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# Acquisitions and Firm Growth: Creating Unilever's Ice Cream and Tea Business

Geoffrey Jones and Peter Miskell

*The role of acquisitions has been widely discussed in management literature. There is considerable evidence that many acquisitions fail, often because of post-acquisition problems. More recently business historians have examined their role in the restructuring of the British, American and other economies after World War Two. Yet the historical and management literatures have been poorly integrated. This article seeks to address some of the issues raised in the management literature by contributing a longitudinal case study of the use of acquisitions by Unilever to build the world's largest ice cream and tea businesses. The study supports recent resource-based theory which argues that complementary rather than related acquisitions add value. It identifies the importance of local knowledge as a key complementary asset. It also identifies reasons why Unilever was able to integrate acquisitions quite successfully, including clear strategic intent and the fact that employee resistance was reduced because most acquisitions were agreed. Finally Unilever could take a long-term view because of its size, and relative unconcern for shareholder interests before the 1980s.*

*Keywords:* Acquisitions; Diversification; Consumer Products; Ice Cream; Tea; Global Business

## Introduction

This article examines the role of acquisitions in the growth of Unilever, one of Europe's biggest consumer goods companies, as the world's largest ice cream and tea company. Unilever and its predecessors originated as an edible fats and laundry soap manufacturer. The first investments in tea and ice cream were made in the inter-war

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years, but the company's market position in both categories remained small and geographically confined until the 1960s. However by the 1990s Unilever sold 14 per cent of the world's ice cream and around one-third of the world's black tea. Acquisitions played an important part in this transformation.

The article begins by briefly reviewing the treatment of acquisitions in the management and business history literatures. The former has generated a substantial literature, especially on the often disappointing outcomes of acquisitions. However it is suggested here that the reliance on cross-sectional, often patent-related data, has made it difficult to pursue key issues in the post-acquisition processes, which appear to be critical drivers of outcomes. Business historians have also written extensively about mergers and acquisitions, but with most interest focused on their role in the growth of large firms, and more recently on the restructuring of developed economies after World War Two. This article provides an archivally based historical case study which seeks to address both literatures. After providing a brief historical introduction to Unilever, the article examines the role of acquisitions and post-acquisition strategies in ice cream and tea.

### **Acquisitions and the Growth of Firms**

After World War Two mergers and acquisitions assumed a growing importance in capitalist economies, especially in countries such as the United States and Britain where a market for corporate control developed. As the scale of mergers and acquisitions intensified from the 1970s, management researchers began to investigate their determinants and outcomes. The primary focus was on the value created, or not created, for shareholders. There was early evidence that many mergers and acquisitions had unsatisfactory outcomes. Financial economists concluded that, on average, acquisitions benefited the shareholders of acquired firms rather than acquiring firms.<sup>1</sup> Despite challenging methodological issues associated with measuring outcomes, a large body of literature has evolved which broadly points towards an 'average failure rate' of acquisitions of around 50 per cent. This result was sufficiently puzzling to challenge researchers not only to explain why so many acquisitions were unsatisfactory, but also why managers continued to pursue them when the evidence suggested so many outcomes were unsatisfactory.<sup>2</sup>

The early research in strategic management suggested that related acquisitions created more value for shareholders than unrelated acquisitions.<sup>3</sup> Related acquisitions were seen as creating wealth through resource sharing and the transfer of competences between firms. They minimized risks from acquiring businesses in industries in which managers had limited knowledge.<sup>4</sup> Studies employing evolutionary and resource-based perspectives have explored how horizontal acquisitions provide a means by which businesses reorganize resources such as R&D, manufacturing, marketing, management and finance. This is important as firms often face organizational constraints on developing new businesses and products, and redeploying resources rapidly within their boundaries.<sup>5</sup>

Subsequently resource-based theorists disputed the assumption that related horizontal mergers were best to create sustained advantages, unless they achieved high levels of market power. Instead it has been argued that value creation is more likely to arise from the acquisition of firms with different but complementary skills, which allow firms to acquire resources which can be combined with their own resource sets.<sup>6</sup> An emergent knowledge-based literature has also examined how firms have sought to access new knowledge through acquiring the knowledge base of other firms.<sup>7</sup> As usual, the evidence regarding outcomes is mixed. There is some evidence that the innovation performance of both acquired and acquiring firms has improved, while other studies have shown the opposite.<sup>8</sup>

There is virtual consensus that a major factor in outcomes is the integration of an acquired firm into the acquiring firm.<sup>9</sup> There is strong evidence that ineffective integration appears to be a major reason that many acquisitions fail to create value. Acquisition integration is often costly.<sup>10</sup> Cultural incompatibilities and employee resistance cause many problems. These are often worse when acquisitions are hostile.<sup>11</sup> These issues are likely to be especially negative for knowledge transfer between acquired and acquiring firms, where there are acute organizational complexities stemming from the intangible knowledge assets surrounding the integration of people and processes through acquisitions. While higher levels of organizational integration and faster assimilation can lead to greater transfer of tacit knowledge due to increased interaction between individuals in acquired and acquiring firms, these actions can make it difficult to preserve knowledge in acquired firms because it disturbs the relationships within them.<sup>12</sup> The different value systems between firms can lead to key research staff in acquired firms leaving after an acquisition.<sup>13</sup>

For the most part, the empirical research in the management literature has relied on cross-sectional, patent-related studies. This has yielded powerful insights, yet it is likely that case studies could probe certain issues in a more nuanced fashion. While the importance of post-acquisition integration is fully acknowledged, there remains much to be discovered about why some firms appear to succeed much better than others. The integration of acquisitions is hard to pull off, a recent survey of acquisitions noted, 'but a few companies do it well consistently'.<sup>14</sup> This article seeks to contribute to the management literature by providing a longitudinal case study of a company engaged in multiple acquisitions extending over half a century.

