P&G Case

Executive Summary

This case study analysis is on the Proctor & Gamble Company (also referred to as "P&G"). Procter & Gamble is the world's largest producer of household and personal products by revenue, with its products reaching 4 billion people worldwide. The Case Study includes an Introduction, Company Overview, Company Mandate, Internal Analysis, and External Analysis, followed by various Strategic Options (see below). The author then makes a Final Strategy Option Recommendation.

Strategic Option #1: Market to Lower-Income Consumers in both Developed and Emerging Markets (Expand and Build Beauty Segment strictly aimed at Low-Income Consumers). Industry Consolidator.

Strategic Option #2: Given the maturity of the North American/Western European market, combined with the emerging popularity and demand for Natural/Organic ingredient products, P&G should look to create **New Natural Products and Products tailored to the Male market - Multiple Segments, not just Skin Care (Expand and Build Beauty Segment). Industry Consolidator.**

Strategic Option #3: *Related Diversification* through Acquisition.

Strategic Option #4: Joint Ventures in Emerging Markets such as China and India.

Final Strategy Recommendation: The Recommendation is to go for a combined Low-Income segment and New Natural Product strategy as this facilitates P&G's need to capture a greater slice of the Low-Income consumer market both in Mature and Developing markets, which also capturing a greater slice of the Natural Ingredient market and the growing Men's Market. Unlike in the case study, the author advocates New Natural Ingredient product development in multiple segments, and not just confined to the Skin Care segment of the Beauty /Feminine Care segment. Such a combined Strategy will require the creation of new products and the expansion of existing ones, combined with *Related Diversification* via Acquisition if suitable Acquisition targets are identified and can be purchased at an attractive price. P&G can well afford this combined approach, and is sitting in an elevated position given its financial clout and ability to "cherry-pick" potential Acquisitions.

Introduction

This report is on the Proctor & Gamble Company (P&G), and considers the Company's Overview and its Mandate. A thorough External and Internal Analysis is carried out, after which, a number of Strategic Options are presented for consideration, along with the Pros and Cons of each Strategic Option. Finally, a Recommendation is made as to the best Strategic direction for the Company.

The limitations of this report are a result of the fact that the report relies primarily on the information and facts as presented in "Case 27, Proctor & Gamble: The Beauty/Feminine Care Segment of the Consumer Goods Industry", prepared by Dr. Robert J. Mockler. External references that were used include the Proctor & Gamble Company 2009 Annual Report and the Proctor & Gamble Company profile from *Wikinvest*.

Company Overview

Founded in 1837, Procter & Gamble is the world's largest producer of household and personal products by revenue, with its products reaching 4 billion people worldwide. P&G's product line includes 23 brands across beauty, healthcare, and food including Tide detergent, Pampers diapers, and Gillette razors, that generate over $1 billion in revenue annually, with the company's total revenue in fiscal 2009 in excess of **$79 billion** (Proctor & Gamble Company. *Wikinvest*). In 2005, P&G expanded its portfolio to include razors and blades as well as batteries with its acquisition of the Gillette Company (Proctor & Gamble Company. *Wikinvest*). Beauty, Personal Care and Health Care have accounted for more than 60% of sales and profit growth in the past eight years (2009 Annual Report). Sales generated in fiscal 2009: 32% of total net sales came from developing nations, a figure that has increased steadily from 2002 when sales in developing nations accounted for only about 20% of total revenue (Proctor & Gamble Company. *Wikinvest*). P&G aims to grow sales in China and India to reach 1 billion more customers by 2014 (Proctor & Gamble Company. *Wikinvest*). P&G's products are sold in more than 180 countries primarily through mass merchandisers, grocery stores, membership club stores, drug stores and "high frequency stores," the neighborhood stores which serve many consumers in developing markets (P&G 2009 Annual Report). P&G continues to expand its presence in other channels including department stores, perfumeries, pharmacies, salons and e-commerce. P&G has on-the-ground operations in approximately 80 countries (P&G 2009 Annual Report).

Its market environment is highly competitive, with global, regional and local competitors. In many of the markets and industry segments in which the Company sells its products, it competes against other branded products as well as retailers' private-label brands. Additionally, many of the product segments in which the Company competes are differentiated by price (referred to as super-premium, premium, mid-tier value and low-tier economy products). P&G is well positioned in the industry segments and markets in which it operates, often holding a leadership or significant market share position (P&G 2009 Annual Report).

Mandate

P&G's *Mission/Purpose* is to provide branded products and services of superior quality and value that improve the lives of the world's consumers, now and for generations to come. And as a result, P&G believed that the consumers rewarded it with the leadership sales, profit and value creation. These results allow P&G's people, shareholders, and the communities in which they live and work to prosper.

