



## ABOUT THE AUTHOR

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## EXECUTIVE SUMMARY

The central purpose of this report is to assess Unilever's "economic footprint" in South Africa. It builds on an earlier study jointly undertaken by Unilever Indonesia and Oxfam GB and Novib (Oxfam Netherlands), which focused on Unilever's role in poverty reduction. The present report is broader in scope and focuses on Unilever's impact throughout the South African economy.

Unilever South Africa (ULSA), a subsidiary of Unilever PLC, has been operating in South Africa for more than 100 years. It ranks among that country's "Top Forty" companies, and in 2005 it generated about R8.5 billion in sales of branded food, home, and personal care products, while employing more than 4 000 workers and managers. What is the overall impact of this enterprise on South Africa's growth and development, and on its society and environmental quality?

In this report these questions are examined using both quantitative and qualitative analysis. From an economic standpoint South Africa's input-output tables and a related Social Accounting Matrix are used to generate estimates of Unilever South Africa's direct, indirect, and induced impacts on such variables as private sector investment, household incomes, employment, and government revenues.

Unilever South Africa's direct impacts are those felt by its 3 000 suppliers and their 20 000 employees due to the company's purchases of goods and services from them; its indirect impacts are those felt by its suppliers' suppliers owing to the orders they receive; and its induced impacts incorporate the overall demand for goods and services made by the employees of Unilever South Africa, its suppliers, and its suppliers' suppliers based on their consumption expenditures out of wages paid.

# MEASURING UNILEVER'S ECONOMIC FOOTPRINT: THE CASE OF SOUTH AFRICA EXECUTIVE SUMMARY

A report by Ethan B. Kapstein

This analysis shows that, in 2005, Unilever South Africa and its employees were directly or indirectly responsible for generating output of more than R32 billion and, in the process, supporting approximately 100 000 jobs throughout the South African economy. This means that for every job directly based at ULSA, another 22 workers depended upon the company for some part of their livelihood. In total this represents 0.8% of total South African employment.

The report shows that the majority of these jobs are located in the retail trade sector of the economy i.e. the network of distributors, wholesalers and retailers that Unilever South Africa depends on to get its products to the consumer. The ongoing modernisation of the retail trade sector raises the potential that the number of traditional retail outlets may diminish over time, along with the jobs and incomes they support. Similarly, many of the jobs that are associated with Unilever South Africa are located throughout the company's supply chain, which suggests that maintaining the competitiveness of South African suppliers is also essential from the perspective of employment and income generation. Unilever South Africa sources from more than 3 000 suppliers and half of its R4.5 billion purchasing spend goes to South African suppliers.

Unilever South Africa is responsible for a number of other important economic effects as well. The direct, indirect, and induced effects of Unilever South Africa operations on government tax revenues, for example, total some R4 billion, equivalent to almost 0.9% of all government revenue.

The input-output analysis shows that Unilever South Africa's contribution to value added throughout the economy amounted to R12.5 billion in 2005, or around 0.9% of the country's GDP. The GDP multiplier indicates that for every R100 of Unilever South Africa sales revenue, R145 is added to the country's GDP.

In addition to the economic analysis, the report provides an overview of some of the broader social and environmental impacts of Unilever South Africa, both in its operations and along its value chain.

As an employer, Unilever South Africa pays wages and provides comprehensive benefits that include medical care (including for HIV/Aids) and a private pension scheme. The company also offers extensive amounts of training for its own workers, and for non-workers including the unemployed, who participate in South Africa's learnership schemes, which is a key component of the government's skill-building initiatives. The cost of this training was equal to 2.7% of corporate payroll in 2005. The quality of the training that Unilever South Africa provides is demonstrated in part by the fact that its employees are often lured away by its competitors. While this presents retention challenges to Unilever South Africa, it could be viewed as a positive for the South African economy as a whole, since local firms

- that may not have the capacity to provide extensive training programmes
- essentially benefit from the investment that Unilever South Africa makes in its workers.

As a producer of fast-moving consumer goods, Unilever South Africa contributes to consumer welfare through its products and brands. South African consumers have been using products like Sunlight Soap and Rama margarine for more than 100 years. Today, Unilever South Africa's market shares for most of its products indicate that it is continuing to meet consumer needs in a rapidly changing marketplace. With growing affluence among the emerging black middle-class, however, Unilever South Africa faces increasing competitive pressures as new entrants appear on the scene. These pressures will require Unilever South Africa to continue building trust in the quality of its brands with a new generation of consumers.