Business historians have not until recently engaged primarily with the management literature on acquisitions, although they have made important contributions in a number of areas. The role of mergers and acquisitions was initially explored in the context of Chandler-inspired studies of the growth of big business and rising levels of industrial concentration. They were identified as important means by which European countries such as Britain 'caught up' with the rise of big business in the United States.<sup>15</sup> This in turn generated important insights on the markets and institutions at the heart of the merger and acquisition process, including the emergence of hostile takeover bids in Britain from the 1950s, and the emergence of

the private equity firm Kolberg Kravis Roberts and its pursuit of leveraged buyouts in the United States during the 1980s.<sup>16</sup>

There is also an emergent literature which is honing in on the role of mergers and acquisitions in the restructuring of American and British business in the second half of the twentieth century. Acquisitions played a subsidiary role in Chandler's classic accounts of the growth of big business, which emphasized the organic growth of organizational capabilities.<sup>17</sup> Chandler has stressed the important role of acquisitions (and divestments) made as a part of 'long-term strategic goals' in his work on American business since World War Two. In particular, he saw the emergence of the market for corporate control as useful for correcting the over-diversification seen in the initial post-war decades, and for allowing firms in high technology industries to enhance their competitive advantages by accessing new sources of knowledge. However he also maintained that such 'transaction-oriented' acquisitions, often encouraged or implemented by financial intermediaries, were often destroyers of value in a range of industries.<sup>18</sup> In chemicals and pharmaceuticals, he observed, they were often distractions from the 'virtuous' strategy of growth based on the 'integrated learning bases' of firms.<sup>19</sup>

The importance of mergers and acquisitions in the restructuring of British business after 1945 has been identified by Toms and Wright. They document the growth of the market for corporate control after 1954, and its spectacular growth after 1968, and show its role in the growth of multi-product firms, including conglomerates. In this era, they suggest, managements could pursue diversification strategies relatively unchallenged, as dispersed shareholdings undermined the voice aspect of governance. During the 1980s various changes, including the growth of institutional shareholders, and growing criticism of highly diversified firms, led to divestments and restructuring as firms focused on core competences. They suggest this may have been an important contributor to the improved performance of the British economy.<sup>20</sup>

Within this framework, there is suggestive, although still patchy, case study evidence. As John Wilson has noted, there was a wide range of outcomes from the mergers and acquisitions seen in post-war Britain. A worst case scenario was the British-owned automobile industry, whose decline and fall between the 1950s and 1980s featured a successive wave of mergers accompanied by failed post-merger integration strategies.<sup>21</sup> Conversely, US firms have been shown to have made use of acquisitions to enter the post-war British market, often transferring superior organizational and technological skills into the British economy as a result.<sup>22</sup> Mergers and acquisitions, especially since the 1980s, have played key roles in the growth of many of Britain's global giants, including Diageo, GSK, HSBC and BP.

### **Mergers and Acquisitions in the History of Unilever**

Unilever provides an opportunity to further explore issues raised in the existing literature on acquisitions. Since its creation in 1929, it has been one of Europe's

largest firms.<sup>23</sup> It has the advantage of having several 'scholarly' histories written about it, including a recent study on the post-1960 period, which means that its acquisitions in ice cream and tea can be placed within a well understood corporate context.<sup>24</sup>

Unilever was formed in 1929 by a merger of the Dutch-controlled Margarine Unie and the British-owned Lever Brothers. Both companies had themselves grown by a process of merger and acquisition in the preceding decades. Margarine Unie, itself only created by merger in 1927, brought together the leading Dutch margarine manufacturers, some of whom already had substantial foreign operations. In Britain, William Lever established himself as the country's leading soap-maker by acquiring most of his rivals. From the late nineteenth century Lever also established businesses in multiple countries, sometimes by acquiring local firms. During the 1920s the firm expanded into new product markets, making a series of acquisitions in categories from fish retailing to sausages.

After World War Two laundry soap and edible fats remained central elements of Unilever's product portfolio. They contributed over one-half of corporate profits in the mid-1960s. However, Unilever also sought to diversify its product portfolio, following the pattern seen in much of British business, in response to specific threats to its core business. These included stagnant yellow fats consumption and increased competition in laundry soap and detergents from US-based Procter & Gamble, (which began substantial investment in post-war Europe on the basis of a technological advantage in synthetic detergents.)<sup>25</sup>

The recently published corporate history of Unilever shows that acquisition played a central role in the firm's diversification. Acquisitions enabled Unilever to build successful businesses in new product categories. In addition to the cases of ice cream and tea, it also used acquisitions to build personal care and speciality chemicals businesses.<sup>26</sup> Like most European companies Unilever paid little, if any, attention to the concerns of shareholders prior to the early 1980s.<sup>27</sup> As Toms and Wright would predict, the lack of shareholder discipline also led to conglomerate-style acquisitions. Unilever acquired paper manufacturers, ferry companies, and home decorating companies. During the 1970s its West African affiliate, the United Africa Company, originally a trading company, responded to growing political risk by making numerous small and medium-sized acquisitions in Europe in sectors which spanned automobile distribution, medical devices and even garden centres. However, while these acquisitions were subsequently divested during the 1980s, ice cream and tea became lasting components of the business.<sup>28</sup>

This article will focus on the acquisitions which enabled Unilever to achieve global leadership in the ice cream and tea product categories. It will use a deep historical perspective to explore in detail the nature of these acquisitions, the integration processes employed, the nature of knowledge acquired and transferred, and, importantly, how all of these things changed over time.

### Creating a Global Ice Cream Business

Unilever's predecessor companies were only marginally involved in ice cream. The industrial manufacture of ice cream, as opposed to its making and sale by artisans, had originated in the United States in the second half of the nineteenth century. The early 1920s saw a further innovation in industrial ice cream with the introduction of the first chocolate-coated ice cream bar. The result was a transformation of this product market from a seasonal to a year-round one, at least in the United States. This was to remain highly unusual elsewhere for many decades.<sup>29</sup>

Europe lagged far behind the United States in the production and consumption of ice cream. In Britain, T. Wall & Sons, a sausage manufacturer, was one of the first European companies to manufacture ice cream on an industrial scale. It was largely attracted by its seasonality. In 1913 the company decided to enter the ice cream business to offset seasonally lower sales of sausages, which were mostly consumed in winter. World War One interrupted this plan, but finally in 1922 Wall's began making the product at its factory in Acton, London. Lever Brothers acquired the firm in the same year.

