

Financial Performance Ratio Analysis of PT Unilever Indonesia Tbk Post-Pro Israel Product Boycott Movement

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Article Info	Abstract
<i>Keywords:</i> ○ Boycott ○ Israel ○ Profitability ○ Financial Ratios	Purpose - This research aims to analyze how the financial performance of a company, particularly PT Unilever Indonesia Tbk, has been affected by being targeted in the boycott related to the Israel-Palestine conflict. Design/methodology/approach - The study focuses on key financial performance indicators, including four profitability ratios: Gross Profit Margin, Net Profit Margin, Return on Assets, and Return on Equity. These ratios were calculated based on the financial reports of PT Unilever Indonesia Tbk from 2022 through the first quarter of 2024. Findings - The analysis reveals that the initial phase of the boycott in the fourth quarter of 2023 resulted in a significant decrease in the company's financial performance, particularly in terms of sales. However, there was a slight recovery by the first quarter of 2024 as the company began to implement strategies to cope with the boycott. The findings highlight the impact of external geopolitical factors on company performance and underscore the importance of strategic financial management in times of crisis. Keywords: boycott, financial ratios, Israel, Palestine, profitability. Research limitations/implications - PT. Unilever Indonesia Tbk, as one of the business units in Indonesia impacted by the call to boycott products or companies suspected of being pro-Israel, has experienced a negative impact, i.e., a decline in domestic sales in 2023. This decline was noted in November and December 2023, since the boycott calls were made. However, it is known that in the first quarter of 2024, their domestic sales value rebounded, although still below the sales value in the first quarter of 2023
Article History	
Received: 2025-01-30 Accepted: 2025-02-20 Published: 2025-02-28 Doi: -	

INTRODUCTION

The Palestinian attack on Israel on October 7, 2023, was met with a massive retaliatory strike by Israel, causing a rising death toll of Palestinians. By December 17, 2023, the number of Palestinian casualties had reached 17,000, which sparked worldwide condemnation of Israel. Protests occurred in many countries. Besides the street protests demanding a ceasefire, there were calls for boycotting products supporting Israel's aggression. One prominent movement advocating this is the BDS (Boycott, Divestment, and Sanctions) movement, which encourages international citizens to boycott, divest, and sanction Israel.

According to Wikipedia, the BDS movement was founded on July 9, 2005, on the first anniversary of an International Court of Justice advisor's statement declaring the separation of the West Bank as a violation of international law. The BDS movement, led by Palestinians, promotes the boycott, divestment, and sanction of Israel with the aim of pressuring Israel to comply with international law. The movement focuses on withdrawing from occupied territories, removing the separation wall in the West Bank, ensuring equality for Arab-Palestinian citizens in Israel, and defending Palestinian refugees' right to return to their homes and properties.

In Indonesia, the Indonesian Ulema Council (MUI) issued Fatwa No. 28/2023, declaring it forbidden (haram) to purchase products from producers supporting Israeli aggression against Palestine. Despite this fatwa, MUI did not release a list of products or companies subject to the boycott. However, lists from the BDS movement and other boycott advocates include several products and services recommended for boycott, such as AXA, Puma, Hewlett Packard (HP), Siemens, Domino's Pizza, Starbucks, and Unilever.

The increasing reports that Unilever's parent company supports Israeli aggression against Palestine have resulted in a growing boycott of household products made by Unilever in Indonesia. This boycott has negatively affected Unilever's reputation and reduced sales. According to a press release in February 2024, Unilever Indonesia management denied any involvement in Israel's aggression against Palestine. Nonetheless, Unilever had to address the crisis and manage the negative sentiment while striving to maintain optimal financial performance.

This study aims to examine the financial performance of PT Unilever Indonesia Tbk before and after the boycott call. Four profitability ratios, including Gross Profit Margin, Net Profit Margin, Return on Assets, and Return on Equity, are used to assess performance based on financial reports from 2022-2023 and the first quarter of 2024.

LITERATURE REVIEW

Company Profile

Operating since 1933, PT Unilever Indonesia Tbk is a leading fast-moving consumer goods company in Indonesia. Since 1982, it has been publicly listed on the Indonesia Stock Exchange. The company owns more than 40 brands divided into two business segments: home and personal care, and nutrition and ice cream. Some of the personal care products include AXE, Clear, Close Up, and Lifebuoy, while nutrition brands include Bango soy sauce and Walls ice cream.

Profitability Concept

Every company aims to maximize profits. Companies that achieve this can improve product quality, create new products, and generate benefits for stakeholders, employees, and investors. Profitability ratios measure a company's ability to generate profits relative to sales or investments. These ratios provide insights into a company's operational efficiency and profit margins.

Amilin (2015) defines profitability ratios as indicators that measure a company's ability to generate profits. These ratios provide insights into the effectiveness of a company's

management in generating profits from its assets.

