Unilever will be analyzed in details. Especially, with Connect and Develop P&G changed their innovation approach. The main reason for the implementation of OI by P&G was to reach out to the external parties for their innovative ideas.

2.4 Overview of the FMCG Sector

The FMCG sector represents one of the largest sectors worldwide. FMCG products are usually sold quickly and at low prices. These products are consumed more or less every day by consumers. Moreover, consumer goods are an extremely large group of products in terms of food and non-food product categories. The general term for consumer goods is usually classified as slow-moving consumer goods (SMCG) and fast-moving consumer goods (FMCG). FMCG are products that have a shelf life of around one year. Generally, these products are classified as food, beverages, personal-care items, household products, clothing, tobacco, and pet food. These products are frequently purchased by consumers at a high volume and at low prices. FMCG is also known as consumer-packaged goods (CPG).

The industry is characterized by a well-established distribution network, low penetration levels, low operating cost, low per capita consumption, and intense competition exists between the organized and the unorganized segments. Within the different categories, FMCG products are often near-identical. It is for this reason that competition between retailers can be intense when it comes to the pricing. In order to boost profitability, companies use marketing and other techniques to establish customer loyalty to the product, which enables them to charge higher prices. That said, managing input costs also remain vitally important, since even small margin gains have a significant impact on the bottom line due to the large volumes of production. Another important characteristic of the FMCG sector is that it generally does well even in times of an economic meltdown, since consumers tend to cut back on luxury products rather than on these goods.

The FMCG sector is one of the mature sectors in the industry, where multinational companies face extreme competition. In such a competitive environment, business growth has to be a crucial goal. In order to grow and increase the market shares, multinational companies intensively engage in innovation and activities involving M & A.

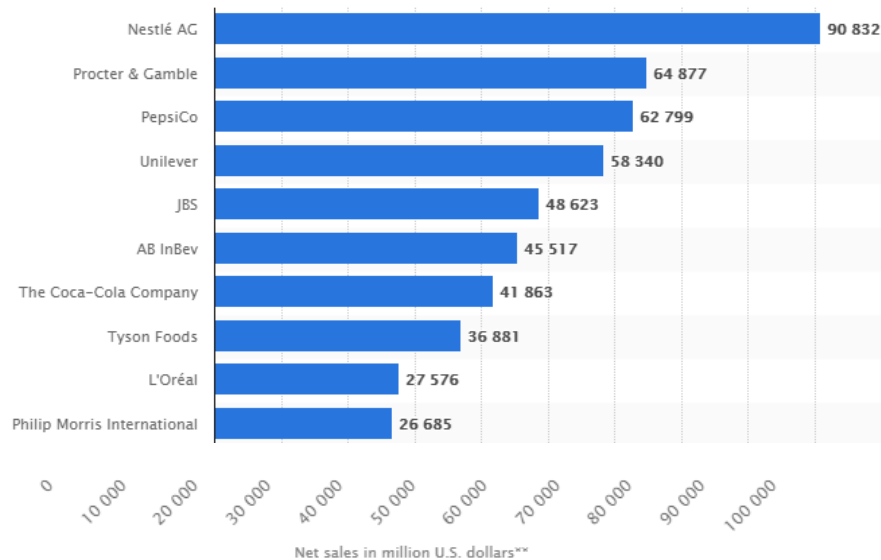
Some of the leading key players in the FMCG sector include Nestlé, Procter & Gamble (P&G), Unilever, PepsiCo, and The Coca-Cola Company. Figure 2.5 given below illustrates the top 10 Companies in the FMCG Sector. All of these players operate as a multinational entity, while trying to meet local requirements regarding product packaging and labeling. These top 10 companies control almost the entire FMCG sector with their billion-dollar brands. The products of these billion-dollar brands can be found in many household pantries.

In order to keep their consumers as regular buyers, FMCG companies actively try to develop customer loyalty and trust to their brands. Ariel, Gillette, Pampers, and Pantene are considered to be among the most famous brands of P&G, while Dove, Knorr, Signal, Lipton, Ben & Jerry's are the most famous brands of Unilever.



Figure 2.5: Top 10 Companies in the FMCG Sector (Business Insider, 2016)

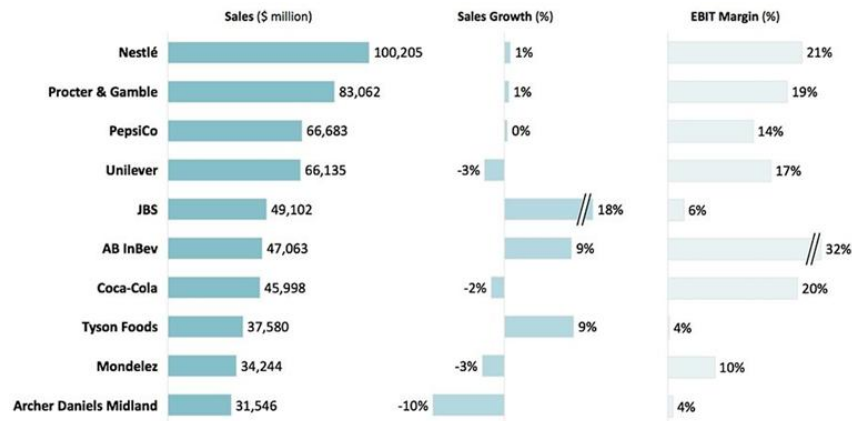
The ranking given below shows the top FMCG companies worldwide in 2017 based on the net sales generated. In that year, P&G was ranked as second, having around \$65 billion and Unilever was ranked as the fourth largest FMCG company worldwide with net sales of about \$58.34 billion.



Graph 2.2: Top 10 FMCG companies worldwide in 2017, based on net sales (million \$), (Statista, 2017)

Additionally, Graph 2.3 given below illustrates the sales growth and the EBIT margin of the top 10 FMCG companies worldwide from 2015. According to 2015 ranking, once again Nestlé took

first place with \$100.2 billion in sales. P&G followed the ranking with \$83 billion sales and gains and 1% increase in sales growth. On the other hand, Unilever faced around 3% decline in sales growth in the same year with the smaller margin. As can be observed, both P&G and Unilever needs to adopt better growth strategies to increase the sales revenues to fill the targeted growth gap.



Graph 2.3: Top 10 FMCG Companies of the world (2015), (Consultancy.uk, 2015)

2.4.1 How do case companies connect OI and M & As to their business strategy?

P&G and Unilever has experimented with OI for many years. Their C-Level managers try to create an innovative environment for the integration of OI as a part of their business strategy. The previous sections highlighted OI and M & A processes in detail. Therefore, this section presents how case companies connect OI and M & As to their business strategy.

Chesbrough's model of OI funnel provides several opportunities for managers to connect their OI and M & A strategies to their business strategies. Essentially, through OI model, the companies jointly work on R&D projects, with the external partners having better outcomes. However, companies open their boundaries to the outside world at one dramatic point in order to benefit from additional solutions. Usually, it happens when a company is unable to create necessary capabilities internally and, thus, seeks for new partners through strategic alliances, in-licensing, and acquisitions. A similar scenario had taken place for the case companies in this research. In order to meet with their long-term strategic goals, Unilever and P&G successfully integrated OI into their business strategy.

The following figure illustrates how case companies connect OI to their business strategy.

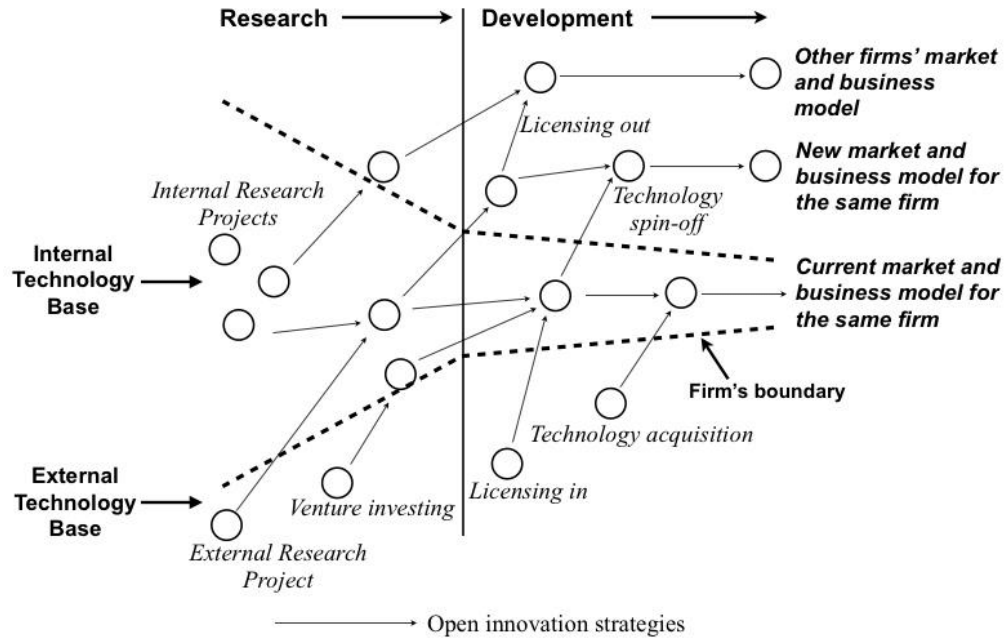


Figure 2.6: Connecting OI and M & A through OI Model (Chesbrough, 2003).

Based on the OI model, P&G collaborates with external partners to shape their innovation strategy. This sometimes happens with external research projects or technology acquisition. For example, P&G acquired Gillette, which was an innovative company with high technology product line. Similarly, Unilever acquired Ben & Jerry's with its innovative and super-premium ice creams. With the integration of OI activities as a part of their business strategy, the case companies have opportunities to reshape their company's strategy from development to execution.

According to Vanhaverbeke, Roijackers, Lorenz, and Chesbrough (2017), "To realize a firm's full potential, it needs to connect its open innovation endeavors with its strategy development initiatives. In an innovation era, external innovation partners are not only valuable as a source for new technologies and innovative business models, but they are also increasingly essential in the development of firm's strategies."

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Chapter 3: Methodology

This chapter describes the methodology that has been employed to gather data. It involves defining case study method, case selections, and data collection regarding the tackling of the research problem.

3.1 Case Study Method

Case study research is used for analyzing the determinants of choice among different business growth strategies of multinational companies in the FMCG sector. To be more precise, multiple case study research has been used. Case studies are the preferred method when questions pertaining to 'how' or 'why' are raised (Yin, 2009). In my opinion, case study research is the best existing method for understanding business growth strategy choices of companies in the FMCG sector. Several authors have described the process of conducting case study research. I have mainly followed the case study research ideas of Yin (2009) in this thesis. The process of conducting the multiple case study research is illustrated in Figure 3.1, and it is based on the approach of Yin (2009).