By the 1930s Wall's had built a nationwide ice cream distribution system in Britain which used Ford Model T vans to supply shops with ice cream, and during the second half of the decade it began to supply electric freezer cabinets to retail shops and restaurants. The company invested in the hygienic production methods needed to overcome the poor hygiene image of the Italian ice cream makers who had formerly supplied the market. By the end of the 1930s Wall's was one of two companies which held around 15 per cent of the total British ice cream market, with the residual held by numerous small firms.<sup>30</sup> The seasonality, freezing technology, and extreme hygiene requirements made ice cream quite different from Unilever's traditional foods business in margarine.

Shortly after its formation Unilever also acquired an ice cream business in Germany. The German ice cream market began to grow after the introduction of regulations, including specifying that ice cream should contain at least 10 per cent milk fat, shortly after Hitler came to power in July 1933. Unilever owned Germany's largest margarine company, but Nazi exchange controls meant that profits could not be remitted. Unilever's solution was to reinvest profits in a range of new businesses. In 1936 a Wall's director inspected one of the largest German ice cream companies, Langnese, and the business was acquired.<sup>31</sup>

Unilever wanted to expand the emergent ice cream business geographically. In 1939 it planned to purchase an ice cream factory in China, where it had a large laundry soap business. However the outbreak of World War Two meant that this was never implemented.<sup>32</sup> During that war ice cream production was halted in both Britain and Germany for a period. Wartime regulations had long-term consequences. In Britain, the wartime use of vegetable oils rather than milk fat persisted for many decades after the end of the War, enabling Unilever to exploit its considerable accumulated expertise of vegetable oils, which were also much cheaper than milk fat.

During the 1950s Unilever began once more to consider geographical expansion of the ice cream business. By the mid-1950s Wall's in Britain was earning a strong return on capital employed on ice cream – 36 per cent in 1955, and 22 per cent in 1957 – and the category seemed to be promising. In 1956 Unilever's Belgian margarine company started an ice cream company called Ola, the name taken from the Hola margarine brand in the country, which initially imported Wall's Ice Cream from Britain until a factory opened in 1958. It employed most of the production process, recipes and distribution techniques developed by Wall's, although initially the venture was loss-making.<sup>33</sup> In 1952 a small ice cream factory was opened in Nigeria, where Unilever had a large business, and five years later a decision was taken to open a factory in South Africa.<sup>34</sup> The typical pattern at this early stage was, therefore, to leverage pre-existing Unilever businesses in countries to start ice cream businesses organically, transferring knowledge from Britain.

In 1958, in the wake of the formation of the European Economic Community and the prospect of accelerated European integration, Unilever shifted strategy. In the previous year Unilever had begun an internal investigation of the future potential of 'foods' other than edible fats. The 'Food Study Group' concluded that rising living standards would mean that consumers would increasingly be willing to purchase prepared foods of all kinds, and Unilever needed to invest in it. At that date Unilever's total turnover was £1,266 million, of which laundry soap/detergents and margarine were both around £276 million, while all other foods – including tea and ice cream – contributed £156 million. In 1957 Unilever sales of tea were £24.8 million (94 per cent in the United States, and the remainder in Canada and Australia) and those of ice cream were £14.8 million (83 per cent in Britain and the remainder in Germany).<sup>35</sup>

While the Food Study Group saw little potential for Unilever in tea, for reasons which will become apparent in the following section, the profitability of Wall's indicated a bright future for ice cream. It recommended that Unilever was 'in a good position to extend its ice cream business', arguing that 'ice cream can develop into a major Unilever field'.<sup>36</sup> The decision was taken to expand Unilever's business in ice cream and a number of other branded food products, including soup and frozen foods.

A programme was put in place for the building of new large ice cream factories in Germany and Britain. Elsewhere, Unilever began acquiring companies designed to extend the company's geographical reach. There was, therefore, a clear strategic intent to build an international ice cream business using acquisitions.

During the next two decades Unilever acquired multiple small firms active in single national markets. This reflected the local and fragmented state of the ice cream industry at this stage. These were mainly family firms, and all acquisitions were agreed (see Table 1). The acquisitions led to rapid geographical extension of Unilever's ice cream market in Europe. By the end of the 1970s Unilever had acquired 30 per cent of the Western European ice cream market.<sup>37</sup>



**Table 1**  
**Ice Cream Companies Acquired by Unilever, 1960–1978**

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
Friego	Spain	1973
Alnasa	Brazil	1973
Motta	Italy	1977
Amscol	Australia	1978

Source: Reindeers, *Licks*, 162.

A number of factors made the case for acquisition, rather than greenfield entry into new countries, compelling. The minimum efficient scale of operation in ice cream was such that Unilever required a substantial market share to be profitable. In some smaller markets, this was estimated to be as much as 40 per cent.<sup>38</sup> Ice cream was mostly sold through small retail outlets: local stores, kiosks, ice cream parlours or mobile sales units.<sup>39</sup> In addition, the shelf life of the products themselves was relatively short, and demand fluctuated widely according to the weather. A significant part of the business consisted of impulse purchases, which meant that the location of sales outlets was critical. The task of keeping such a range of retailers constantly supplied with an appropriate level of stock was complex, and success depended on the ability to judge the optimum ‘drop size’.<sup>40</sup>

The fact that Unilever made acquisitions to access distribution channels is not surprising, but they also provided more complex forms of knowledge about preferences and regulations. Consumer preferences and tastes varied widely. During the 1970s ice cream consumption levels varied from around 6 litres per capita per annum in Germany to over 19 litres in Australia, and over 22 litres in the US.<sup>41</sup> Europeans held quite different attitudes towards ice cream. At the end of the 1990s consumption varied from just over 4 litres per annum in Spain to around 13 in Sweden.<sup>42</sup> There were significant differences in national regulations which both shaped and reflected consumer tastes. In most countries a minimum milk fat content was required for a product to be legally defined as ice cream. In 1970 this level varied from 5 per cent in the Republic of Ireland to 14 per cent in some parts of the United States. In Britain there was no such legal requirement at all.<sup>43</sup> Thus, the most popular ice cream products in some countries could not legally be sold as ice cream in others.