P&G's primary *Goal* is to provide products of superior quality and be recognized as the best consumer products and services company in the world.

P&G's *Core Values* are its people and the values by which they live. P&G prides itself on attracting and recruiting the finest people in the world, building its organization from within, promoting and rewarding its people without regard to any difference unrelated to performance. The Company acts on the conviction that the men and women of Procter & Gamble will always be its most important asset. The Company places the greatest vale on Integrity, Leadership, Ownership, and Trust.

P&G's most important *Stakeholders* are its Shareholders, Customers, and Employees. The Shareholders are considered to be the people who back the Company financially and P&G rewards their loyalty by consistently pursuing initiatives which succeed in creating Shareholder Value. This is reflected in the dividends per Common Share and the overall profitability of the Company, with P&G often achieving double-digit growth in volume, sales and profits. P&G's customers were the ones that ultimately use their products, and given the way in which the industry is highly customer-demand driven, these Customers are critical for driving P&G's product innovation. The Employees and the Company are considered as one unit, interdependent, and the Employees are considered the most highly prized asset of P&G.

External Analysis

Competitive 5 Forces Analysis

Buyer Power (Mixed-Strong Buyer Power from Retailers). P&G faces weak buyer power because customers are fragmented and have little influence on price. But if we consider the buyers of P&G products to be *retailers,* rather than individuals, then P&G faces very strong buyer power. Retailers like Wal-Mart and Target are able to negotiate for pricing with P&G because they purchase and sell much of P&G's products.

Supplier Power (Low). A co-dependent relationship exists between P&G and its suppliers. In order to generate above average revenues, the Company needs various quality materials for product production at the best prices available. Suppliers of these materials also need key customers like P&G for profitable revenue generation but will most likely have little bargaining power because of its size.

Threat of New Entrants (Moderate). The sheer scale of products that are distributed under Procter & Gamble's name creates a challenge for new entrants. Since the Company has a significant amount of many market shares around the world, a company without the capital for heavy marketing or research and development, would hardly be able to compete. However, there is concern about firms that specialize in specific markets. This type of company could become a threat to P&G's corresponding business segment. A small manufacturer could develop a superior product and compete with Procter & Gamble. The real test is whether the small manufacturer can get its products on the shelves of the same retailers as that of its much larger rivals.

Threat of Substitutes (High). There are considerable substitutes for all of P&G's product offerings, creating an intense competitive environment. In order to differentiate itself, the firm must continue to provide new, innovative products and branding to the customer. Furthermore, the pricing power of brands can be eroded with substitutes such as store-branded private-label offerings. In fact, some of these same store-brand private-label products are manufactured by the large consumer-products firms. The firms believe that if they can manufacture and package a lower-price alternative themselves, they would rather accept the marginal revenue from their lower-priced items than risk completely losing the sale to a private-label competitor.

Degree of Rivalry (High). While P&G enjoys exceptional brand name recognition and commands a considerable market share, the truth is that switching costs in the industry are quite low. It does not cost anything for a consumer to buy one brand of shampoo instead of another. That, combined with the size of other competitors such as Unilever, makes this a highly competitive industry. Significant Competitors include: Unilever, Colgate-Palmolive, Playtex, Avon and Estee Lauder.

Other salient points:

There are some Threats to P&G, including the growth of large Retailers' higher margin private label brands in competition with P&G. Stiff competition from private label brands or "store brands" of large retailers such as Wal-Mart, Target, and supermarket chains is a significant threat.

In terms of the *Industry Life-Cycle*, P&G's North American and Western European operations could be said to be in a Mature Industry, yet in the Developing/Emerging economies, the industry resembles more that of a Growth Industry.

Macro Environment

Macroeconomic Forces: Economic growth affects P&G to some extent. Specifically, in mature markets like the USA, a recession impacts P&G's sales/earnings growth, as consumers tend to completely "trade-down" and only purchase lowest-priced, heavily-discounted goods.

Demographic Forces: Especially in more Mature markets, the population is increasingly aging, providing more opportunities for products which cater to Baby Boomers. In Emerging/Developing Markets, a growing number of new consumers with disposable income spell significant opportunities for P&G. Many new markets though have large number of low-income consumers.

Global Forces: Economic Growth in countries like China, India, Russia and Brazil afford new markets for P&G products. The opening up of new regions offers P&G the opportunity to operate in more countries.

Social Forces: With heightened awareness of wellness/well-being and quality of life issues, along with increasing disposable incomes, the market for Beauty/Feminine care has extended greatly, and is gender-neutral given the growing demand by male consumers for Beauty products. Furthermore, there is a greater demand for products made form Natural/Organic Ingredients.