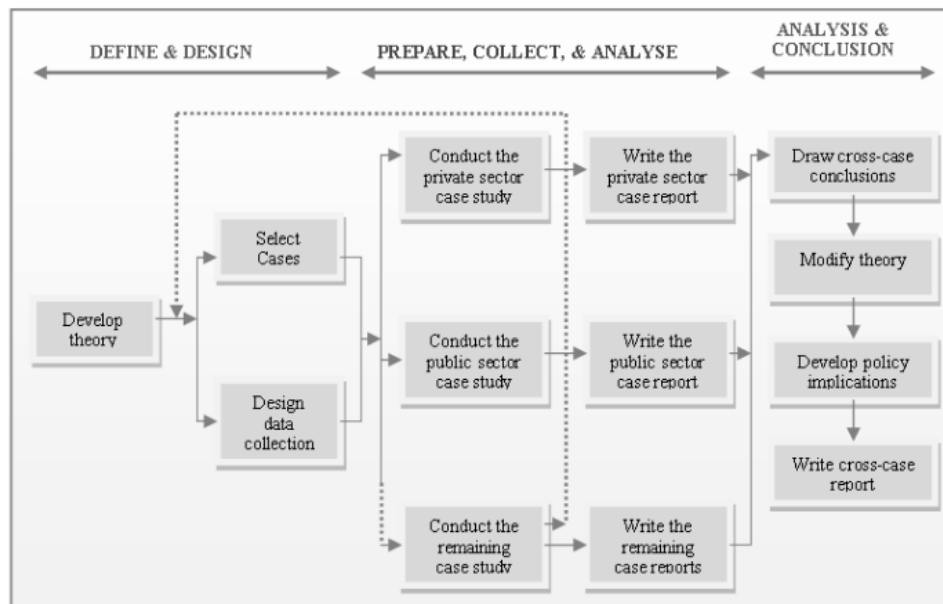


Figure 3.1: Multiple Case Study Approach of Yin (2009)

At the beginning of the study, a research design had been developed as per Yin (2009). A research design helps in linking the data that is collected with the conclusions that are drawn to the initial questions of the study. The central research question and sub-questions of this thesis were developed after scanning the literature pertaining to business growth strategies as well as after having an overview of FMCG. These preserve and ensure a certain focus during the research. The review of existing literature provides a theoretical framework as well (Yin, 2009). During the designing of the case study, multiple case study subjects were chosen owing to its unique characteristics. Besides, this allowed the researcher to compare four case studies on the related topic. In my opinion, this comparison of the number of case studies was enough to

discover some basic insights into the business growth strategies of FMCG companies to develop some potential generalization and conclusions across cases.

3.2 Case Selection and Data Collection

After a long secondary data research, the researcher finally selected a few case studies that were relevant to the present research. More specifically, the researcher has chosen M & A as an inorganic business growth strategy and OI as an organic business growth strategy. Therefore, first, the mega acquisition deals of P&G and Unilever has been analyzed for the M & A part of the thesis. Second, the implementation of OI in the case of P&G and Unilever has also been analyzed in order to determine the outcomes of the business growth strategy of the case companies.

The researcher has divided the research into two cases, based on the main research question, in order to compare them with the determinants of choice among different business growth strategies of multinational companies in the FMCG sector. Figure 3.2 given below illustrates the arrangement of the case studies and the case companies.

Case Companies involved in the M & A Deals	Case Companies involved in OI
P&G and Gillette	P&G
Unilever and Ben & Jerry's	Unilever

Figure 3.2: The case companies involved in M & A and Open Innovation case studies

To ensure maximum quality during the case study research, the following three tests have been considered: construct validity, external validity, and reliability (Yin, 2009). Table 3.3 lists the three relevant tests for a case study research, together with the recommendations case study tactics, as well as a cross-reference to the phase of research as to when the tactic is to be used (Yin, 2009).

Tests	Case Study Tactics	Phase of Research in Which Tactic Occurs
Construct Validity	<ul style="list-style-type: none"> ✓ Use Multiple Sources of Evidence ✓ Establish Chain of Evidence ✓ Have Information from Secondary Data Sources 	Data Collection Data Collection Composition
External Validity	<ul style="list-style-type: none"> ✓ Use Replication Logic in Multiple-Case Studies 	Research Design
Reliability	<ul style="list-style-type: none"> ✓ Develop Case Study Database 	Data Collection

Figure 3.3: Case Study Tactics for Design Tests (Yin, 2009)

In the collection of the data from the case studies, a focus had been maintained on the three principles of data collection described by Yin (2009): (1) using multiple sources of evidence, (2) creating a case study database, and (3) maintaining a chain of evidence. During the data collection phase of the research, most of the gathered information collected from the company included publications, annual reports, and interviews with C-level managers of the case companies. The main reason behind it was to improve the construct quality (Yin, 2009). Since I did not have the opportunity to conduct direct interviews, I tried to use secondary data method to gather data from these interviews. The second principle is to create a case study database, which increases the reliability of the case studies. It had to be ensured that the database contained all the data that had been collected during the study. The case study database consists of the company publication, including financial, strategic, and managerial documents, as well as notes from the interviews. The third principle of the methodology is to allow a reader of the case study to follow the derivation of any evidence from the initial research question to the ultimate conclusions of this case study (Yin, 2009). Readers should be able to trace back the conclusions to the evidence in the data. Every statement made in the case study reports can be found in the case study or on the corporate websites of the case companies.

3.3 Data Analysis

To analyze the gathered data, two steps were followed. First, every single case was the subject of a within-case analysis. As a second step, a cross-case analysis was conducted. The cross-case analysis gave an opportunity to look for similarities and differences among the selected cases. The final outcomes of these helped the researcher to develop generalizations from the analyzed data to answer the research questions.

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Chapter 4: Case Studies

In this chapter, two case studies on M&A and two case studies on OI from the FMCG sector will be analyzed separately. Each of the case studies were analyzed in a similar manner. First, the background to each of the case companies was provided. Later, the deals and relevant motivations of the acquisitions were laid out in detail. Second, OI models of P&G and Unilever were analyzed.

4.1 Case Studies of M&A

In this part, I will first analyze the acquisitions between P&G and Gillette and then the deal with the acquisitions between Unilever and Ben & Jerry's. The results of the case studies are present at the end of the chapter with all details. For further details, please consult the Appendices part of the thesis.

4.1.1 Acquisition of P&G and Gillette

The acquisition of Gillette by P&G was the biggest deal made by the company. It was also one of the biggest acquisitions in the FMCG sector. Acquisition of another innovative company gave P&G access to several opportunities, such as new customer segments, new markets, new products, and remodeling of the sector.

Overview of P&G

P&G is a global market leader in the FMCG sector. The company mainly provides branded high-quality CPG to their consumers almost all around the world. P&G sells its products in almost 200 countries through grocery stores, supermarkets, pharmacies, and also through electronic commerce (P&G Annual Report, 2017, p. 11).

The company's market environment is extremely competitive, having rivals from local, regional, and global markets. In most of the segments and markets where they sell their products, the company must compete with private-label brands and other competitors, such as Unilever and Nestlé. In addition to that, most of the product segments are specifically differentiated by way of special price tiers, such as premium, super-premium, mid-tier, and value-tier products. Generally, in the operating markets and business segments, P&G retains leadership positions or has significant market shares (P&G Annual Report, 2016).

Their Global Business Units (GBUs) are structured into 10 product categories. These 10 product categories are principally clustered into five specific segments. Figure 4.1 given below provides more details on the business segments and the 10 categories of products.

Reportable Segments	% of Net Sales ⁽¹⁾	% of Net Earnings ⁽¹⁾	Product Categories (Sub-Categories)	Major Brands
Beauty	18%	19%	Hair Care (<i>Conditioner, Shampoo, Styling Aids, Treatments</i>)	Head & Shoulders, Pantene, Rejoice
			Skin and Personal Care (<i>Antiperspirant and Deodorant, Personal Cleansing, Skin Care</i>)	Olay, Old Spice, Safeguard, SK-II
Grooming	10%	16%	Grooming ⁽²⁾ (<i>Shave Care - Female Blades & Razors, Male Blades & Razors, Pre- and Post-Shave Products, Other Shave Care; Appliances</i>)	Braun, Fusion, Gillette, Mach3, Prestobarba, Venus
Health Care	12%	13%	Oral Care (<i>Toothbrushes, Toothpaste, Other Oral Care</i>)	Crest, Oral-B
			Personal Health Care (<i>Gastrointestinal, Rapid Diagnostics, Respiratory, Vitamins/Minerals/Supplements, Other Personal Health Care</i>)	Prilosec, Vicks
Fabric & Home Care	32%	27%	Fabric Care (<i>Fabric Enhancers, Laundry Additives, Laundry Detergents</i>)	Ariel, Downy, Gain, Tide
			Home Care (<i>Air Care, Dish Care, P&G Professional, Surface Care</i>)	Cascade, Dawn, Febreze, Mr. Clean, Swiffer
Baby, Feminine & Family Care	28%	25%	Baby Care (<i>Baby Wipes, Diapers and Pants</i>)	Luvs, Pampers
			Feminine Care (<i>Adult Incontinence, Feminine Care</i>)	Always, Tampax
			Family Care (<i>Paper Towels, Tissues, Toilet Paper</i>)	Bounty, Charmin

⁽¹⁾ Percent of Net sales and Net earnings from continuing operations for the year ended June 30, 2017 (excluding results held in Corporate).
⁽²⁾ The Grooming product category is comprised of the Shave Care and Appliances GBUs.

Figure 4.1: Business Segments of Procter and Gamble, (P&G Annual Report, 2017)

An overview of the most popular brands in each segment that P&G operates in has been provided in the following figure. The worth of most of these brands range from a billion to even multi-billion dollars.

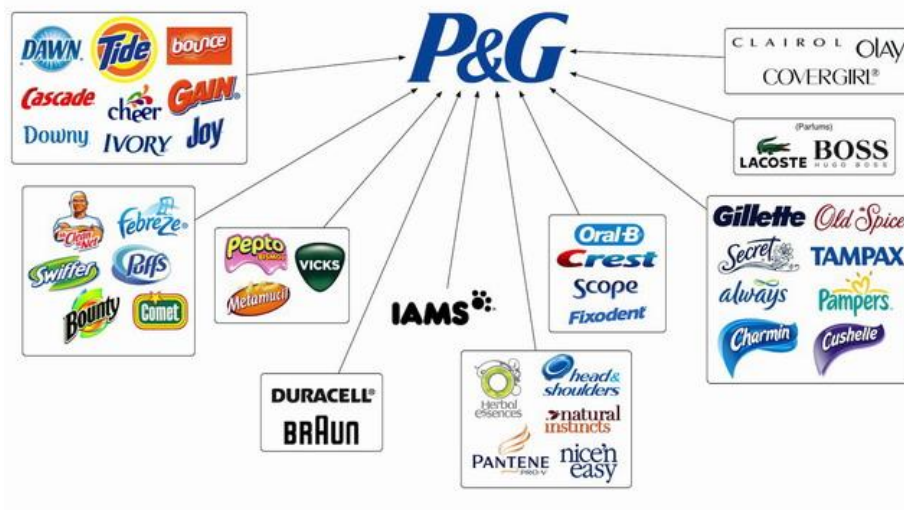


Figure 4.2: Billion-dollar-worth Brands of P&G (P&G, 2017)

Overview of Gillette

Gillette was founded in Wilmington, Delaware, in 1901. Gillette occupied the global leadership position in male grooming. The male grooming category includes razors, blades, and shaving preparations. In addition, Gillette also produces high quality female grooming products which include unique wet shaving products as well as hair-epilation devices in this category. Apart from grooming products, the company is also well known for its alkaline batteries as well as manual and power toothbrushes (Gillette Annual Report, 2003, p. 1).

Gillette's manufacturing operations was carried on in 14 different countries, and their products were distributed in more than 200 countries through agents, wholesalers, and retailers.

Gillette had five business segments, which are as follows:

- Braun
- Blades and Razors
- Duracell
- Oral Care
- Personal Care

In January 2000, Gillette sold its business to P&G (Gillette Annual Report, 2003, p. 1).

The Acquisition Deal

On January 28, 2005, P&G announced that they agreed to buy 100% of Gillette. According to NYSE, the acquisition was valued at \$57 billion. So, the deal became the biggest deal of the Cincinnati-based P&G (CNN Money, 2005).

Terms of the Deal

Based on the acquisition deal agreement, which was approved by the board of directors of Gillette and P&G on January 27, 2005, Gillette shareholders received 0.975 shares of P&G common stock for each share of Gillette common stock (P&G Annual Report, 2005).

With this agreement, P&G acquired all business units of Gillette, which included all activities from manufacturing to technical know-how as well as all the facilities that were owned by the Gillette company. At the end of fall 2005, certain conditions between the shareholders of P&G and Gillette were finally negotiated and approved by regulatory offices.