Unilever’s integration of acquisitions was cautious and incremental. This was in alignment with the corporate culture of the firm. After its initial creation in 1929,

there had been a strong attempt to unify its different components and to centralize, but this strategy had to be abandoned during World War Two, when the group's business was split between Nazi-occupied Continental Europe and the rest of the world. Subsequently the rebuilding of Unilever's subsidiaries in Europe was largely left in the hands of local managers. The benefits of local autonomy became a prominent feature of the post-war corporate culture, along with a highly networked organization in which decision-making involved multiple parties, and was usually rather slow.<sup>44</sup> From the 1950s Unilever began to organize its European business operations into product group divisions known as Co-ordinations. These were only given profit responsibility in the mid-1960s, and even then product development, manufacturing and marketing largely continued to take place at a national level until the 1980s.<sup>45</sup> Ice cream companies were initially placed within a product group known as Foods II, which contained most of Unilever's foods businesses apart from margarine. 'Foods II' was later divided into separate divisions called Frozen Products, and Food and Drinks.

When ice cream companies were acquired, typically Unilever sought to retain the former family owners and other managers, while moving quickly to introduce corporate accounting methods and pension systems, which were usually superior to those of the acquired firms.<sup>46</sup> Meanwhile they retained autonomy to develop and market products. One consequence was that employee resistance to 'Unileverization', as it was called, was rare. Unilever only intervened more powerfully when there was severe corporate governance failure, as in the case of the Spanish company Frigo, when it was discovered after the acquisition in 1973 that profits rested on fraudulent accounts. Unilever lacked strong Spanish businesses in any product category, so had sparse managerial resources to transfer into Frigo. It took Unilever a decade to build a well-managed business.<sup>47</sup>

Unilever rarely sought technological knowledge when it acquired ice cream companies. It had developed corporate-wide competences in ice cream technology which were diffused to subsidiaries. In 1958 fundamental research into ice cream was started at Unilever's Port Sunlight research laboratory as part of edible oils research. Subsequently research shifted to Unilever's primary foods laboratory at Colworth in Bedfordshire. In 1963 Colworth achieved the first successful development of a 'fizzy lolly' involving the dispersion of fat pellets containing citric acid and sodium bicarbonate in a water ice. The following decades saw extensive research into all aspects of the composition of ice cream and associated products such as wafers.<sup>48</sup>

An atypical case of technological knowledge acquisition was the purchase of Italian-owned Spica in 1962. A post-acquisition inspection of the company uncovered a product with a potentially international appeal: a branded ice cream in a cone. The practice of eating ice cream out of a cone had become well established by the 1950s in many European countries, yet the ice cream consumed in this manner almost never took the form of a branded, packaged product. A major problem was a technical one: it was extremely difficult to prevent cones becoming 'soggy' if ice cream was stored in them for any length of time. Unilever discovered that Spica

appeared to have solved this problem by developing special cones that remained crisp for longer, and by coating the inside of them in a mixture of sugar and chocolate. Their branded ice cream cone was already proving successful in Italy. Unilever took the product, branded it as *Cornetto*, and within a year of the acquisition had launched it in Germany, France, Belgium and the Netherlands.<sup>49</sup>

However, *Cornetto* also demonstrated that detailed local knowledge of markets was essential to the successful launch of an ice cream brand. A test launch of the brand in Britain in 1964 proved a complete failure. Britain had a special problem with 'soggy cones' because ice cream stocks were held for much longer than in Italy. The brand totally failed and had to be withdrawn. Although the technical problems were subsequently resolved, a deep understanding of the British market was required to relaunch the brand. Wall's managers, realizing that British consumers had a peculiarly strong identification of Italy with luxury ice cream, relaunched the brand in 1976 with an advertising campaign in which the ice cream was seen being eaten in a number of immediately recognizable Italian settings, such as the Leaning Tower of Pisa. In many other European countries, there was no strong association between Italy and fine ice cream, and instead the brand was marketed by a campaign which associated it with an idealized youthful lifestyle, somewhat similar to that being employed by Coca-Cola at the time.<sup>50</sup>

During the 1980s Unilever began to pursue greater harmonization and internationalization of brands and product processes in all its product categories, including ice cream. Following the *Cornetto* model, Unilever identified successful brands in national markets and extended them on an international basis. Examples included the *Viennetta* ice cream dessert, initially launched as a small-scale experiment in Britain in 1982.<sup>51</sup> On a larger scale, Unilever sought to reinvigorate its 'impulse' ice cream business, which was more profitable than sales of take-home ice cream in supermarkets, but traditionally largely confined to children, by developing a premium 'adult' ice cream product with high quality ingredients, and sold using adult, sensual, images. However it was striking that the eventual launch of the premium *Magnum* brand in Germany in 1989 was driven by the national company in the face of considerable scepticism by Co-ordination about its high price. The contribution of Co-ordination was to orchestrate its subsequent fast roll-out throughout Europe.<sup>52</sup>

Unilever's use of acquisitions to build ice cream businesses outside Europe had much less success. The closest parallel to Europe was in Australia. In 1959 Unilever, which had long-established Australian businesses in laundry soap and margarine, began buying ice cream companies on the initiative of the local management. The initial purchases were in Sydney and Melbourne, followed in 1978 by an Adelaide-based company. During the 1960s Australian consumption of ice cream grew rapidly, from 9.2 litres to almost 20 litres per capita, and Unilever's business grew with it. The firm had captured 20 per cent of the Australian market by 1974.<sup>53</sup>

In contrast, Unilever was unsuccessful in the United States, the world's largest ice cream market, following the acquisition of Good Humor in 1961 by its

T.J. Lipton affiliate, which had a profitable business in tea and canned soup. Lipton tried, but failed, to develop *Good Humor* as a brand to be sold in bulk in supermarket multipacks – a retail format that accounted for a high proportion of ice cream sales in the United States. The Good Humor business lost money between 1968 and 1984, by which time it held less than 1 per cent of the American ice cream market.