Technological Forces: Given how capital-intensive the beauty/feminine care industry is, it is imperative for P&G to stay ahead of the curve in terms of the most advanced technological breakthroughs, as the company requires highly mechanized assembly lines designed both for long production runs and flexibility. The proliferation of Internet users also opens up further market opportunities for P&G to market its products.

Internal Analysis

P&G's formidable success to date is attributable to a number of ***distinct competitive advantages***:

P&G is the ***innovation leader in the industry***. Virtually all the organic sales growth P&G delivered in the past years comes from new brands and new or improved product innovation. P&G spends almost twice as much on research and development spending as its closest competitor. In addition, the Company multiplies its internal innovation capability with a global network of innovation partners outside P&G. More than half of all product innovation coming from P&G includes at least one major component from an external partner.

P&G is also the ***brand-building leader of its industry***. The Company has built the strongest portfolio of brands in the industry with 23 Billion-dollar brands and 20 half-billion-dollar brands. These 43 brands account for 85% of sales and more than 90% of profit. Twelve of the billion-dollar brands are the #1 global market share leaders of their categories. The majority of the balance are #2. As a group, P&G's billion-dollar brands have grown sales at an average rate of 11% per year (P&G 2009 Annual Report).

P& G has also established ***industry-leading go-to-market capabilities*****.** P&G is consistently ranked by leading retailers in industry surveys as a preferred supplier and as the industry leader in a wide range of capabilities including clearest company strategy, brands most important to retailers, strong business fundamentals and innovative marketing programs.

The Company has also established ***significant scale advantages*** as a total company and in individual categories, countries and retail channels. P&G's scale advantage is driven as much by knowledge sharing, common systems and processes, and best practices, as it is by its size and scope. These scale benefits enable P&G to deliver consistently superior consumer and shareholder value (P&G 2009 Annual Report).

By leveraging these core strengths - consumer understanding, brand-building, innovation, go-to-market capability and scale - P&G can execute its growth strategies. These strengths create significant competitive advantage for P&G.

SWOT Analysis:

Strengths

Industry Innovation Leader/Brand-Building leader in the Industry. Formidable R&D spending and budget. Solid Financial strength with significant free cashflow for possible Acquisitions/Mergers and Joint Ventures. Huge Economies of Scale. Significant Distribution Channels. Considerable sums spent of Advertising and Marketing, which serve to further solidify Brand recognition. Successful Cost-Cutting yet with no downside on R&D spending.

Weaknesses

At the mercy of Large Retailers (Wal-Mart, etc.) which can squeeze margins and also have private-label products which compete directly with P&G.

Opportunities

There is a clear demand for greater Beauty products designed for Men. And, significant demand for Natural/Organic ingredient products. P&G can increase its presence in Developing Countries. It can also market to Lower Income Consumers in both Developed and Developing countries, especially in order to diversify its customer base and to capture greater market share, especially in emerging markets such as Russia, China and India. Increasing the depth and number of distribution channels in emerging markets also provides great opportunities to expand market share and customer reach. E-commerce also offers further revenue streams and customer penetration.

Threats
Rising Commodity prices could put a real squeeze on P&G as it can only pass on the added costs to the end consumer for so long without risking consumer attrition. The highly competitive nature of the business means that P&G must constantly price its products competitively and continually strive to develop innovative products. The existence of smaller corporations focused on a market niche that operate regionally or even locally still poses a challenge to P&G's sales.

Strategic Options

Strategic Option #1: Market to Lower-Income Consumers in both Developed and Emerging Markets (Expand and Build Beauty Segment strictly aimed at Low-Income Consumers).

Pros: This a highly attractive Strategic option given that P&G is constantly innovating ways to reach more consumers, and the Low-Income consumer group is one that P&G greatly covets. Furthermore, by targeting such a specific niche, this strategy helps shield the Company somewhat from economic downturns in Mature markets such as the USA. Additionally, though, this is a Win-Win scenario given the huge numbers of Low-Income consumers in markets such as Africa, Asia and South America, as well as Eastern Europe, Russia, Indian and China specifically. Furthermore, P&G is strong in products tailored to meet the needs of this market segment, especially in terms of brand recognition, mass market presence, and brand loyalty. P&G's top-notch Distribution system in the mass market segment gives it a strong competitive advantage, especially in markets where big-store names like Wal-Mart, Tesco, Target and Costco operate.

Cons: Such a Strategic option does not of course result in creating new revolutionary products for Mature and Expanding markets. Furthermore, simply altering products to suit the Low-Income segment means a lack of enough prestigious products, such as very expensive fragrances. This Strategy also does not address those consumers who desire products that contain natural ingredients.