Unilever South Africa further influences South Africa's economy and its social well-being through its broad range of Corporate Social Investments (CSI) and its efforts to promote Black Economic Empowerment (BEE). Unilever South Africa's CSI programmes have had a particular emphasis on health care, and specifically meeting the challenges of HIV/Aids; the improvement of education and of educational opportunities for the least advantaged citizens; and capacity building both within and outside government. Many of these activities have been carried out in close co-operation with the government of South Africa, including the "Brand South Africa" initiative, in which Unilever South Africa used its marketing expertise to help the country position itself in global markets.

With respect to Black Economic Empowerment, Unilever South Africa has been seeking to achieve best practice. It is now recruiting heavily among under-represented groups for its next generation of management executives; it is sourcing its inputs increasingly from black-owned firms; and its high levels of CSI spending should enable it to score maximum recognition for this element of the BEE "scorecard".

Another area in which Unilever South Africa contributes to South Africa is through its environmental policies and programmes. The report shows that the company adopts global environmental standards that meet and often exceed those found domestically. Additionally, various Unilever South Africa factories in South Africa have pursued community-specific environmental programmes that meet local needs.

But this report also suggests a number of ways in which Unilever South Africa and its Unilever parent company could be even more supportive of the South African economy. First, Unilever South Africa should seek to ensure that its local suppliers, who are under increasing competitive pressure from the global economy, receive the ongoing support needed to maintain and improve their productivity levels so they remain competitive. Second, it should continue to provide the top-notch training that workers (and "learners") require to improve their skills. Third, it might wish to consider a more targeted CSI programme that focuses on those areas in which the firm possesses a sustainable competitive advantage. Fourth, it should continue to reduce its environmental footprint, particularly with respect to packaging. Fifth, Unilever and Unilever South Africa should continue to promote Research and Development (R and D) in South Africa. Finally, Unilever South Africa should maintain an ongoing dialogue with the South African government to ensure a policy environment that promotes private sector investment, without which the country will not be able to generate economic growth and reduce poverty, inequality, and unemployment.

## Measuring Unilever South Africa's economic impact

Unilever South Africa's Direct or "First-Round" Economic Impact (the effects of Unilever South Africa's operations in terms of the number of jobs it creates, its investments in plant and equipment, its turnover, and taxes paid, and its economic effects on its immediate suppliers including retailers)

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Unilever South Africa's Indirect or "Second-Round" Impact  
(the effects of Unilever South Africa's expenditures on its suppliers' suppliers)

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Unilever South Africa's Induced or "Third-Round" Impact (the effects generated by the consumption decisions of Unilever South Africa's, its suppliers', and its suppliers' suppliers employees)

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Unilever South Africa's Total Economic Impact on the South African Economy

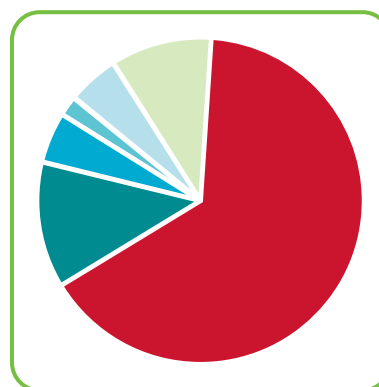
## Unilever South Africa, key indicators, 2003-2005

Rand '000	2003	2004	2005
Net sales	8,342,271	8,548,503	8,588,307
Income tax paid	346,577	344,174	404,738
Total labour cost*	916,475	1,028,606	1,119,676
Net income	362,182	518,773	908,373
No. employees	4,804	4,510	4,382

Source: Unilever data

\*Note: Total Labour cost includes the cost of benefits

## Dividing the pie



■ Payments to suppliers 66%

■ ULSA labour costs 13%

■ Interest payments 4.5%

■ Depreciation 1.2%

■ Tax paid 4.7%

■ Profit retained 10.6%

Note: Labour costs include the cost of benefits.

## The impact of Unilever South Africa on the South African economy

Description	Initial injection: ULSA	Direct impact: ULSA and first round suppliers	Indirect/ second-round impact	Induced/ third-round impact	Economy-wide impact
<b>Rand millions</b>					
Output (At consumer prices)	8,588	12,552	5,966	14,317	32,834
Capital stock	1,394	4,941	4,648	11,842	21,431
Employment (number, incl. informal sector)	4,382	19,206	17,254	62,602	98,522
Labour income	594	1,338	921	2,881	5,140
Government tax revenue	985	1,424	689	1,900	4,013
Goods imports	1,487	1,946	1,359	1,250	4,555
Value added (GDP)	2,391	4,013	2,096	6,348	12,457
<b>Multipliers</b>					
Employment (Economy- Wide/ULSA only)	—	—	—	—	22.6
Employment (Economy- Wide/direct)	—	—	—	—	5.16
Output (Economy wide/direct)	—	—	—	—	2.61
GDP/ULSA sales	—	—	—	—	1.45