This failure primarily reflected a lack of commitment by T.J. Lipton. The profitability of its tea business meant that the American affiliate was reluctant to reallocate resources away from this core activity to ice cream, while the autonomy permitted to the firm meant that there was no significant knowledge or managerial transfers from the European ice cream business.<sup>54</sup> There was no significant progress until the late 1980s, after Unilever had moved to exert tighter controls over its autonomous US affiliates. In 1989 Unilever acquired the co-packer to which it had shifted its ice cream production, providing the manufacturing facilities and expertise that formed the foundation on which future growth could be built. In 1993 Philip Morris sold the large ice cream company Breyers to Unilever, establishing it as the leading ice cream manufacturer in the American market.<sup>55</sup>

Unilever had extensive businesses in developing countries, but these remained primarily focused on laundry soap and sometimes toothpaste and other personal care products. It was also a late entrant into the ice cream market in most countries, and the acquisition of small, and sometimes poorly managed, local firms proved no way to overcome incumbents, especially as existing local managements had little expertise in ice cream or other food products. In 1973, for example, Unilever acquired the relatively small Alnasa ice cream business in Brazil, but this could make little progress against the long-established Kibon company, owned by US-based General Foods since 1957, and occupying a market share of 76 per cent in the early 1970s.<sup>56</sup>

During the early 1970s there was some organic growth of ice cream business in urban locations in developing countries, but the new businesses in South Africa and Southeast Asia all struggled. There was a general problem for frozen products in many countries because electricity supplies were not reliable, with consequent problems for distribution and cold storage. Ice cream required a certain level of purchasing power to be viable, and also involved complex logistics from the initial stage of milk acquisition through to delivery of the final product in a good condition to the consumer. In addition, manufacture of ice cream involved facilities of the highest hygienic standards which were expensive to build and maintain in many developing countries.

By 1990 ice cream contributed 6 per cent of Unilever's turnover, and 7 per cent of Unilever's total profits. Unilever's use of acquisitions to build an ice cream business illustrates the complementary nature of successful acquisitions. Unilever accumulated over a long period technological and branding expertise as a result of its British and German ice cream businesses. Acquisitions provided access to distribution channels, and understanding of local consumer preferences and legal regulations. The integration process was lengthy, but not contested, perhaps because they were all friendly. As the poor performances in the United States and Spain showed, however,

this strategy was effective only if Unilever had pre-existing national management expertise which could be harnessed to strengthen acquired companies, and facilitate their 'Unileverization'. And as the case of Brazil showed, even if Unilever had a strong management in different product areas, the acquisitions of firms with small market shares could not be parlayed into successful businesses.

### **Creating a Global Tea Business**

Unilever also used acquisitions to build the world's largest tea company. Like ice cream, the story extended over decades, but otherwise there were many differences between the two product categories. The largest was geographical. While in ice cream Unilever sought complementary assets to expand from its British knowledge base, in tea Unilever's marketing and technical competences were initially concentrated in the United States.

While industrial ice cream was American in origin, tea was a longer established product, and a more global one, but with great national differences in consumption propensities. During the nineteenth century Britain became the world's largest tea consuming country, and tea was also widely drunk, as well as grown, in some Asian developing countries. During the post-war decades the largest tea markets were Britain and India, followed by Japan. Per capita consumption varied widely from 3.8 kg per head in Britain (at one extreme) to 0.05 in Italy (at the other), and included 0.3 kg in the United States, 0.6 in the Netherlands, and 1.2 in Japan. In Japan, elsewhere in Asia and the United States considerable quantities of green tea were consumed, while Britain was the world's largest consumer of black tea. In countries with a British influence, hot black tea was drunk with milk. Elsewhere in Europe black tea was drunk without milk, while in the United States three-quarters of tea consumption was iced.<sup>57</sup>

The origins of much of Unilever's tea business lay with the legacy of the tea group built up by Scottish-born Sir Thomas Lipton in the late nineteenth century. This ended up being split into two components. There was an international tea wholesaling business, headquartered in Britain, but with its principal markets in Asia. Lipton Ltd had almost no presence in Britain. In 1927 Unilever's Dutch predecessor Van den Bergh acquired a shareholding when the group was on the verge of bankruptcy. The formation of Unilever in 1929 led to this group being passed to the newly formed British retailing group Allied Suppliers Ltd, in which Unilever held a substantial equity shareholding but did not exercise managerial control. In North America, a separate tea wholesaling business flourished using innovative marketing. Unilever, which had a successful laundry soap affiliate in the United States, made an initial investment in T.J. Lipton in 1936, five years after Sir Thomas Lipton's death, and acquired almost all the equity in 1943 as part of a wartime strategy to expand its food business.<sup>58</sup>

Strangely, Unilever's tea business remained confined to North America for three decades. T.J. Lipton held a deep brand franchise exploited by continual line extension

strategies. It developed strong competences in innovation at a research laboratory at Englewood Cliffs, New Jersey. The firm became a leading innovator in tea bags, instant tea and later diet and herbal teas. The result was a high margin business based on a strong market position. In regular teas, its market share in the United States reached 45 per cent in the 1980s.<sup>59</sup>