In addition to the deal agreement, P&G and its subsidiaries planned to buy back \$18–\$22 billion of P&G's common stock in the following 12 to 18 months. However, this development, during the said time period, would result in a total financial impact on the company if the deal were structured with approximately 60% stock and 40% cash (The Wall Street Journal, 2005).

Why Gillette?

The question presented in the title of this section was one of the very first questions that came to minds of several managers. However, there were several factors that motivated P&G's decision to invest on Gillette. First, acquisition is not a new strategy for P&G—many successful acquisition deals had been made in the history of the company for growing the business. In order to grow in the FMCG sector, one of the strategies of P&G has been growth through acquisitions. Therefore, P&G aimed to meet its growth targets by acquiring the company that sold the world's best shaving products. However, this deal was a bit different as compared to the previous acquisitions. Acquiring a highly innovative company could bring additional strengths and synergies to P&G. P&G already had a strong position in women's personal care products with brands such as Olay, Always, Tampax, Cover Girl, and Max Factor. The acquisition of Gillette was aimed at strengthening the company in the men's grooming category as well, with the entire range of Gillette and Braun products.

James M. Kilts, CEE of Gillette, added that "this marks the realization of a historical next phase of great opportunity for Gillette and also for P&G. It brings together two companies that are complementary in their strengths, cultures and vision to create the potential for superior sustainable growth." (P&G Press release, 2005,).

Before the deal was carried out, it was quite clear that the case companies had similar company cultures and complementary strength in innovation, branding, and go-to market skills, which made it a perfect fit. P&G's CFO, Clayton C. Daley, once added that "This deal creates value for P&G shareholders and provides upside for P&G's sustainable growth prospects. Moreover, Gillette and P&G are well-positioned to manage integration, deliver revenue and cost synergies, and retain strong leadership" (P&G Press release, 2005).

In addition to this, this acquisition could make P&G the biggest consumer products company in the world. It was actually a dream deal for both the companies. With the acquisition of Gillette, P&G could add the best shaving products to its product portfolio. The acquisition also allowed P&G to overtake one of its competitors, especially in developing countries (P&G Press release, 2005). Even before the mega acquisition deal took place, both companies were operating and marketing their consumer products around the world. However, both companies were also looking for the opportunities in the developing markets. The acquisition of Gillette would give exposure to P&G in the emerging economies, such as India and Brazil, and P&G could also distribute Gillette products in China. Moreover, analysts from the companies expected that P&G and Gillette could bring new products into the market quickly and learn from each other's strengths.

Without a doubt, the mega-deal would have a strong effect in restructuring the entire FMCG industry. P&G would obtain the strength to compete with its Dutch competitor, Unilever, after the acquisition. Furthermore, after the completion of the deal, P&G would be able to create

stronger brand portfolios, enter new markets, have more opportunities to innovate together with Gillette, increase sales growth, and receive synergy of cost savings.

Growth Strategies

P&G's acquisition of Gillette was only a part of the company's growth strategies. As shown below, their growth strategies were very clear and robust (P&G Annual Report, 2006, p. 4). Their strategy has been summarized briefly below.

- Continue to grow P&G's core businesses with leading brands, operating in big growing markets, winning more and more retail customers, and leveraging company's core strengths and technologies.
- Develop much faster growth, gain higher margins and other related factors to help the company reach the global leadership position.
- Grow disproportionately in the developing markets, which still provide great potential.

The strategies listed above focus on the growth opportunities that play an important role with respect to the strengths of P&G. These strategies have enabled P&G to create a diversified and balanced business portfolio, markets, and customers, which increases its flexibility to deliver stable sustainable business growth (P&G Annual Report, 2006, p. 4). The detailed growth strategies of P&G can be viewed in the Appendices part of the thesis.

Results of Fiscal Year 2006

It is interesting to observe what the situation was like for P&G just a year after the mega deal with Gillette had taken place. Did the biggest investment lead to success or was it a dramatic failure? In order to answer these queries and other related questions, let us have a look at the results of the fiscal year 2006. As observed in Table 4.1 given below, P&G finalized the deal with great success. The financial highlights of 2006 presents that P&G's fiscal performance in 2006 demonstrated the ability of P&G to sustain their growth. The company increased their net sales by around 20% to more than \$68 billion; it also increased its organic sales by around 7% (P&G Annual Report, 2006, p. 2).

When the results of fiscal year 2006 is compared with to the results of fiscal year 2005, it is seen that every business segment delivered organic sales growth. The largest growth was observed in the segments of fabric care, homecare, beauty, and healthcare. In each of these segments, growing sales was above P&G's Gillette acquisition 4–6% organic top line goal (P&G, 2006). According to the results of the annual report, every geographic region posted organic volume and sales growth. But, the biggest growth came from the developing markets, where the earnings per share increased to 4%, an area that was impacted by the Gillette acquisition. Moreover, the net earnings of the company also increased by 25 % up to \$8.7 billion, close behind the addition of Gillette as well as sales growth and margin expansion on established businesses (P&G, 2007).

Finally, P&G received better cash performance and achieved substantial progress on its working capital in 2006 because of the growth of earnings of its existing business.

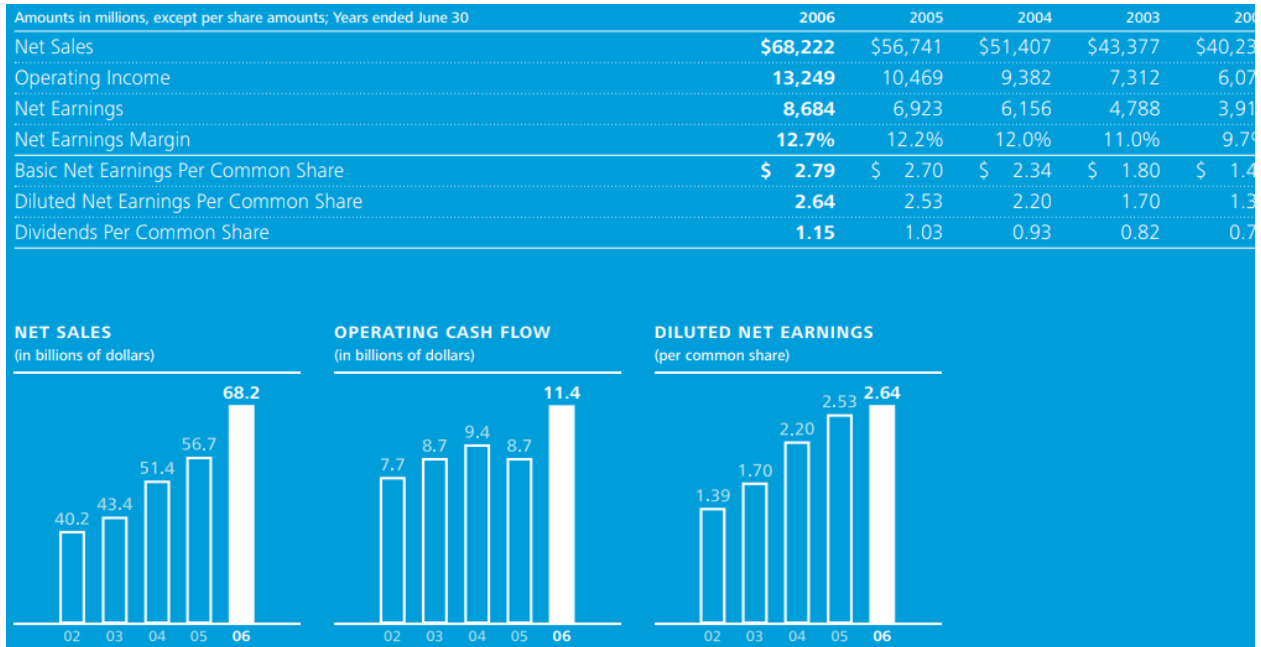


Table 4.1: Financial Highlights of 2006 (P&G Annual Report, 2006)

On Track with Gillette

After only one fiscal year, A.G. Lafley, CEO of P&G, summarized the mega investment deal in the following statement: "I am very pleased with the progress we have made on the integration of Gillette. We completed fiscal 2006 at the low end of the dilution range we provided and are on track with our commitment to return P&G to double digit earnings per share growth in fiscal 2008. We are also on track to deliver the financial commitments we made when we asked shareholders to approve the acquisition." (P&G Annual Report, 2006). Figure 4.3. given below illustrates the growth of P&G in 2006.



Figure 4.3: Growth of P&G in 2006 (P&G Annual Report, 2006)

P&G gained between \$1–\$1.2 billion in annual cost synergies. It also had a 1% annual sales growth from revenue synergies.

After finalizing the acquisition, P&G concentrated on integrating their business systems in the operating markets. In 2006, the company integrated the new business systems in five regions, which collectively represented 20% sales. By way of these integrated countries, they received new product orders, shipped them from manufacturing facilities, and received payments. In spite of being a monumental task, P&G accomplished it in a short period of time.

The next issue was the integration of distribution networks in developing countries, such as China and India. The integration was planned to be completed in the months following the acquisition. After the integration was completed between P&G and Gillette, the former was expected to provide Gillette with products like razors and batteries as well, as they distributed before the mega acquisition. One of the benefits of the acquisition was decreasing the costs of distribution for each other.

Before the acquisition deal, there was a high consumer demand for products of the Gillette brands. However, even after the deal, the consumer demand remained strong. Hence, general consumption of the products of Gillette's brands continued to grow, and the fact that the business remained healthy was a positive sign.

Gillette was an innovative company with its strong research and development projects. After this deal, P&G had much better opportunities for product development and had the opportunity to become an innovation leader in the FMCG sector. The company undertook an unusual approach for the Gillette integration as compared to its previous acquisition deals. So, the question that arises is what was unusual in this case or why did it seem so? P&G had benchmarked the best practices with Gillette in every single detail of the business, which included product development to manufacturing and distribution to sales approaches. With this benchmarking, the companies aimed at bringing their strongest sides to the table. At some point, they combined the opportunities for the best of each company with the aim of creating a better and stronger company with these capabilities than any other company had built before.

Sustaining Business Growth

As mentioned previously, P&G's performance continued to show the consistent growth that it had delivered between 2000 and 2005. Let us have a look at how P&G sustained its business growth since the beginning of the decade;

- After the deal, P&G increased the annual sales growth target from 4–6% to 5–7% level. This continued in the following years as well, and the company moved their annual earnings growth targets to the double-digit figure.
- Net sales of the company increased by 12% per year. Organic sales also increased by 6% each fiscal year. The total sales had grown from \$39 billion to \$68 billion.
- Earnings per share have grown at an average of 12% per year.
- Free cash flow has grown to nearly \$9 billion per year. For the detailed financial results, please check the Appendices (P&G Annual Report, 2006).

With this extraordinary performance, P&G became one of the leading companies in the FMCG industry. However, sustaining this growth became difficult between 2005 and 2010. The main reasons for this were the external environment that was getting challenging because of the financial crisis between 2008–2010, activities of competitors like Unilever, and consumers with their ever-changing behaviors.

4.1.2 Acquisition of Unilever and Ben & Jerry's

This case study examines the role of Ben & Jerry's acquisition in the growth of Unilever.

Unilever Overview

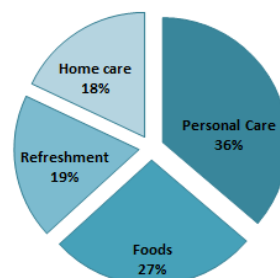
Unilever is one of the biggest competitors of Procter and Gamble, also operating in the FMCG sector. Unilever is also among one of the leader companies in the FMCG sector. Globally, billions of people buy their high-quality products. Like its competitor, the company operates in around 100 countries. Moreover, products of Unilever reach around 200 countries, which makes it a real global firm (Unilever, 2016).

To derive a better understanding of the size of the FMCG industry, there are certain indicators that we should consider. First, there are around 25 global competitors. Second, these global leaders in the industry generate about € 600 billion sales volume. However, obstacles also exist for these global players, such as material risks and their traditional business model. In addition, the FMCG market is known for its high-level competition not only on the global scale but also in the local markets. There are also issues of disruption in the industry. Currently, FMCG companies are focusing on new business growth strategies against competition and disruption.