RESEARCH METHOD

This study uses a quantitative method with statistical procedures to draw conclusions. The profitability ratios of PT Unilever Indonesia Tbk for the 2022-2023 period and the first quarter of 2024 will be analyzed, focusing on the impact of the boycott call in 2023. Horizontal comparisons of financial performance will be made, specifically focusing on sales, asset utilization, and equity for the 2022-2024 period. The profitability ratios analyzed include:

- a. Gross Profit Margin (GPM)
According to Amilin (2015), the gross profit margin measures relative profitability by comparing sales revenue minus the cost of goods sold to total sales.
- b. Net Profit Margin (NPM)
According to Amilin (2015), the net profit margin measures a company's net income relative to its sales. The higher the NPM, the more efficient the company is in generating net profits.
- c. Return on Assets (ROA)
According to Kasmir (2016), return on assets measures how effectively a company uses its assets to generate profits.
- d. Return on Equity (ROE)
According to Amilin (2015), return on equity measures the profitability of a company relative to its shareholders' equity.

Based on the four profitability ratios mentioned above, the author will calculate a comparison of the financial performance of PT Unilever Indonesia Tbk from 2022 to the first quarter of 2024. The year 2022 is used as a benchmark for the company's financial performance before the boycott call, and the year 2023 is used as a benchmark for financial performance when the boycott call began against Unilever products, with the calculation continuing into the first quarter of 2024. The author uses audited financial statements of PT Unilever Indonesia Tbk as the primary data source for this research, along with relevant journals and literature that discuss financial information analysis. The results of this study may have limitations due to the scope of the comparison, which only uses four profitability ratios and covers a timeframe of only two years.

RESULTS

Profitability of PT Unilever Indonesia Tbk

To determine the profitability of a company, we need to look at several elements of financial statements, such as the balance sheet and income statement. Based on data from the audited financial report of PT Unilever Indonesia Tbk for the years 2022 up to Q1 of 2024, several of these elements are shown in the table below.

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Table 1. Profitability Components

	2022	2023	2024
	(Q1 to Q4)	(Q1 to Q4)	Q1
(in millions of Rupiah)			
Net Sales	41.218.881	38.611.401	10.079.541
Gross Profit	19.064.937	19.194.514	5.032.703
Net Profit after	5.364.761	4.800.940	1.448.717
Interest and Taxes			
Total Assets	18.318.114	16.664.086	18.342.427
Total Equity	3.997.256	3.381.238	4.844.243

Source : Audited Financial Report of PT Unilever Indonesia Tbk.

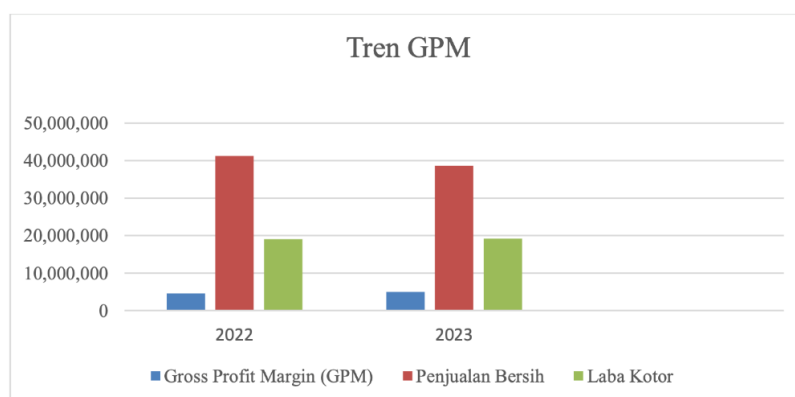
Table 2. Profitability Ratio

Year	2022	2023	2024 (up to Q1)
Gross Profit Margin	46%	50%	50%
Net Profit Margin	13%	12%	14%
Return on Assets	29%	29%	8%
Return on Equity	134%	142%	30%

Source: Processed from the Audited Financial Report of PT Unilever Indonesia Tbk.

Gross Profit Margin (GPM) Analysis

Gross Profit Margin is a way for management to calculate how much profit the company makes from sales. This is highly influenced by the company's decisions on setting selling prices and the cost of goods sold. The author presents the Gross Profit Margin results for 2022-2023 in the graph below.