Despite its success in the United States, Unilever was significantly slower than in ice cream to decide to build an international tea business. A few attempts to grow a business organically failed. During the early 1950s Unilever's Australian business tried to develop a Lipton tea operation, but it was abandoned in 1957.<sup>60</sup> The Food Study Group in 1957 recommended that Unilever should not invest further in the product category. The logic appeared sound. There seemed little prospect of shifting non-tea drinking countries into large potential markets. In tea-drinking countries, unlike ice cream, there were already quite large companies with substantial market shares and brand franchises in place, which included Teekanne in Germany and Douwe Egbert in the Netherlands. Britain had a cluster of large tea marketing companies including Typhoo, Tetley, Lipton Ltd and Brooke Bond, as well as speciality companies such as Twinings and James Finlay. Brooke Bond was probably the world's largest tea company, with one-third each of both the British and Indian tea markets. Unilever's ownership of T.J. Lipton gave it one of the world's leading tea brands, but the division of the Lipton businesses meant that it could not use the *Lipton* brand name outside North America. Moreover, the idiosyncratic nature of the US market, with its preference for iced tea, meant that much of Lipton's expertise was not transferable elsewhere.<sup>61</sup>

During the mid-1960s Unilever's Foods 2 Co-ordination reviewed its strategy in tea, and began to consider it as a potential international business. A two-fold strategy slowly emerged to secure some technical advantage in tea, and to secure the use of the Lipton name worldwide. Both strategies involved acquisition. In 1965 Ceytea, a German-owned company which was engaged in instant tea experimentation using a plantation in Sri Lanka, was acquired.<sup>62</sup> The business was placed under the management of T.J. Lipton for a year. The company's research efforts were focused on the improvement of American instant tea by experimenting with green leaf, and the development of a product which Unilever could use outside the United States. Two researchers from Unilever's Colworth research laboratory were sent to the T.J. Lipton laboratory in New Jersey to study Lipton's knowledge.<sup>63</sup>

As in ice cream, Unilever developed central competences in research based on T.J. Lipton, Ceytea and its British research facilities. Between 1969 and 1972 Unilever developed the first instant tea plant starting from green leaf in the country of origin. The technology proved to be an important input to improved tea processing in the United States. Over the following decade the New Jersey and Colworth laboratories collaborated in developing many new tea products. For example, flavoured leaf tea products with a storage life of 12 months were made possible by the development between 1974 and 1977 of tea particles (or prills) which could be blended with leaf tea, and enabled the stabilization of flavours in tea bags.<sup>64</sup>

Acquisition of the worldwide rights to the *Lipton* brand name proved difficult. Allied Suppliers was not a willing seller, and Unilever was not prepared to use its equity stake to force a sale. Instead, during the late 1960s Batchelors, Unilever's foods company in Britain, developed an unsuccessful marketing campaign to launch instant tea using Ceytea as a brand name.<sup>65</sup> Finally, in 1971, a hostile takeover bid for Allied by the retail group Cavenham provided a means for Unilever to buy Lipton Ltd in return for its support.<sup>66</sup> Unilever secured a large business with about 20 principal subsidiaries in 18 countries, 12 of which were outside Europe. It had also franchised the use of its brand name to independent firms. This finally provided a basis to build an international tea business.

After the acquisition, the Lipton businesses were placed under the control of the Food and Drinks Co-ordination, but a desire to prevent employee resistance led to an extremely slow integration process. The Lipton corporate structure was retained in place, even though there was a transfer of some Unilever managers into the company. The Lipton head office was not closed until 1982. However, over time there was an incremental transfer of knowledge from T.J. Lipton. The American business achieved much higher productivity with the same teabag machines compared to elsewhere, and the diffusion of this American expertise played a critical role in bringing machine efficiencies in different countries to the same level.<sup>67</sup> Major investments were made to modernize Lipton tea production.<sup>68</sup> A new factory was built in Britain which, after initial technical problems, reached a sufficient technical level with assistance from T.J. Lipton.<sup>69</sup>

In many instances it took over a decade to fully integrate the Lipton businesses outside Europe. A number of these were very large, including those in Australia, South Africa and Nigeria – where Lipton held 95 per cent of the tea market – and India. Although Unilever had a separate management group, known as the Overseas Committee, for business beyond Europe and North America, the Lipton businesses remained separate until at least the late 1970s. The most serious issues arose in India, where Unilever had a long-established and highly successful affiliate, Hindustan Lever. The inherited Lipton business was hugely overmanned. Despite the transfer of Hindustan Lever managers into Lipton, an attempt to improve the situation led to a five month strike in 1979, a fall in market share down to less than 20 per cent, and virtual bankruptcy.<sup>70</sup> The Overseas Committee recommended divestment, but this was overruled because of concern for a moral commitment to the outside Indian shareholders as well as the need to protect the Lipton brand name.<sup>71</sup> The upshot was a restructuring of the business with the transfer of some of Hindustan Lever's foods businesses into Lipton.<sup>72</sup>

During the 1970s Unilever expanded its tea business geographically by buying up independent Lipton agencies in various countries including Sweden, Switzerland and Italy, and by acquiring other tea companies. Almost simultaneously with the Lipton purchase, The de l'Elephant company was purchased in France.<sup>73</sup> By 1982 Unilever estimated it held 17 per cent of the world black tea market and 34 per cent of the instant, ice and ready to drink tea markets.<sup>74</sup>

Yet the pace of the geographical spread of Unilever's tea business was not very fast. In part this reflected the slow integration of the Lipton business, but Unilever also missed chances to acquire in the British market. Typhoo was acquired by the large British chocolate company Cadbury Schweppes, and Tetley by the retailer J. Lyons. There was no progress either in Germany, Europe's second largest tea market. The family owners of Teekanne, which held 30 per cent of the German black tea market, declined to sell it.<sup>75</sup>

There was continual internal discussion concerning the merits of seeking to acquire Brooke Bond, but nothing happened. As early as 1973 the Food and Drinks Co-ordination conducted a lengthy investigation of the firm as a potential acquisitions possibility, but decided not to bid, partly because of US anti-trust concerns as Brooke Bond also had a tea business in the United States. Brooke Bond's plantation and other interests in India were also a cause for concern, as the Indian government was already pursuing restrictive policies towards foreign ownership.<sup>76</sup> The subsequent merger of Brooke Bond with Liebig, which owned an extensive cattle ranching and meats business in Latin America, further deterred Unilever from undertaking an acquisition. In 1983 Food and Drinks Co-ordination again launched an investigation of Brooke Bond. However this reported declining profits because Brooke Bond's traditional strength in packet tea appeared to be undermined by the growing popularity of tea bags in Britain, a poorly performing meat business, and considerable problems with the South American ranching business.<sup>77</sup>