One of their strategies is cost reduction. It is a fixed topic, with its requirements ensuring focus on execution as well as brand management that fits Unilever's strategic objectives. Another strategy is growing through acquisitions to reinvest in rebalancing portfolios for the long-term growth of the company.

Business Segments of Unilever

Unilever operates in four different segments, these are personal care, foods, home care and refreshment. As presented in below graph 4.2, with 19% refreshment segment is among the biggest segment of the company.



Graph 4.2: Business Segments of Unilever (Annual Report, 2013)

Unilever has 13 brands with sales of €1 billion or even more. These areas present at the following figure 4.4; Axe, Omo, Dove, Rama, Wall's, Hellmann's, Knorr, Lipton, Lux, Magnum, Rexona, Sunsilk, and Surf. Below graph illustrates these billion dollars worth brands of Unilever.

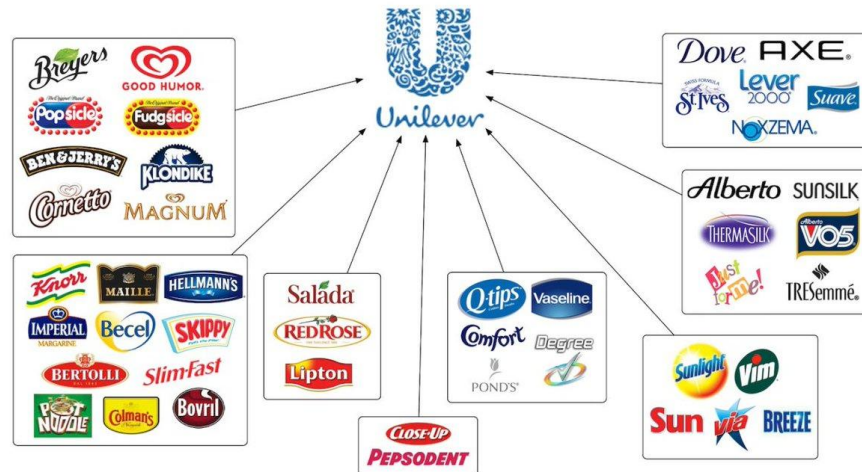


Figure 4.4: Billion Dollar Worth Brands of Unilever, (Unilever Annual Report, 2013)

Strategic Focus Of Unilever

Unilever has clearly described its strategies with the clear target of business growth. Briefly, competitive, consistent, responsible, and profitable. Additionally, the general category strategies are defined as follow, winning with branding and innovation, winning with continuous improvement, winning in the current markets, and winning with their people. These strategies are giving the insight about how Unilever wins in the Fast Moving Consumer Goods industry (Unilever, 2016). With the execution of these strategies, Unilever drives its business growth. More specifically, one by one above mentioned strategies results on growing sales, increasing margins and cash flow as well as expansion to the global markets. After describing the general category strategies, now it is time to move the individual category strategies.

The individual category strategies of Unilever:

- Personal Care: Grow the core and build premium
- Foods: Accelerate growth and preserve the value of strong cash flows
- Home Care: Step up profitability and scale household care
- Refreshment: Grow ice cream return on capital investment and accelerate growth in tea (Unilever, 2016).

The acquisition of Ben & Jerry's was one of the investments of Unilever in the ice cream segment and market. The above categories contain complex challenges in each market as the FMCG industry. Against these complex challenges, compass pillars provide ultimate strategic responses to help drive business growth in the operating markets.

Apart from that, Unilever has also Path to Growth strategies that concentrate on R&D of leading brands, product innovation, reaching new acquisitions deals, and achieving faster growth in sales and earnings of the company.

As the below table, 4.2, illustrates, Unilever's ice cream sector acquired several companies to grow into what it is today. With the acquisition of Ben and Jerry's, Unilever wanted to acquire an innovative ice cream company and expand the emergent ice cream business globally.

Company	Country	Year
McNiven Bros	Australia	1959
Frisko	Denmark	1960
Streets	Australia	1960
J.P. Sennitt	Australia	1961
Good Humor	United States	1961
VAMI	Netherlands	1962
Spica	Italy	1962
Eldorado	Italy	1967
Frigo	Spain	1973
Alnasa	Brazil	1973
Motta	Italy	1977
Amscol	Australia	1978

Table 4.2: Ice cream companies acquired by Unilever before Ben and Jerry's

Source: Acquisitions and firm growth: Creating Unilever's ice cream and tea business, Geoffrey Jones & Peter Miskell, 2007)

Ben and Jerry's Overview

Ben and Jerry's was established in 1978. Today, it is one of the best-known ice cream companies. It has an interesting history. Childhood friends Ben Cohen and Jerry Greenfield decided to operate this business, with a very low budget (\$ 12,000, 1/3 of it borrowed), from a petrol station in Burlington, United States. They were completely different than other ice cream brands. Surprisingly, in a very short period of time, the company became popular and successful with their innovative products. These innovative products were made from extra fresh Vermont milk and cream.

In 2001, Ben and Jerry's was acquired by FMCG leader Unilever under its growth strategy plans. However, the company has tried to keep their artisan spirit even after the acquisition deal. Before the acquisition, Ben and Jerry's established a brand image which gave consumers the impression that the ice creams were made with care and love. This feeling was transmitted through

commercial campaigns and the marketing strategy of the company. The message was that each ice cream pot was unique keeping the consumers' taste in mind. Some of the products are super-premium ice creams, frozen yogurt, and ice cream novelties in rich and original flavors, loaded with big chunks of cookies and candy.

The company is one of the most innovative and creative ice cream producers, with the help of their extraordinary spirit and approach to ice cream business. When the millennium approached, there were declining sales for super premium ice creams. At the same time, there was the interest from Unilever to acquire the Ben and Jerry's. Ben Cohen and Jerry Greenfield decided to accept the offer from Unilever. The offer was based on the condition that their values would be retained even after the acquisition. During that time, the U.S.-based company was operating retail chains with around 500 ice cream shops. However, most of the ice creams were usually sold in supermarkets.

One of the remarkable points was that Ben and Jerry's managed to create a truly global brand image for similar products in different markets. Some of the unforgettable brands are Karamel Sutra and Cherry Garcia. Even after the new deal, the company was producing highly innovative ice creams with creative and new flavors.

The Deal

After several years of long negotiations between Unilever and Ben & Jerry's, in 2000, Ben & Jerry's announced that both parties had reached an agreement for its acquisition by FMCG giant Unilever. The offer was \$326 million in cash or \$43.60 per share (NYTimes, 2000). There were other companies who also had an interest in Ben & Jerry's. Dreyer, for instance, was one of these companies. Until the acquisition, Ben & Jerry's ice cream distribution was carried out by Dreyer. Their offer was \$38 per share all-stock deal, but the choice of Ben & Jerry's was Unilever.

On the other hand, Ben Cohen and Jerry Greenfield were unwilling to sell their company to a FMCG sector giant. They stated the reasons during an interview: They underlined again that they did not want to sell Ben & Jerry's to any other company. But the company was a public company, and the board of directors' main responsibility was to follow the interest of the shareholders (Guardian, 2008). As a result of it, decision of acquisition accepted. However, the deal seemed a bit forced.

"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." (Guardian, 2008). As it is clear enough that, the deal seemed a bit forced acquisition.

2001 results compared with 2000

To obtain an insight of the effects of the acquisition deal, it is always better to check financial results of the announced annual reports. According to the annual report of 2001, the total turnover increased by 11 % to €53,400 million. One of the main reason for the increase was actual results of acquisitions. Total operating profit BEIA increased by 28 % to € 7,416 million, and total operating margin BEIA rose to 13.9 % from 12.0% in the fiscal year 2000 (Unilever, 2002). The below graph, 4.3, provides the financial highlights after the acquisition.



Combined earnings per share and dividends

	2001	Ordinary €0.51 shares of NV ^(a) 2000		2001	Ordinary 1.4p shares of PLC 2000	
		2000	1999		2000	1999
Basic earnings per share	€1.82	€1.07	€2.63	€0.27 16.96p	€0.16 9.79p	€0.39 26.01p
Basic earnings per share BEIA	€3.55	€3.21	€2.83	€0.53 33.15p	€0.48 29.34p	€0.42 27.96p
Diluted earnings per share	€1.77	€1.05	€2.57	€0.27 16.51p	€0.16 9.55p	€0.39 25.36p
Dividend per share ^(b)	€1.56	€1.43	€1.27	14.54p	13.07p	12.50p

Graph 4.3: Unilever's Financial Highlight after Acquisitions in 2001, (Annual Report of Unilever, 2001)

Conclusion

Based on the Unilever's Path to Growth strategy, the company finalized Ben & Jerry's acquisition. The acquisition gave Unilever a presence in the super-premium ice cream sector for the first time in the history of the company (Independent, 2000).

Apart from the Ben & Jerry's acquisition, Unilever also had other acquisitions in the same year. With these acquisitions, Unilever also aimed to improve its brand portfolio. The acquired

companies immediately brought their experienced management to help Unilever during the integration processes (Unilever, 2000).

Finally, the acquisition deal was completed with positive outcomes for the company. As a result, Unilever met with its growth targets, even they exceeded.

4.2 Case Studies of OI

The following case studies present how Procter & Gamble and Unilever uses the Open Innovation strategies. Moreover, the case studies analyze how OI helps to the case companies for achieving their growth targets.

4.2.1 OI at Procter & Gamble

P&G is a truly global and successful company. There are several strategies that help P&G to become successful. One of the most outstanding one is its innovation strategy. For approximately 175 years, P&G has a proven performance of innovation leadership, which has led and sustained the success of the company. Even innovation has significant importance for the company's business model. With innovation strategy, P&G creates value for its partners, tries to satisfy the consumers and also to maintain sustainable growth in the sector they create new winning business models.

Despite a long history with innovation and a strong R&D team that included experienced scientists and researchers, something did not go as planned. It was the late 1990s. During that time period, P&G was unexpectedly faced with a decrease in product sales. In addition, the business model of this powerful brand was actually closed, which meant that there was no exchange with outside companies in terms of improvement of existing products and developing new products. The company retained its expertise as a corporate secret, not sharing it with external parties including its own partners.

In 2000, A.G. Lafley becomes the new CEO of Procter and Gamble. He has realized that P&G needed a new growth rate which could surpass the growth rate of the sector. The only solution was to collaborate with external sources.

Nowadays, this generally known as Open Innovation. A.G. Lafley was different than the previous leaders. One of his goals was creating an innovative culture in the organization. Thus, from day one, he and his team preserved the essential part of the company's R&D capability. He also brought additional employees outside R&D into the innovation approach. They planned to create an internal system which could help them to control the skills and insights of the employees in the company. A.G. Lafley believed that without an innovation culture in an organization, the strategy of sustainable growth is difficult to pursue (Crown Business, 2008).

Connect and Develop Strategy

In the 2000s, P&G was unexpectedly faced with a declining growth issue. "A company whose solution has been always innovation, Procter & Gamble knew it that they needed to accelerate its innovation development as well as increase their innovation success rate" (P&G, C+D Factsheet, 2017). During that period, decision-makers of P&G predicted that with the world continually getting smaller and moving faster, sustaining solutions would be found in collaboration, not in isolation. Consequently, Procter & Gamble decided to launch Connect+Develop (C+D), which was a systemic, company-wide open innovation program charged with bringing the outside-in and taking the inside-out (P&G, C+D Factsheet, 2017). The below figure 4.5, illustrates the ecosystem of P&G and access them through the strategy.