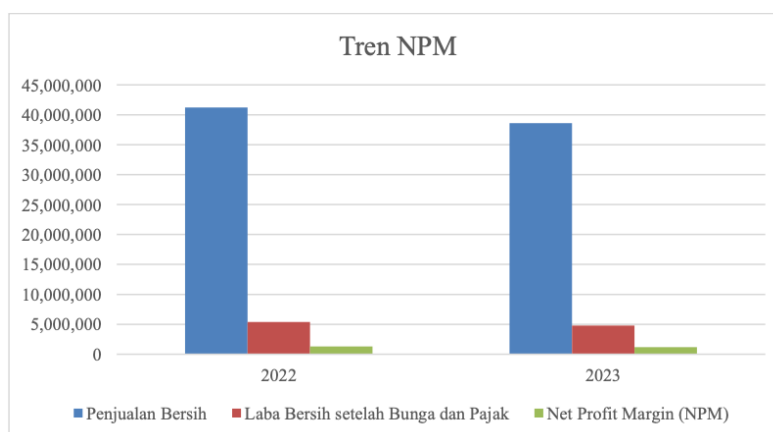
Graph 1. GPM Calculation

Source: Processed from the Audited Financial Statements of PT Unilever Indonesia Tbk. Notes:

- Sales and Gross Profit are presented in billion Rupiah
- GPM is presented as (*100,000%)

Net Profit Margin (NPM) Analysis

As previously mentioned, NPM shows a company's ability to generate profit over a certain period. The profitability level is an important factor in assessing a company's success. For company leaders, profitability is a key measure of operational success, while for investors, it measures how well their capital is performing. The company has managed to adjust the components of Net Profit Margin by raising prices and lowering production costs, ensuring that their goods and services yield more net profit.



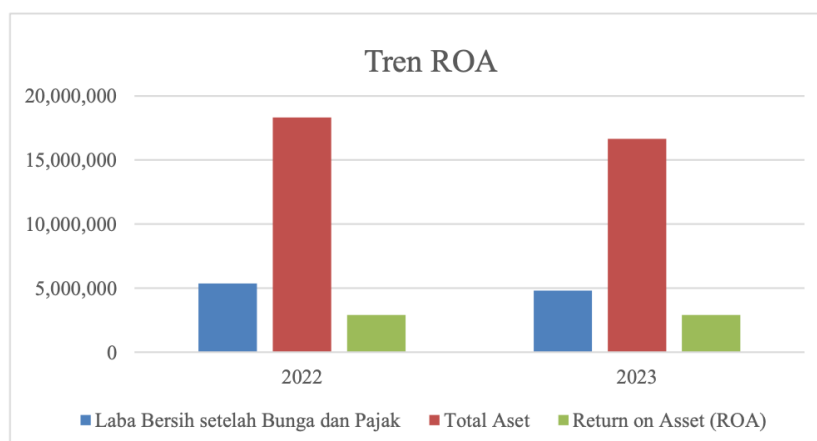
Graph 2. NPM Calculation

Source: Processed from the Audited Financial Statements of PT Unilever Indonesia Tbk. Notes:

- Sales and Gross Profit are presented in billion Rupiah
- NPM is presented as (*100,000%)

Return on Assets (ROA) Analysis

According to Amilin (2015), the ROA analysis measures a company's ability to generate profits from all its assets after adjusting for costs used to finance these assets. ROA for PT Unilever Indonesia Tbk from 2022-2023 is shown in the graph below.



Graph 3. ROA Calculation

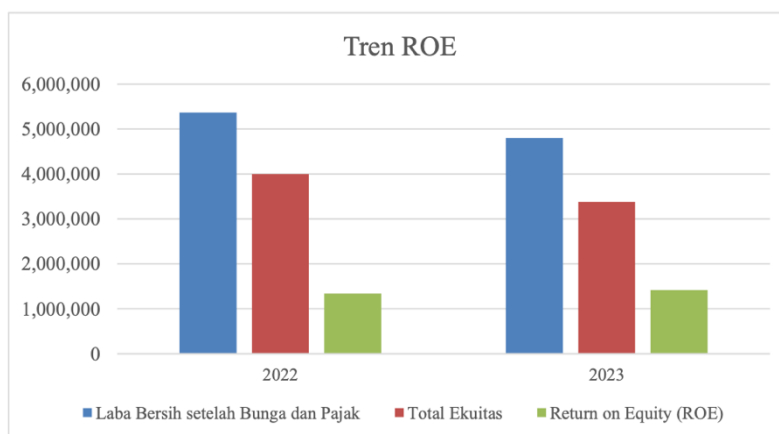
Source: Processed from the Audited Financial Statements of PT Unilever Indonesia Tbk. Notes:

- Sales and Gross Profit are presented in billion Rupiah
- ROA is presented as (*100,000%)

In this graph, a decline in net income in 2023 is followed by a reduction in the company's total assets that year. However, the ROA shows no significant decrease, as the 2023 ROA remains the same as in 2022 at 29%.

Return on Equity (ROE) Analysis

The last ratio to be analyzed is Return on Equity (ROE). "ROE measures how efficiently a company uses its equity to generate net income. The higher the ratio, the stronger the owner's position in the company" (Amilin, 2015).