As the prospects of acquisition declined, Unilever again considered greenfield entry into the British market. In 1982 an attempt was made to introduce the *Sir Thomas Lipton* range of speciality teas, though this project was aborted when test markets in Britain and Germany ran into serious difficulties.<sup>78</sup> Two years later rumours of an impending takeover bid finally prompted Unilever to launch a hostile takeover bid for Brooke Bond Liebig – its first successful hostile acquisition.<sup>79</sup> Curiously, although the acquisition appeared logical in retrospect, it was actually the initiative of Unilever's Finance Director and merchant bankers.<sup>80</sup>

The post-acquisition integration of Brooke Bond proceeded much faster than that of Lipton Ltd. Unilever had little regard for the acquired management or its technical competences. By 1986 the international tea buying, trading and other activities of Brooke Bond and Lipton were merged into a Central Tea Group reporting directly to the Food and Drinks Co-ordination; Brooke Bond's head office had been moved into Unilever's London head office; and only one former director was still employed. Separate organizations were only retained in Australia, Pakistan and India because of regulatory concerns over the high combined market shares.<sup>81</sup>

By 1990 Unilever had consolidated its position as the world's largest tea company. It had become the market leader in Britain, with around 28 per cent of the market. While in 1970 tea represented around 1.7 per cent of Unilever's total turnover, by 1990 it had grown to 4 per cent of the total turnover, and 7 per cent of Unilever's total profits.<sup>82</sup>



## Conclusions

This article has examined the role of acquisitions in the growth of Unilever's ice cream and tea businesses. It has provided a longitudinal study of use of acquisitions to build global businesses, and of how numerous acquisitions over a long period of time were integrated. Unilever, and its predecessors, used acquisition to initially enter both product categories. The firm then developed over time localized research and marketing competences: for ice cream, in Wall's in Britain, and in tea, in T.J. Lipton in the United States. There was a substantial length of time before the next stage of geographical expansion. The acquisition of T.J. Lipton in the United States from 1936 gave Unilever a profitable tea company, but one confined to North America until 1971. In the case of ice cream, it was only after 1958 – four decades after Wall's had been acquired in 1922 – that Unilever began significant geographical expansion beyond Britain and Germany.

Unilever's subsequent growth as a major international ice cream and tea company, which can be dated from 1958 and 1971 respectively, involved the complementary use of Unilever's central resources and local knowledge achieved from acquisitions. Its research laboratories became centres of technical expertise on tea and ice cream. Over time, Unilever's product group management developed marketing capabilities which enabled it to transfer brands internationally. The contribution of acquisitions was that they delivered local market knowledge. In ice cream, this was more than access to distribution channels, but also sensitivity to consumer preferences and national regulations. In the case of tea, acquisitions were especially important in overcoming the market power of established brands.

This case study, therefore, generally supports the position that 'complementary' acquisitions create value, while providing some evidence on the relative importance of these complementary assets. Despite the formidable size of Unilever's central resources, local competences were essential to competitive success. In ice cream, the cases of *Cornetto* and *Magnum* showed that global brands could not be transferred or even created without local knowledge. In tea, Unilever considered at various times greenfield entry into markets employing its brands and technologies, but it was never considered realistic.

Unilever was a successful integrator of acquired companies. In part this can be explained by the fact that the acquisitions were much smaller than itself. The slow pace at which firms such as Lipton were integrated enabled Unilever to learn about the process of acquisition, including – as witnessed by the Brooke Bond – the need to move much faster with integrating acquired companies. In ice cream and tea, Unilever had clear strategic intent to build international businesses. All the acquisitions were agreed except Brooke Bond. Employee resistance was further reduced as Unilever pension schemes were typically better than those of the former firms. The knowledge being integrated was important, but not as complex as, say, product development skills embedded in teams and cultures of firms.<sup>83</sup> In many countries, Unilever's pre-existing operations in soap and edibles also provided a good

understanding of institutions and business cultures, and sometimes a cadre of local managers who could support acquired businesses.

Finally Unilever was able to take a long-term view of the integration process, precisely because of the neglect of shareholder value identified by Toms and Wright. Unilever had considerable financial, research and human resource capabilities which it could divert to grow ice cream and tea, once it had decided to build businesses in those areas, and it could build markets and integrate acquisitions without concern for short-term profitability. If Unilever's acquisition of Frigo had been assessed five years after the event, it would have been regarded as a 'failure', but from a 20 year perspective it could be seen as one building block to Unilever's strong market position in Europe. However the ability to neglect shareholder value combined with growing generic skills in acquiring firms also enabled Unilever to pursue acquisitions of garden centres, home decorating companies and numerous other firms which, in retrospect, seem wholly inappropriate.

It would be misleading to cast the long-term success of Unilever in building ice cream and tea businesses as pure triumph. It all took a long time. It would be relatively easy to construct a counterfactual path which would have achieved the same eventual outcomes at a faster speed. During the early post-war years it was not implausible that Unilever could have used its large shareholding in Allied Suppliers more aggressively to acquire Lipton Ltd, uniting the two Lipton groups far more quickly. It could have almost certainly have acquired Brooke Bond in 1973 rather than 1984. It is also possible to imagine a superior outcome to the lengthy neglect of the American market following the Good Humor acquisition in 1961. However such a counterfactual assumes a corporate culture which was prepared to act considerably more proactively than Unilever's at that time.

Unilever's acquisitions can be placed within the wider narrative of British business history. The conglomerate-style acquisitions of the 1960s and 1970s, based on the neglect of shareholder value, was characteristic of the wider corporate trends which, as Toms and Wright argue, were part of the problem of the British economy in those decades. However in the same period Unilever also used acquisitions to build global businesses in ice cream and tea. This created new core competences which provided important new revenue streams. In other words, although the growth of the voice aspect of governance was an important contributor to improved business performance from the 1980s, some of the restructuring of firms using the market for corporate control which occurred earlier also had positive outcomes on the renewal of British business in the post-war decades.