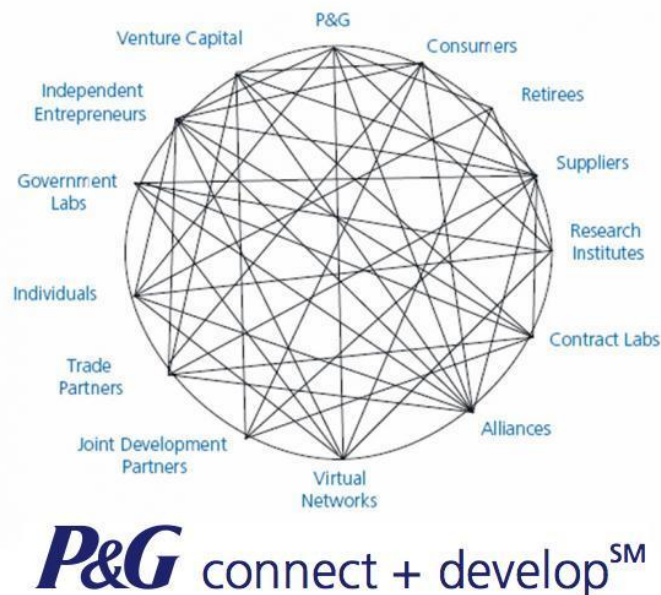


Figure 4.5: Connect and Develop of P&G, (Pgscience.com, 2017)

Moreover, Jeff Weedman, P&G's VP for external business development stated: around 18 years ago, P&G used to be a very closed organization. We invented Not invented here. While the company was facing slower growth in the 2000s, it was one of the reasons. As a consequence, the former CEO resigned. Since then, Procter and Gamble developed an effective strategy for growth through innovation. With Connect and Develop, the company's new target was to become the OI partner of choice (Joia, 2010).

With the advent of the new innovation culture, P&G actively sought external sources of innovation for everything from concepts to how to go-to-market. Nowadays, Open Innovation plays an important role in success and business growth of the company.

Procter & Gamble Platform

The Connect and Develop platform was launched in 2001. The platform is one of the official tools for supporting the firm to collect and manage ideas to support their OI approach. As this platform is a new approach, on the first page of the platform explained useful and necessary information. Such as benefits and motivation for the external partners. With Connect and Develop platform, P&G creates opportunities for people outside the company to improve its products, and avoid stale and repetitive ideas from their employees. Besides, P&G manages to avoid investing in their R&D more than it is necessary (Agafitei and Avasilcai, 2015).

The Connect and Develop platform can be easily accessible through the following URL <http://www.pgconnectdevelop.com/> It can also be reached using a new window link on several pages on the official website of the company. The Connect and Develop website basically allows for several types of activities, such as user submissions being directly fed into the business category leaders, which allows those responsible inside P&G to speed up the evaluation process.



Figure: 4.6 Connect and Develop website overview, (www.pgconnectdevelop.com, 2018)

Simply, P&G aims at partnering with the world's most innovative minds—from individual inventors and small businesses to Fortune 500 companies—to deliver on the company's most challenging opportunities. The program helps P&G to engage with innovators and patent-holders to meet needs across the P&G business: for products, technology, in-store, e-commerce and the supply chain (PG, 2017).

P&G partners with external resources to drive discontinuous, sustainable innovation and productivity. Within P&G, company has a global team dedicated to empowering Connect + Develop, searching for innovations, working with prospective partners, and shepherding breakthrough innovations through the company and into the market (PG, 2017). The below figure, 4.6, illustrates the platform website, which helps innovators to submit their ideas.

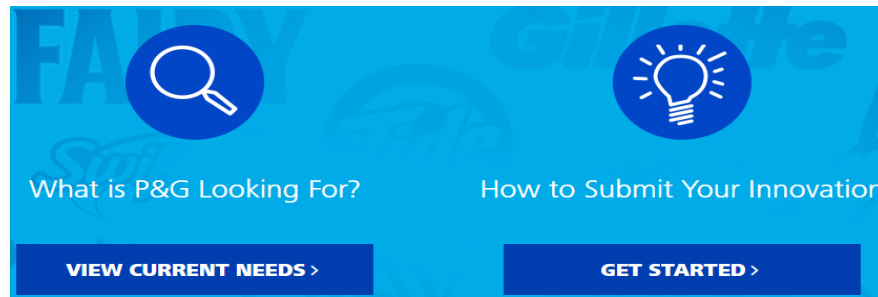


Figure 4.7: Idea Submission Portal of P&G, (www.pgconnectdevelop.com, 2018)

Conclusion

Connect and Develop is a Web 2.0 platform created by Procter and Gamble. Through Connect and Develop platform, P&G connects with partners outside its organization, and at the same time lets outsiders enter inside the organization for new product developments or improvements of existing ones. Around 35 % of new developments come through the OI strategy of Procter and Gamble. In 2000, when the company used closed innovation strategies, it was only around 15 %. With the help of the opportunities and supports of OI, the company increased this amount to 45 %. The company's research and development productivity also increased to 60 % (P&GConnectdevelop, 2015). The new CEO and new innovation culture at the organization was one of the milestones of Procter and Gamble.

Through OI strategy, P&G had a direct impact on its performance. For instance, the company delivered around 6 % organic sales growth since the program launched. During that time period, P&G reduced spending on R&D. In 2007, Procter and Gamble invested around \$2.1 billion on innovation. However, they received from this investment approximately \$76.5 billion in revenues. Based on these results, P&G got more value from their investment on innovation and new innovation strategy (Lafley, 2008)

Some of the significant results are briefly listed: "Connect and Develop platform basically enabled projects delivered with higher efficiency, faster, better value and market impact;

- More than 50 % of Procter and Gamble innovation currently sourced outside
- 70% higher than average NPV
- 40% of Connect and Develop partners have multiple deals with the company

- Around \$ 3 billion in annual sales at partner companies driven by company's shared innovation." (P&G, C&D Factsheet, 2017).

"The Connect and Develop platform helped to the P&G. Also for break-through product innovations. Some of the most iconic products are presented below;

- Clairol Perfect 10
- GLAD, Forceflex and GLAD Press and Seal
- Mr. Clean, Magic Eraser
- Swiffer Dusters
- Olay Regenerist, Olay Regenerist Eye Roller, and Olay Definity Eye Illuminator
- Oral B Pulsonic Toothbrush (P&G, C&D Factsheet, 2017).

4.2.2 OI at Unilever

Unilever provides great products with globally known brands, which positively impact the society as well as environment. While doing that they put science, technology and product development as their central theme (Unilever, 2012). Unilever is also a company that puts its consumers at the forefront and tries to innovate keeping in mind their insights. Prior to that, they identify what they actually need and what they really want to do with their products.

Furthermore, Unilever actively works with numerous projects. For instance, their researchers actively search for breakthrough technologies and products that could give them a sustainable competitive advantage, and help them to enter new markets in the extremely competitive FMCG sector. Unilever also aware the importance of innovation for their sustainable growth.

To develop its famous brands they apply closed and open innovation models. With closed innovation model, the company uses its internal sources and their own scientists. On the other hand, with open innovation, the company connected with external partners, such as scientists or researchers from outside the company, universities, and other companies. Through the combination of these two innovation approaches, the company leaves a positive impact on the environment and society. To be precise, the company tries to improve the quality of health and decrease the environmental impacts through better nutrition and high-quality products.

Recently, Unilever has one of the highest research and development employees' workforce, which is over 6,000 in the FMCG sector. These professionals help them to improve the brands and products through innovation. In order to gain competitive advantage and improve the brands, every year Unilever invests approximately € 1 billion on research and development projects, these projects pay off immediately with different benefits. As a consequence of it company has around 20,000 patents of products. Clearly, R&D is one of the most important weapons of the organization with regard to competition and business growth (Decter, Mather & Garner, 2012).

Open Innovation Strategy of Unilever

Through Open Innovation, Unilever actively seeks help and better alternatives to grow its business and solve the challenges they met in the FMCG sector. The company works with external partnerships through Open Innovation. However, Unilever defines OI as solutions or wants. With this strategy, Unilever aims to bring the best solutions to billions of consumers (Unilever, 2017).

They possess state-of-the-art technology research and development facilities situated across the world. If anyone has any idea to improve or bring a solution, they are all welcome for collaboration.

Unilever has a Sustainable Living Plan (USLP). Basically, USLP is the heart of their business model. This plan briefly explains how they grow their business while respecting the environment and society. Innovation plays an important role to realize it. OI strategy of Unilever allows them to realize good ideas of anyone. In case someone or a company works on a project that would match their passion, they could take into account a partnership with Unilever. With this partnerships Unilever is able to create success with its partners. Unilever is one of the most open players in the FMCG sector for external partnerships with the aim of business growth (Unilever, 2017).

Open Innovation Platform

Unilever generally considers external partnerships through its Open Innovation platform. Below figure 4.7 illustrates the Open Innovation platform of Unilever where technical solutions can submit.



Figure 4.8: Open Innovation Portal of Unilever, (<https://oiportal.yet2.com/>, 2018)

OI submission portal of Unilever managed by yet2.com on behalf of Unilever. In this portal, partners are able to submit details of their innovations and solutions to Unilever wants. During

the submission process, provided information is evaluated and the entire process managed by yet.com. If the submission passes the screening criteria, then all the details will be passed to Unilever for the further internal detailed review (YET2, 2017).

Modes of Open Innovation at Unilever

Unilever applies open innovation strategy to three category methodologies. As explained below, it includes; inside out, outside in, and through co-creation.

- Inside out:

Through inside out, innovative ideas come from outside the organization. Basically, these ideas include external partnerships with companies, suppliers, academics, anyone that possibly support Unilever.

- Outside In:

Through outside in, innovative ideas come from the new business units which are supported by Unilever corporate venture groups. Basically, these new business units find entrepreneurs which are eager to collaborate through partnerships. In outside in methodology, new technologies or solutions licensed for the benefit of both parties.

- Co-Creation:

This is another methodology that Unilever actively uses for collaborative creation of new products or business solutions. While we compare with the above options, with co-creation company collaborate with specific partners.

Conclusion

Unilever accepts that outside their organization, there are great amount of knowledge and technology. This acceptance allows Unilever to partner outside the company with suppliers, consumers, educational institutions, and small or bigger sized companies around the world. It is clear enough to say that these partnerships are the key to success of Unilever in the FMCG sector.

With partnering companies, Unilever is able to access the knowledge which they need. Moreover, they do not need to buy or acquire these companies to get their expertise and know-how on particular projects. Furthermore, these collaborations help them to bring new solutions and products to the current or new markets much faster and with better qualities.

As previously highlighted, Unilever uses outside-in, inside-out and co-creation methodologies of OI strategy. These methodologies result in mutual benefits for Unilever, partners, society, and of course to our environment. Investments in innovation, creates extraordinary profitable volume

growth, and it helps improve the profitability. As a consequence, the company gets the opportunity to reinvest, which help the company gain free cash flow.

Each year, the company spends € 1 billion on its research and development to drive innovation. Currently, most of the innovation comes from partnering with educational institutions, suppliers, NGOs, and venture capitals.

Some of the successful product development examples through partnerships are Knorr and TRESemmé brands, and vegan product variants of Ben & Jerry’s and Hellmann’s. The company's innovation is not only responsive globally, but also allows focus on local markets to satisfy their needs.

In 2016, Unilever generated a turnover of €52.7 billion in the competitive FMCG sector (Unilever, 2016). In this year, the ice cream segment also delivered impressive growth and profitability. One of the crucial factors of this profitability was of course innovation strategy of Unilever and success of famous brands. Improvements and new product launches of the Magnum Double and Ben & Jerry’s were one of the signs that company is sustaining their growth in the sector.

4.3 Summary of the Case Studies

The following table provides a summary of the findings from the case studies. It contains important information that might help to answer the research question as well as research sub-questions.