Strategic Option #2: Given the maturity of the North American/Western European market, combined with the emerging popularity and demand for Natural/Organic ingredient products, P&G should look to create **New Natural Products and Products tailored to the Male market - Multiple Segments, not just Skin Care (Expand and Build Beauty Segment).**

Pros: This strategy would help fulfill *Product Proliferation*, as P&G constantly seeks to fill all the niches, a necessary strategy, especially in a Mature market. Additionally, this facilitates an *International Strategy* whereby P&G develops innovative new products in its HQ and then transfers them to local markets. Given the highly fragmented nature of the beauty care market, combined with the intense competition, this strategy will enable P&G to tackle, head-on, the market's stagnation with respect to certain beauty products, a result of low product development and innovation. The case illustrates how some experts have stated that the market's poor sales will only then around with the launch of dramatically different products, stating that the market needs leaders like P&G to come out with revolutionary products and to spend considerable dollars on advertising in order to get consumers excited again. The emerging men's market is also a key market segment, and one which is constantly gaining momentum. The Beauty market in general is expanding as more and more Consumers look to take better care of themselves. This Strategy also helps build the Beauty segment amongst Lower-Income Consumers if we assume that such new Products are competitively priced and backed up with the necessary package tailored for specific markets. P&G's exceptional Distribution network will also help facilitate this Strategy. This Strategy also works well in terms of winning against the competition.

Cons: Assuming these natural ingredient products are competitively priced, P&G still lacks presence in the more prestigious, premium-brand products that competitors like Estee Lauder operate in.

Strategic Option #3: *Related Diversification* through Acquisition.

Pros: This Strategy has immense appeal on so many levels. For example, given the demand for Natural Ingredient products, as well as the burgeoning market for male beauty products, it would make excellent strategic sense to acquire a company like *The Body Shop* or *L'Occtaine*. This strategy allows for *Product Differentiation* and allows P&G to continue to combine product lines of merged companies so that it can continue to offer customers a wide range of products that can be bundled together. The company's recent acquisition of Clairol and Gillette proved tremendously successful and enabled the company to expand its product offering and penetrate new market segments like Beauty Products for Men. Another huge advantage of this type of Strategy is that the Company immediately acquires a product line without incurring substantial R&D expenses to develop a new product(s). Furthermore, the company benefits from an existing Supply Chain and Technology/Manufacturing infrastructure, two very important considerations given that this infrastructure is highly capital-intensive and requires locating, designing and running manufacturing plants. The whole issue of Sourcing is also dealt with by acquiring an existing operation. A further very strong reason for this Strategy is because P&G is the envy of the industry in terms of its Balance Sheet and Financial clout, and its free cashflow is sufficient enough to finance Acquisitions. This is incredibly important given the highly competitive nature of the business and the fact that it helps grow Sales in Mature Markets and arguably helps weather P&G against an economic downturn in the future. Furthermore, the Acquisition of new labels can also be leveraged into new emerging/developing markets as new brands are introduced into the marketplace.

Cons: The acquisition of *Wella*, while contributing $3.3 billion in Sales to P&G's overall beauty business, was not as profitable as P&G had though given that *Wella*'s results fell below P&G's stated long-term targets.

Strategic Option #4: Joint Ventures in Emerging Markets.

Pros: Joint Ventures in countries such as China and India create a unique foothold for P&G in a vast consumer market while also minimizing the risk of a full-blown Acquisition and/or setting up new manufacturing/plant facilities and having to source materials, etc. Such JV's also ensure adequate political and governmental cooperation and facilitation, and usually are accompanied with favourable tax treatment and other incentives. A precedent has already been set with P&G's JV arrangement with China since 1998.

Cons: There could be a lack of control over the technology and an inability to realize location-based and scale-based economies. Other issues such as span of control, amount of decentralized decision-making, corporate culture, leadership, and training are all issues at hand.

Recommendation

The Recommendation is to go for a combined Low-Income segment and New Natural Product strategy as this facilitates P&G's need to capture a greater slice of the Low-Income consumer market both in Mature and Developing markets, which also capturing a greater slice of the Natural Ingredient market and the growing Men's Market. Unlike in the case study, the author advocates New Natural Ingredient product development in multiple segments, and not just confined to the Skin Care segment of the Beauty /Feminine Care segment. Such a combined Strategy will require the creation of new products and the expansion of existing ones, combined with *Related Diversification* via Acquisition if suitable Acquisition targets are identified and can be purchased at an attractive price. P&G can well afford this combined approach, and is sitting in an elevated position given its financial clout and ability to "cherry-pick" potential Acquisitions.

References

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