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## Notes

- 1 Jensen and Ruback, "The Market for Corporate Control."
- 2 Schoenberg, "Mergers and Acquisitions," 105.
- 3 Singh and Montgomery, "Corporate Acquisition Strategies and Economic Performance."
- 4 Datta *et al.*, "Factors Influencing Wealth Creation from Mergers and Acquisitions."
- 5 Capron *et al.*, "Resource Redeployment following Horizontal Acquisitions." For a business history perspective, see Jones and Kraft, "Corporate Venturing."
- 6 Harrison *et al.*, "Synergies and Post-acquisition Performance"; *idem*, "Resource Complementarity in Business Combinations"; Hitt *et al.*, "International Diversification" There is an element of semantics in the distinction between related and complimentary as assets which are beneficial to existing assets might well be termed 'related'.

- 7 Leonard, *Wellsprings of Knowledge*; Ahuja and Katila, "Technological Acquisitions and the Innovation Performance of Acquiring Firms."
- 8 For a survey, see Puranam and Srikanth, "Leveraging Knowledge or Leveraging Capabilities."
- 9 Haspeslagh and Jemison, *Managing Acquisitions*.
- 10 Birkinshaw *et al.*, "Managing the Post-Acquisition Integration Process."
- 11 Schoenberg, "Mergers and Acquisitions."
- 12 Ranft and Lord, "Acquiring New Technologies and Capabilities."
- 13 Ernst and Vitt, "The Influence of Corporate Acquisitions on the Behaviour of Key Inventors."
- 14 Bower, "Not All M&A's Are Alike," 93.
- 15 Lamoreaux, *The Great Merger Movement in American Business*; Hannah, *The Rise of the Corporate Economy*; Carreras and Tafunel, "Spain: Big Manufacturing Firms between State and Market, 1917–1990."
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- 17 Chandler, *Scale and Scope*, 37.
- 18 Chandler, "The Competitive Performance of U.S. Industrial Enterprises since the Second World War."
- 19 Chandler, *Shaping the Industrial Century*, 309–312.
- 20 Toms and Wright, "Corporate Governance, Strategy and Structure in British Business History"; *idem*, "Divergence and Convergence within Anglo-American Corporate Governance Systems."
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- 22 Bostock and Jones, "Foreign Multinationals in British Manufacturing, 1850–1962"; Jones and Bostock, "US Multinationals in British Manufacturing before 1962."
- 23 Cassis, *Big Business*, 37.
- 24 Wilson, *The History of Unilever*, Vols. 1 and 2; Wilson, *Unilever, 1945–65*; Jones, *Renewing Unilever*.
- 25 Jones, *Renewing Unilever*, 17–87; Dyer *et al.*, *Rising Tide*.
- 26 For example, see Miskell, "Cavity Protection or Cosmetic Perfection?"
- 27 Jones, *Renewing Unilever*, 347–350.
- 28 *Ibid.*, 35–37, 68, 302.
- 29 Reinders, *Licks*, 59–60.
- 30 *Ibid.*, 275–287.
- 31 Crowhurst, *A History of the British Ice Cream Industry*, 115–123; Reinders, *Licks*, 399–401.
- 32 Reinders, *Licks*, 605.
- 33 *Ibid.*, 449–451.
- 34 *Ibid.*, 605.
- 35 Food Study Group Report 1957–1958, REP 3109, Unilever Archives Rotterdam (hereafter UAR).
- 36 *Ibid.*
- 37 Special Board Conference on the 1983 Concern Longer Term Plan, EXCO, Unilever Archives London (hereafter UAL).
- 38 Meeting of Special Committee with Overseas Committee, 17 Dec. 1985, UAL.
- 39 Selitzer, *The Dairy Industry in America*; Crowhurst, *British Ice Cream Industry*.
- 40 Reinders, *Licks*.
- 41 Hyde and Rothwell, *Ice Cream*; Marshall and Arbuckle, *Ice Cream*.
- 42 Hoyer, "European Market Trends."
- 43 Hyde and Rothwell, *Ice Cream*.
- 44 Jones, *Renewing Unilever*, 247–255.
- 45 Jones and Miskell, "European Integration and Corporate Restructuring."

- 46 Jones, *Renewing Unilever*, 311.
- 47 *Ibid.*, 301.
- 48 Beck, *History of Research and Engineering in Unilever*, 2.3, 3.5, 3.10.
- 49 Jones, *Renewing Unilever*, 127–129.
- 50 *Ibid.*, 129; Sharon Skeggs, “Cornetto: An Advertising Case History,” 22 Nov. 1982, Frozen Foods Co-ordination, Box 16; SSC&B, “Cornetto International Positioning: Review from Hamburg Ice Cream Conference,” Frozen Foods Co-ordination, Box 25, UAL.
- 51 Jones, *Renewing Unilever*, 291–292.
- 52 *Ibid.*, 130–131.
- 53 Reindeers, *Licks*, 253–267; Fieldhouse, *Unilever Overseas*, 90–91.
- 54 Jones, “Control.”
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- 56 Reindeers, *Licks*, 549–550.
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- 58 Matthias, *Retailing Revolution*, 41–50, 96–124, 245–250; Jones, “Control,” 457–458.
- 59 North American Office, 1987 Longer Term Plan, Stage 1 discussions, Lipton US, UAL; Jones, “Control,” 458–459.
- 60 Fieldhouse, *Unilever Overseas*, 77, 88.
- 61 Food Study Group Report 1957–1958, REP 3109, UAR.
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- 80 *Ibid.*, 305.
- 81 *Ibid.*
- 82 Food and Drinks Co-ordination, Longer-term Plan, 1989–1994. EXCO: F&DC. General Matters-Jan 1988/December 1989; Meeting of the Special Committee with Food and Drinks Co-ordination, 22 June 1988, EXCO: Consultative Tea Group, UAL.
- 83 Haspeslagh and Jemison, *Managing Acquisitions*, 109.