Factors Discussed in Literature	Factors Prominent in Each Case Studies			
	<i>Growth Through Mergers and Acquisitions</i>		<i>Growth Through Open Innovation</i>	
	Case 1: P&G and Gillette	Case 2: Unilever and Ben & Jerry's	Case 3: P&G	Case 4: Unilever
Sales Growth	X	X	X	X
Productivity	X	X	X	X
Product Development	X		X	X
Brand Portfolio	X	X	X	
New Markets	X	X	X	X
New Segments	X			
Increase Employee	X	X		

Table 4.3: Cross-Case Analysis of Each Case Study

Table 4.3 allows for the comparison of the factors that influenced the case outcome. As a result of the cross-case analysis, a few interesting results had been found out, which have been presented below;

1. The results from the case studies show that the selection of M&A and OI strategies enabled the case companies to achieve their growth targets.

2. P&G and Unilever are the leaders in innovation in the FMCG sector. Nearly all of the organic sales growth of the companies comes from new brands or product innovation. Both companies enhance their internal innovation capabilities with the OI strategy. This strategy enables them to create a global network of innovation partners outside the company's borders. Nowadays, more than half of their product innovation comes from external partners.

3. Acquisitions of Gillette and Ben & Jerry's enabled the case companies to expand their product offering and penetrate new market segments. Another advantage of these acquisitions was that P&G and Unilever immediately had acquired product lines without incurring any substantial research and development expenses in order to develop new product or products. Specifically, the mega deal of Gillette created value for P&G shareholders and provided an upside for P&G's sustainable growth prospects. Gillette and P&G were both well-positioned to manage integration, deliver revenue, receive cost synergies, and retain a strong leadership. Even before the mega acquisition deal took place, both companies were operating and marketing their consumer products all around the world. However, both companies were also looking for opportunities in the developing markets. Acquisition of Gillette gave exposure to P&G in the emerging economies such as India and Brazil, while P&G would distribute Gillette products in China and other operating markets. Besides, P&G and Gillette could bring new products to the market more quickly than before and learn from each other's strengths. Since Gillette was an innovative company with its strong research and development projects, this mega-deal, without doubt, affected the restructuring of the entire FMCG sector. This is just because it was obvious that P&G would obtain the strength to compete with its Dutch competitor, Unilever, after the acquisition. Additionally, the mega deal gave the P&G an opportunity to become the world's largest consumer and household goods company.

4. Furthermore, after the completion of the mega-deals, both P&G and Unilever were able to create a stronger brand portfolio, had more opportunities to innovate together with Gillette and Ben & Jerry's, increase sales growth, and receive cost synergies. Just after the deals were successful, both companies moved their annual earnings growth targets. Apart from the Ben & Jerry's acquisition, Unilever had other acquisitions in the same year. With these acquisitions, Unilever improved its brand portfolio. It is similar with P&G. The acquired companies immediately brought their experienced management to help Unilever during the integration processes. This also results in increasing the number of talented employees. On the other hand, the cost structure of Ben & Jerry's was reduced by bringing in more ice cream to the market through better manufacturing methods and improved distribution.

5. One of the main strengths of P&G and Unilever is their innovation strategy. Innovation strategy sustains the success of both companies. Both companies use innovation to create value for their retail partners, satisfy customers, and create new business models to maintain

sustainable growth. However, in the first years of the millennium, P&G was unexpectedly faced with an issue of declining growth. P&G decided to accelerate its innovation development and increase its rate of innovation success. During that period, decision-makers of P&G predicted that the world was continually getting smaller and moving faster with the effects of globalization and sustaining solutions would be found in collaboration, not in isolation. Consequently, P&G launched Connect + Develop, which was a systematic, company-wide OI program charged with bringing the outside-in and taking the inside-out. With the implementation of the new innovation culture, there was a direct impact on the performance of P&G. For instance, the company delivered around 6% organic sales growth since the program was launched. During that period, P&G reduced spending on R&D. Additionally, they got more value from their investment on innovation and new innovation strategy. The new innovation culture was one of the milestones of P&G. Through OI, P&G took advantage of the interests and skills of people/researchers through the company and actively sought partnerships outside the company. Connect + Develop platform basically enabled projects with higher efficiency, made them faster, added more value, and had a better market impact.

6. Through OI, Unilever also accepted that there is a greater knowledge and technology outside their organization. This acceptance also allowed Unilever to partner outside the company with suppliers, consumers, educational institutions, and small-or-bigger-sized companies around the world. Similar to P&G, these partnerships are important to the success of Unilever in the FMCG sector. By partnering with other companies, Unilever was able to access the knowledge that they needed in order to grow. Moreover, they do not need to buy or acquire these companies to get their expertise and know-how on particular projects. Furthermore, these collaborations help them to bring new solutions and products to the current or new markets much faster and with better qualities. Unilever uses outside-in, inside-out, and co-creation methodologies of OI strategy. These methodologies result in mutual benefits for Unilever, their partners, the society, and, of course, to our environment. Investments in OI creates extraordinary profitable volume growth, and it helps to improve the profitability.

4.3.1 Outcome of Path to Growth Strategy of Unilever

In 2000, Unilever announced the company's path to growth targets. With Path to Growth strategy, the company committed to delivering annual top-line growth of 5–6 % and operating margins of over 16% by the 2004 annual year. This target was planned to be achieved by focusing on Unilever's leading brands and supporting with strong innovation, increasing market support, having a supply chain based around 150 key sites, having simple business processes, and restructuring or divestment of under-performing businesses. The following figure illustrates the revenues of Unilever.

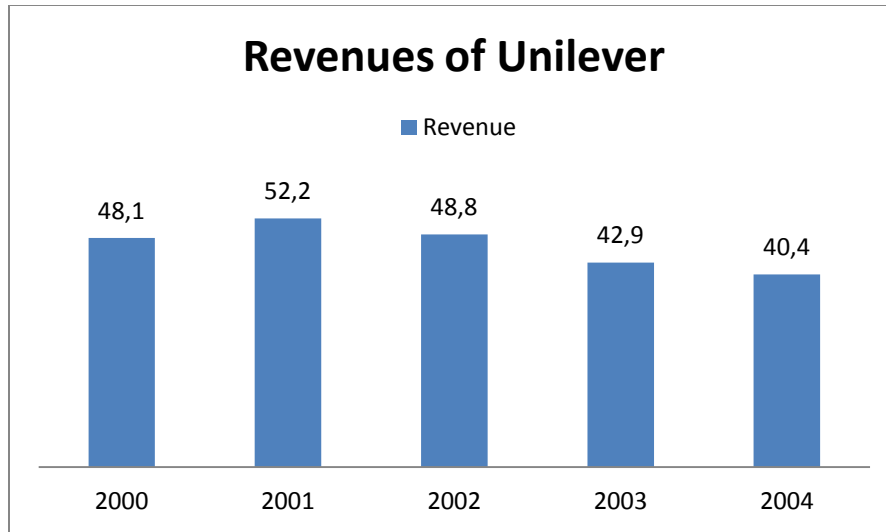


Figure 4.10: Revenues of Unilever between 2000–2004 in million \$ (Annual Reports of Unilever 2000–2005)

After one year of setting the Path-to-Growth targets, Unilever grew by 3.8%. However, at the end of the five-year Path-to-Growth period, Unilever could not achieve its growth target. During this period, the company's compound annual growth rate (CAGR) was -3.43%. The formula used in order to get the CAGR rate of the case companies is as follows:

CAGR Formula:

$$CAGR(t_0, t_n) = (V(t_n)/V(t_0))^{\frac{1}{t_n-t_0}} - 1$$

$V(t_0)$: start value, $V(t_n)$: finish value, $t_n - t_0$: number of years.

or this can be written as follows:

$$CAGR = \left(\frac{\text{Ending Value}}{\text{Beginning Value}} \right)^{\left(\frac{1}{\# \text{ of years}} \right)} - 1$$

$$CAGR = (40.4/48.1)^{(1/4)} - 1$$

$$CAGR \text{ of Unilever} = -3.43\%$$

Despite many achievements, such as simplifying the brand portfolio, increasing margins and capital efficiency, restoring financial flexibility and in many other areas, Unilever did not end this period with the level of growth that they had wanted. In the annual report of 2005, it is states that

"This is not because our portfolio is incapable of growth. Our portfolio is strong and is capable of generating the growth we need, but we have not been fast enough in reacting to toughening market conditions and increased competitive challenges. We are now facing up to these challenges and also putting in place the organizational changes required."

At this dramatic point, Unilever and other companies that face the similar scenarios actively seek alternative business growth strategies to meet their growth rate.

For the following years, company sets new Path-to-Growth targets as well as choose and implement alternative business growth strategies that include OI and M & As. This time, the results were successful, enabling the company to achieve growth targets. According to the annual report of 2017, Unilever grew by 3.5 %. The following figure illustrates the current situation for Unilever.

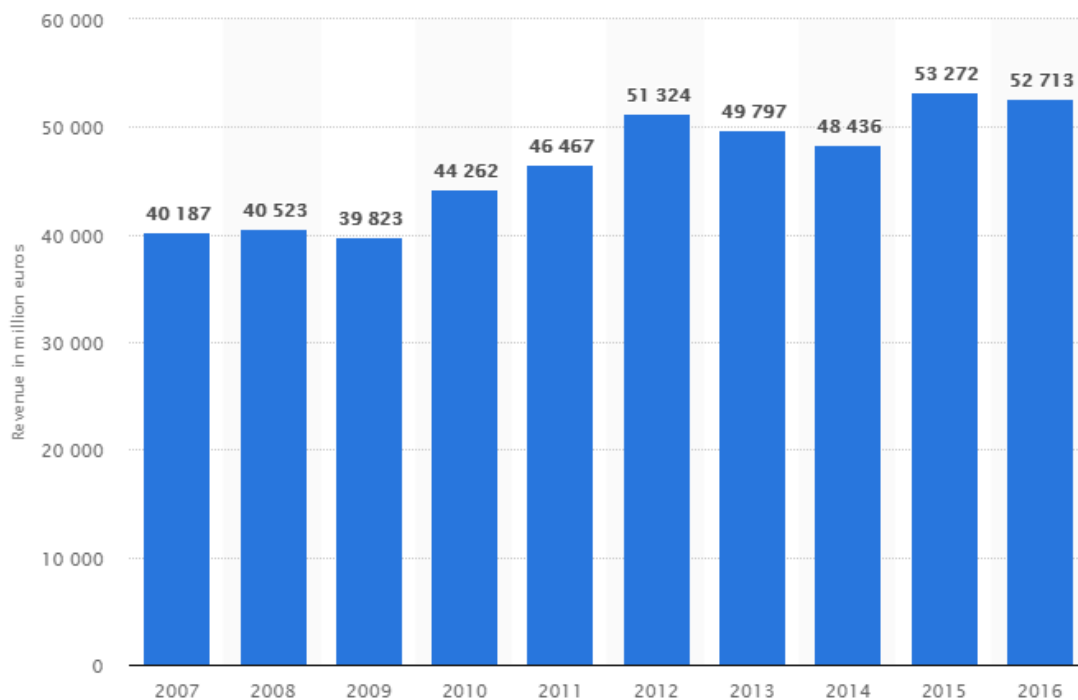


Figure 4.11: Revenues of Unilever between 2007 and 2016 (Annual Reports of Unilever, 2007–2016)

4.3.2 Outcomes of Growth Strategy of P&G

At the same period, P&G was enjoying the revenue and a CAGR growth rate of 5.14 %. With clear strategic choices and successful execution, P&G was returning to the consistent, reliable earnings and cash growth that shareholders expected of them.

The company has delivered long-term growth objectives ahead of plan, which was included a sales growth of 4–6% (P&G, 2002). This growth was broad-scale. Every business unit delivered profitable growth at rates above the corporate objective, and every geographic region delivered volume growth. However, P&G had yet much work to do. However, by that period of time, P&G had achieved their long-term growth objectives a year earlier than projected.