Graph 4. ROE Calculation

Source: Processed from the Audited Financial Statements of PT Unilever Indonesia Tbk. Notes:

- Sales and Gross Profit are presented in billion Rupiah
- ROE is presented as (*100,000%)

DISCUSSION

Gross Profit Margin (GPM)

Based on the graph above, a sales decline is observed from 2022 to 2023. As shown in the first graph, the company's gross profit also experienced a trend similar to sales changes. The decline from 2022 to 2023 was not too significant, likely due to the boycott against Unilever Indonesia's products starting after October 2023 until the end of the year or the final quarter of 2023. In 2023, GPM was even higher by about 4% compared to 2022. This is because COGS (Cost of Goods Sold) is a variable cost that the company can manage, so the Gross Profit Margin can remain stable even with declining sales.

Net Profit Margin (NPM)

The trend of NPM for PT Unilever Indonesia Tbk from 2022-2023 shows that NPM did not align with GPM. This is because NPM depends heavily on fixed costs that significantly impact the company's net income. Fixed costs could not be lowered alongside sales declines in 2023, resulting in operating losses or lower net income. The NPM percentage decreased by 1% from 2022 to 2023, possibly due to the boycott calls starting in Q4 2023. The company may not yet have had strategies to deal with these changes.

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Return on Assets (ROA)

In this graph, a decline in net income in 2023 is followed by a reduction in the company's total assets that year. However, the ROA shows no significant decrease, as the 2023 ROA remains the same as in 2022 at 29%.

Return on Equity (ROE)

The graph shows the key components determining ROE and its trend during the 2022-2023 period. In 2023, PT Unilever Indonesia's ROE did not experience a decline and, in fact, increased by 8% compared to 2022. This is because, despite a decrease in equity, the reduction did not match the level of net income decline. Even though sales declined, ROE remained high above 100%.

In a press release issued by PT Unilever on February 07, 2024, the President Director stated that PT Unilever Indonesia remains committed to fundamental business functions as a top priority in 2023. The management explained that during Q3 2023, the company experienced a domestic sales increase of 3.3%. However, due to negative sentiment arising from the geopolitical situation in November and December 2023, domestic sales decreased by -5.2%. Then, in another press release issued by PT Unilever on April 24, 2024, it was noted that sales had slightly improved compared to Q1 2023, by 24.7% compared to Q4 2023. This shows that negative sentiment due to the Israel-Palestine conflict has slowly subsided. The company is gradually adapting to geopolitical challenges. These relatively positive results may also influence outside parties, such as potential investors considering investments in PT Unilever Indonesia Tbk.

CONCLUSION

Based on the analysis above, the conclusions can be drawn as follows:

1. The Israeli counterattack on Palestine that occurred since October 2023 has led to calls for boycotting companies suspected of providing aid to Israel. In Indonesia, one of the affected business units is PT. Unilever Indonesia Tbk. This can be seen from the financial statements of PT. Unilever Indonesia Tbk, which stated that in 2023 the company experienced a decline in sales compared to 2022.
2. The decline in sales in 2023 did not affect the Gross Profit Margin (GPM) because despite the decrease in sales, GPM increased in 2023. This is possibly due to new sales occurring in November and December 2023.
3. The decline in sales coincided with a decrease in net income after interest costs. This is because operating income could not cover operating and other costs, which are components of fixed costs that cannot be reduced despite declining sales.
4. The decline in net profit in 2023 caused the company's profitability, as measured by the Net Profit Margin, to decrease. However, Return on Assets remained stable, while Return on Equity increased.
5. Negative sentiment arising from the call to boycott pro-Israel products negatively affected the profitability of PT Unilever Indonesia Tbk.

6. Over time, based on the financial reports for the first quarter of 2024, PT. Unilever Tbk has begun to restore domestic sales.

IMPLICATION AND LIMITATION

PT. Unilever Indonesia Tbk, as one of the business units in Indonesia impacted by the call to boycott products or companies suspected of being pro-Israel, has experienced a negative impact, i.e., a decline in domestic sales in 2023. This decline was noted in November and December 2023, since the boycott calls were made. However, it is known that in the first quarter of 2024, their domestic sales value rebounded, although still below the sales value in the first quarter of 2023. One of the steps taken by the company, according to management, is to consistently clarify misinformation.

Several ways the company has taken to increase future sales are as follows:

1. Strengthening key brands: PT. Unilever Indonesia, in the future, will continue to strengthen its main brands that have contributed 80% to sales, especially household products like Pepsodent and Clear.
2. Creating Markets: The company will launch several new products to strengthen the market.
3. Strengthening Market Execution: The company will accelerate its go-to-market transformation, ensuring that it always provides services faster.
4. Increasing Business Impact: The company will try to recover the business through savings by managing commodity prices, factory automation, and cost restructuring.
5. Sustainability in Business: The company will focus on short-term goals to drive more positive impacts from the sustainability program of PT. Unilever Indonesia.

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