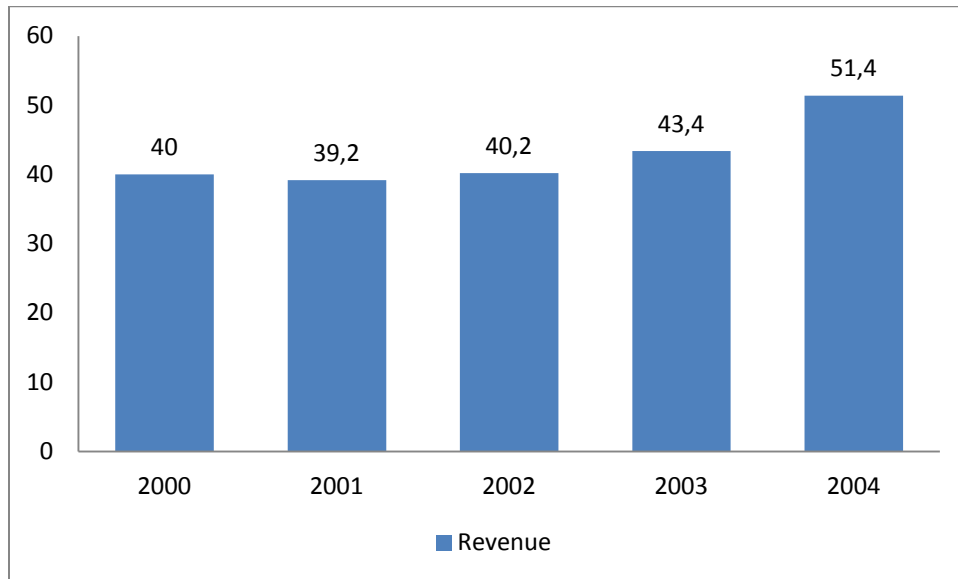


Figure 4.12: Revenues of P&G between 2000 and 2004 (Annual Reports of P&G, 2000–2004)

The following years P&G combined organic and inorganic business growth strategies to achieve the company's long-term goals. In 2017, organic sales growth grew by 2%. According to the new CEO of P&G, they met each of their objectives in 2017. The figure below illustrates the long-term growth of the company's revenues.

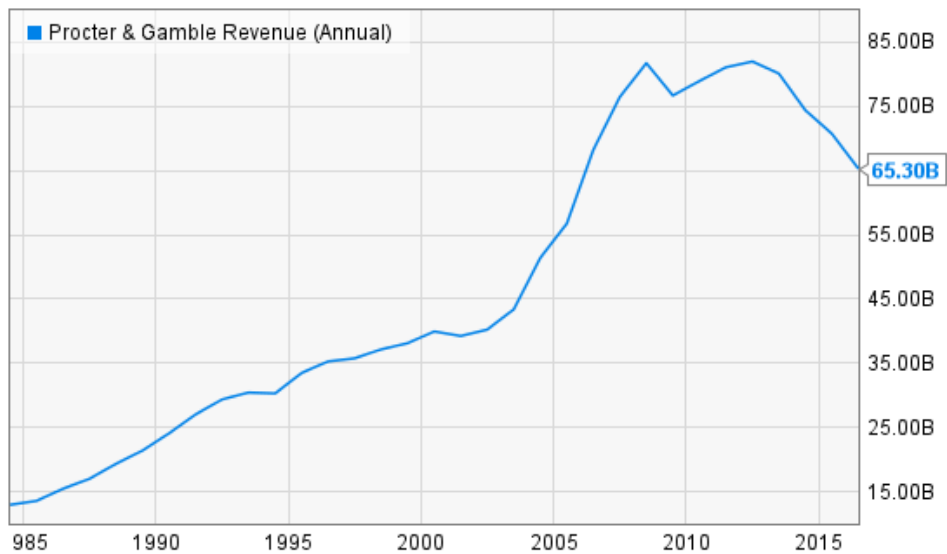


Figure 4.13: Revenues of P&G between 1985 and 2015 (Financhill, 2016)

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Chapter 5: Discussion and Conclusion

5.1 Discussion of the Research Questions

In this section, the results of M&A and OI case studies as well as the related information analyzed in the literature review would be discussed within the scope of the research questions.

— What are the main growth strategies of the case companies?

According to the results of the conducted research, the main growth strategies of both P&G and Unilever consists of both organic and inorganic business growth strategies. Both companies operate at a highly competitive and mature sector, which makes the growth of business extremely challenging. Case companies develop and implement organic and inorganic growth strategies to survive and gain a sustainable competitive advantage. Besides, decision-makers of P&G and Unilever realize their growth strategies by internal development through OI and externally through M & As.

— Why do business-growth strategies have crucial importance in the FMCG sector?

Business growth is essential also for the companies operating in the FMCG sector. This not only holds true for P&G, Unilever, Nestlé and The Coca-Cola Company, but also for the rest of the players in this sector. Due to the highly competitive and mature nature of this sector, the business growth strategies are key in order to get a sustainable competitive advantage and long-term survival. Additionally, with the business-growth strategies, FMCG companies try to achieve several targets, such as revenue growth, productivity, economies of scale, development of new products, or entering new markets.

— Should companies choose growth through acquisitions or go for growth through innovation? Which way do the case companies choose to grow?

After a careful analysis of the history of P&G and Unilever, the researcher has found a few interesting results as well. Gillette or Ben & Jerry's were not the only companies to be acquired by these two giants of the FMCG sector. Many other acquisitions happened previously. However, the Gillette deal was one of the biggest in the history of P&G. Furthermore, both companies have also realized the importance of the innovations in their sector. Thus, they have put innovation at the heart of their business models. To put it simply, both P&G and Unilever choose to grow through acquisitions and innovations.

— What is the strategic goal of the mergers and acquisitions of the case companies?

There are several strategic goals behind the acquisitions of Gillette and Ben & Jerry's by P&G and Unilever respectively. First of all, P&G and Unilever aimed to expand their product offering and penetrate new market segments through these acquisitions. Another goal of the acquisitions were that P&G and Unilever immediately acquired product lines without incurring any

substantial research and development expenses in order to develop new product or products. Also, both companies were also looking for the opportunities in the developing markets. Acquisition of Gillette gave exposure to P&G in emerging economies like India and Brazil, enabling P&G to distribute Gillette products in China and other operating markets. Besides, P&G and Gillette could bring new products to the market more quickly than before and learn from each other's strengths, since Gillette is an innovative company with its strong research and development projects.

— How do case companies connect OI and M & As to business strategy?

Chesbrough's model of OI funnel provides several opportunities for managers to connect their OI and M & A strategies to their business strategies. Essentially, through OI model, the companies jointly work on R&D projects, with the external partners having better outcomes.

After analyzing the business growth strategies of P&G and Unilever, the researcher has realized that both companies were experimenting OI for many years. Their C-Level Managers create an innovative environment for integrating OI as a part of their business strategy. The case companies open their boundaries to the outside the organizations in order to benefit from additional solutions. Usually, it happened by the time P&G or Unilever were unable to create the necessary capabilities internally, and thereby seek for new partners through strategic alliances, in-licensing, or acquisitions. For instance, in the case of Gillette and Ben & Jerry's, the case companies acquired two innovative companies in order to expand their product offering, penetrate new markets, and innovate together higher quality products.

Briefly, with the integration of OI activities as a part of their business strategy, the case companies had opportunities to reshape their company's strategy from development to execution.

— What are the benefits of the OI for case companies?

The case companies are famous with their innovation strategies that sustain the success of both companies. The two case companies use innovation to create value for partners, satisfy customers, and create new business models to maintain sustainable growth in FMCG sector. With the implementation of OI, P&G had immediate benefits. For instance, the company reduced spending on internal R&D. Additionally, they got more value from their investment in innovation and new innovation strategies. Through OI, P&G took advantage of the interests and skills of people/researchers through the company, and it actively sought partnerships outside the company. On the other hand, through OI, Unilever accepted that there is great knowledge and technology outside their organization. Through partnering with several companies, Unilever is able to access the knowledge which it needs. Moreover, it does not need to buy or acquire these companies to get their expertise and know-how on particular projects. Furthermore, these collaborations help them to produce new solutions and products to the current or new markets much faster and with better quality.

- Between organic (internal) or inorganic (external) business growth strategy, which one is the best choice for the companies in the FMCG sector?

It is true that most companies are growing in FMCG sector. However, the challenge remains that there exists a gap between the rate of growth the companies achieve and the rate of growth that they want and need to achieve in order to remain competitive.

The case companies also face their own version of growth gap, realizing that cost-cutting and their traditional innovation methods, while being important, cannot always help them to achieve the targeted growth rates and company goals. At this challenging point, case companies tried to figure out better ways to grow, and one of the methods for that was the growth through Mergers and Acquisitions, and the other one was growth through Open Innovation. The analyzed case studies show that P&G and Unilever use OI as a complementary strategy to the M & As. And so, the two strategies work in synergy, but they are focusing on different targets. M & As target on businesses that are needed to take over and leverage the assets of the acquired companies. Acquiring highly innovative companies brought additional strengths and synergies to them. Additionally, with the acquisitions of Gillette and Ben & Jerry's, P&G and Unilever leveraged complementary strengths in innovation, branding, and go-to market skills, which made the mega-deals perfect fit. On the other hand, with the OI, the case companies had the opportunity to partner outside the company with a number of methods for accessing external knowledge and technologies. For instance; P&G and Unilever partner through licensing, joint venturing, strategic alliances, spin-off or purchasing technology companies through M&As in order to leverage other company's innovation assets that are not available internally.

Among the selected organic (Open Innovation) and inorganic (Mergers and Acquisitions) business growth strategies. Both organic and inorganic business growth strategies have their own advantages and disadvantages. Whether organic or inorganic growth, depends on the sector. According to the results of the research, a combination of both growth strategies is ideal in the FMCG sector. However, this might depend on the growth targets and the business opportunities.

5.2 Managerial Implications

Based on the discussion of the research questions and the conclusion, there are some crucial findings that managers have to take into account before choosing the appropriate business-growth strategies. The outcomes are linked to growth through acquisition and growth through OI. The final results obtained from the case studies of P&G and Unilever show that these companies are market leaders in the FMCG sector.

The main managerial implications for managers in the FMCG sector have been outlined below:

- Organic growth strategies are not enough for the sustainable business growth

Nowadays, almost all FMCG companies seek better growth strategies for sustaining the growth of their business. Achieving sustainable growth is an important part of the companies in the sector for the long-term survival and to gain competitive advantage. However, some of the FMCG companies still try to grow only through their internal capabilities, which come out with failure to achieve their growth targets. The results of the research suggest that organic growth strategies might be complemented with inorganic growth strategies.

— Combining both organic and inorganic growth strategies

Managers who decide to achieve their growth targets might take into account the combination of both organic and inorganic growth strategies. As we have seen in the case studies of P&G and Unilever, the market leaders were suffering from low growth rates during the first years of the millennium. For instance, P&G unexpectedly faced a decline in the growth issue. Decision-makers of P&G decided to invest on Gillette for expanding their product offering and penetrate new market segments. The combination of organic and inorganic growth strategies helped the company to achieve its growth targets.

— Successfully executing growth strategies

Another important suggestion is about the execution of growth strategies. At one dramatic point, even companies like P&G could suffer from difficulties for the execution of these strategies. Sometimes, leadership is the key to the success. In 2000, the company changed their CEO. The new CEO was completely different from the previous leaders. One of his goals was to create an innovative culture in the organization and implement OI strategy. He believed that the strategy of sustainable growth would be difficult to pursue without an innovation culture in an organization. To put it briefly, setting a growth target is important. However, execution of the growth strategies is the key to success.

5.3 Limitations of the Research

During the research, valuable results and significant managerial implications come out. Nonetheless, there were several research limitations. The first and most crucial limitation is the small number of case studies that had been analyzed. As has been explained in Chapter 3, the qualitative research methodology has been chosen with a small number of case studies. Two case studies were used for the M & As and two case studies were used to understand the implications of the implementation OI in the case companies. The first intention of researcher was to analyze bigger number of case studies from different sectors. But, while conducting the research, the researcher has realized that due to the complexity of the research, it would be more feasible to analyze four mega case studies from one sector. Each of these chosen case studies were selected after a careful analysis of companies and the alternative case studies. With a larger sample size and with a longer research time period, a research might have higher validity.

The second important limitation of the research is the lack of primary data sources. The analyzed case studies were created with secondary data sources from official company websites, annual reports, other related company publications, published interviews during and after acquisitions as well as the implementation decision of OI from managers and CEOs of the companies. The major reason for this selection was the unavailability to reach confidential primary data of the case studies. Besides, there was a chance to have interviews with the C-Level managers as an evidence through secondary data sources.

The third and another challenging limitation was the exploratory nature of the research field. The main reason for this is that the scope of business growth is very broad. As mentioned previously, it was a favorable research area for numerous economists and academics. Due to this fact, it was a challenge to conduct a research in this field. The researcher has decided to choose two of his favorite topics in order to combine the two business growth strategies. As a result of this, M & As and OI as a business growth strategy has been studied in this thesis. In order to get valuable results and contribution to the field of research, a qualitative research on the FMCG sector had been particularly conducted. Therefore, the results of the study had been collected in the FMCG sector. The samples used by the research do not represent the entire sectors. It limits the generalizability and, therefore, the external validity of the research results in the other industries.

5.4 Recommendations for Future Research

During the research, several results and factors appeared for the selection of business growth strategies by the case companies, which provide interesting areas for future researchers.

The first area in which future research could be conducted is OI as a business growth strategy. The implementation of OI by companies is becoming a more common practice in challenging markets. The second area of the future research is in connecting OI to business-growth strategy. The results of the research show that there are several opportunities to connect OI to the business strategy of organizations.

Second, in case future researchers are interested to investigate the same topic in FMCG sector through case study methodology, it is highly recommended that the research should be more comprehensive, and it should be conducted for at least for the top 10 FMCG companies. Another suggestion would be to work with primary data instead of secondary data. The outcomes of primary data from top 10 FMCG companies might also provide new insights and contribute to the research topic.

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Appendices

P&G Growth Strategies



Core businesses

Growth
P&G's portfolio of billion-dollar brands has grown sales 8%⁽⁹⁾ per year. We've increased sales nearly 9%⁽¹⁰⁾ per year in our 16 largest geographic markets. And we have grown share with P&G's top retail customers. We've leveraged P&G strengths and technologies in every core business.

Growth Opportunity
P&G is the global leader in Baby Care, Feminine Care, and Fabric Care, with 32% to 36% global shares in these major categories. In our strongest large markets, however, we have shares that exceed 50%—and the Gillette Blades and Razors business is still growing with global shares in excess of 70%. We're well positioned to capture more of this growth opportunity.



Fast-growth high-margin businesses

Growth
P&G has more than doubled sales in faster-growing, higher-margin categories such as beauty, health care, and home care. More than 70% of the Company's growth, or roughly \$20 billion in net sales, has come from organic growth and strategic acquisitions in these businesses. Well over half of P&G sales now comes from these faster-growing, higher-margin businesses.

Growth Opportunity
We compete in beauty and health care categories that represent more than a \$350 billion global market, growing 5% a year on average. P&G has less than a 10% share of this combined market. There is no doubt that Beauty and Health Care will continue to drive disproportionate growth for P&G through the end of the decade.



Developing markets

Growth
We have increased sales in developing markets 16% per year over the past five years and have achieved after-tax margins comparable to developed markets. Nearly a third of total-company sales growth since the beginning of the decade has come from developing markets.

Growth Opportunity
In the categories in which P&G competes, developing countries represent a \$200 billion market and is expected to approach \$250 billion by 2010. We currently compete in only about 10 of P&G's top 25 categories in most developing countries. There is more than \$20 billion of growth opportunity over the next several years through expansion of P&G's category presence and increased share growth.

Appendix 1: P&G Growth Strategies, (Annual Report of P&G)

	2006	2005	2004
<small>Amounts in millions except per share amounts; Years ended June 30</small>			
NET SALES	\$68,222	\$56,741	\$51,407
Cost of products sold	33,125	27,872	25,143
Selling, general and administrative expense	21,848	18,400	16,882
OPERATING INCOME	13,249	10,469	9,382
Interest expense	1,119	834	629
Other non-operating income, net	283	346	152
EARNINGS BEFORE INCOME TAXES	12,413	9,981	8,905
Income taxes	3,729	3,058	2,749
NET EARNINGS	\$ 8,684	\$ 6,923	\$ 6,156
BASIC NET EARNINGS PER COMMON SHARE	\$ 2.79	\$ 2.70	\$ 2.34
DILUTED NET EARNINGS PER COMMON SHARE	\$ 2.64	\$ 2.53	\$ 2.20
DIVIDENDS PER COMMON SHARE	\$ 1.15	\$ 1.03	\$ 0.93

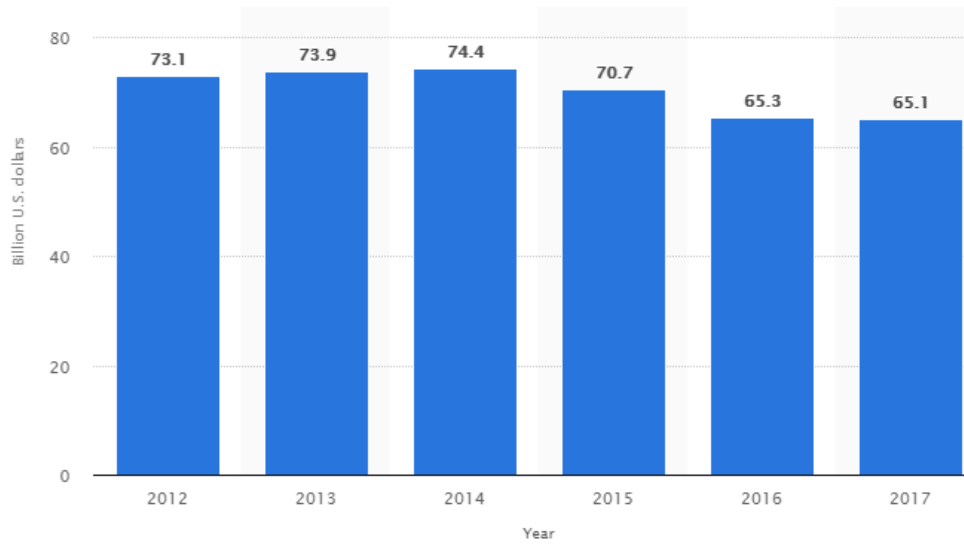
Appendix 2: Consolidated Statements of Earnings for 2006, (Annual Report of P&G, 2006)

Amounts in millions; June 30	2006	2005
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,693	\$ 6,389
Investment securities	1,133	1,744
Accounts receivable	5,725	4,185
Inventories		
Materials and supplies	1,537	1,424
Work in process	623	350
Finished goods	4,131	3,232
Total inventories	6,291	5,006
Deferred income taxes	1,611	1,081
Prepaid expenses and other receivables	2,876	1,924
TOTAL CURRENT ASSETS	24,329	20,329
PROPERTY, PLANT AND EQUIPMENT		
Buildings	5,871	5,292
Machinery and equipment	25,140	20,397
Land	870	636
	31,881	26,325
Accumulated depreciation	(13,111)	(11,993)
NET PROPERTY, PLANT AND EQUIPMENT	18,770	14,332
GOODWILL AND OTHER INTANGIBLE ASSETS		
Goodwill	55,306	19,816
Trademarks and other intangible assets, net	33,721	4,347
NET GOODWILL AND OTHER INTANGIBLE ASSETS	89,027	24,163
OTHER NONCURRENT ASSETS		
	3,569	2,703
TOTAL ASSETS	\$135,695	\$ 61,527

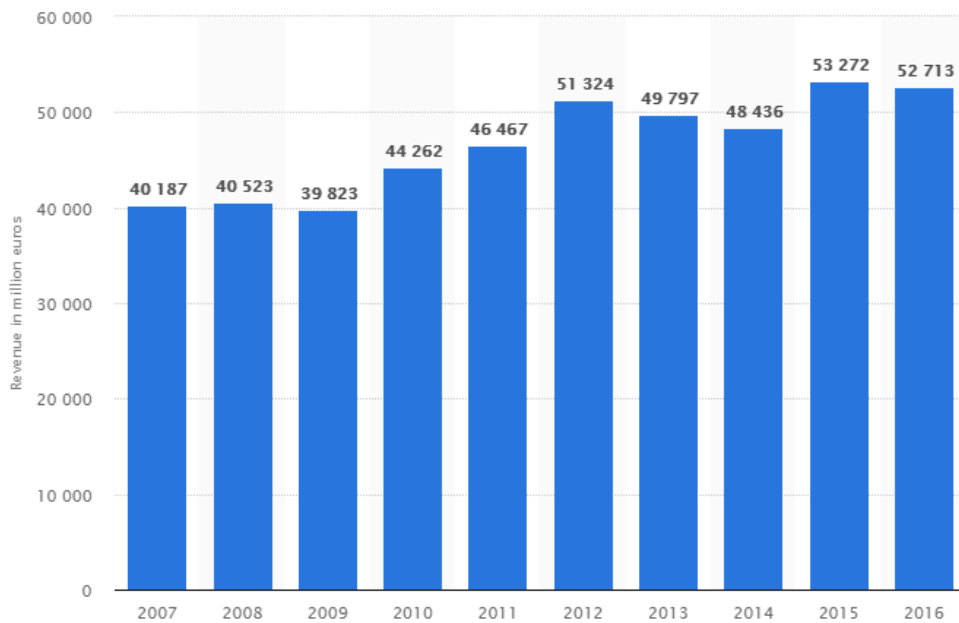
Appendix 3: Consolidated Balance Sheet (Assets) 2006, Annual Report of P&G, 2006)

Amounts in millions; June 30	2006	2005
CURRENT LIABILITIES		
Accounts payable	\$ 4,910	\$ 3,802
Accrued and other liabilities	9,587	7,531
Taxes payable	3,360	2,265
Debt due within one year	2,128	11,441
TOTAL CURRENT LIABILITIES	19,985	25,039
LONG-TERM DEBT		
	35,976	12,887
DEFERRED INCOME TAXES		
	12,354	1,896
OTHER NONCURRENT LIABILITIES		
	4,472	3,230
TOTAL LIABILITIES	72,787	43,052
SHAREHOLDERS' EQUITY		
Convertible Class A preferred stock, stated value \$1 per share (600 shares authorized)	1,451	1,483
Non-Voting Class B preferred stock, stated value \$1 per share (200 shares authorized)	—	—
Common stock, stated value \$1 per share (10,000 shares authorized; shares issued: 2006—3,975.8, 2005—2,976.6)	3,976	2,977
Additional paid-in capital	57,856	3,030
Reserve for ESOP debt retirement	(1,288)	(1,259)
Accumulated other comprehensive income	(518)	(1,566)
Treasury stock, at cost (shares held: 2006—797.0, 2005—503.7)	(34,235)	(17,194)
Retained earnings	35,666	31,004
TOTAL SHAREHOLDERS' EQUITY	62,908	18,475
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$135,695	\$ 61,527

Appendix 4: Consolidated Balance Sheets (Liabilities and Shareholder's Equity), Year of 2006



Appendix 5: Procter & Gamble's net sales worldwide from 2012 to 2017 (in billion U.S. dollars), (Statista, 2017)



Appendix 6: Revenue of the Unilever Group worldwide from 2007 to 2016 (in million euros), (Statista, 2017)

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The Mega Cases of Procter and Gamble and Unilever**

Richting: **Master of Management - International Marketing Strategy**
Jaar: **2018**

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Voor akkoord,

Hüseyin Akgün

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Voor akkoord,

Akgün, Hüseyin

Datum: **30/05/2018**