

Strategy
implementation
procter gamble
company



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Procter and Gamble Company (P&G) is US's leading maker of household consumer products. With its headquarters in Downtown Cincinnati Ohio, P&G is also a Fortune 500 American multinational corporation highly recognized for a chain of business innovations (Katrina, 1999. p. 146). P&G for instance has been admired for effective brand management and the soap operas. The company has operations representation in at least 80 countries internationally providing a range of products in diverse categories including; beauty care, health care, baby care, beverages, home care, and snacks among others (Griffin, 2006. p. 138). Corporate strategy is every company's tool for competitive advantage attainment. This paper undertakes to evaluate how corporate strategy and other structural changes impacted on P&G's competitive advantage since the 1990s. Specific focus is directed toward the key changes that occurred in the company in the 1990s and the contribution made by Al Lafley in his nine year tenure at P&G.

P&G company was formed with intention of providing quality branded products and services for the consumers in the international market. As a profit company, it aimed at winning consumers in the competitive market environment through exploiting excellent leadership, quality and value service provision. P&G started in 1837 as a partnership between William Procter and James Gamble to manufacture and sell candles and soap. Today, P&G has over 300 brands marketed and sold in over 160 countries across the globe. P&G has 16 of her key products producing revenue in excess of \$1 billion per year. These products include; " Ariel, Downy, and Tide (laundry products); Actonel (for osteoporosis treatment); Always (feminine protection); Bounty (paper towels); Charmin (bathroom tissue); Crest

(toothpaste); Folgers (coffee); Iams (pet food); Olay (skin care product); Pampers (diapers); Pringles (snacks); and Head & Shoulders, Pantene, and Wella (hair care products)" (Katrina, 1999. p. 146).

Reading P&G's company history, the company had performed quite well over the years since its inception, overcoming market challenges (social, economic and political) through tactful brand management and innovative strategies until brand equity challenges emerged in the late 1980s and early 1990s. Some of the earlier successes of P&G Company included; rapid growth and expansion during the 1850s amid strong competition, prosperity during the civil war period during which her competitors outputs plummeted, the introduction of innovative employee benefits in 1903 hence becoming a renowned employee-benefit programs leader, and the "one man one brand" brand management debut of 1931 which made brand management at P&G become a fixture to be replicated by other companies (Boyer, 2009. p. 494).

P&G Company was also able to successfully circumvent around the Great depression to emerge virtually unscathed. With radio playing a key role to deliver P&G information into homes at the time, P&G began sponsorship of radio's serials in 1933 which were later referred to as "soap operas" Her fame for packaging expertise earned P&G a military application by government to oversee Ordnance plants' construction and operations. Talking of the successes at P&G can not be complete without mentioning the Company's post World War II growth "miracle" that was fueled by the introduction of a synthetic detergent (Tide) in 1946 which brought a complete shift in the cloth washing trends at the time. Investing in further

research and the tapping into acquisition strategy made P&G to remain on profit making axis over years since the 1950s (Redmond, 2010. p. 162).

In the late 1980s and early 1990s, the weakening of economy coupled with the resulting consumer value bias started to weaken the brand equity for P&G. These occurrences favored performance of private labels in both health and beauty lines. P&G responded to this threat by launching “ Every Day Low Pricing” (EDLP) strategy to induce consumers while implementing promotional kickbacks for wholesalers. The EDLP covered 50-60%of the company’s product range which included; pampers and Luvs diapers, Cascade dish soap, and Jif peanut butter. Although the Company strategy was met by mixed reactions with some retailers rejecting it, many others supported the Companies value-conscious positioning efforts. With this support, P&G actually made good savings from trade promotions which were then ploughed back into direct marketing activities meant to reach out to some target groups for narrow market base brands through the coupon and sample programs. The target products for the program included Pampers, Clearasil, and Oil of Olay (Harmon, 2003. p. 352).

P&G also joined the “ green bandwagon of environmental marketing” by adoption of reduced packaging strategy which saw the company provide concentrated product formulations in relatively smaller packages, as well as refill packs applied for 38 of the company’s brands across 17 countries in the 1990s. In July 1991, P&G acquired the international Max Factor and Betrix lines from Revlon, Inc., thus expanding P&G’s presence in cosmetics and fragrances. As part of her strategy to attain meaningful growth, P&G also divested her holdings in those areas the company considered to have

outgrown. For instance, in 1992, P&G sold almost 50% of her cellulose and specialties pulp trade to Weyerhaeuser Company (Katrina, 1999. p. 147).

Vertical integration had been observed to have helped P&G develop her paper products in the past. However, with time, things had change and he 1990s saw unprofitable and distracting forest trade. Therefore in 1992, P&G decided to sell off the Italian coffee business to allow more focus on the core European brands. The Company's strategy was to tap into the well established regional markets through introduction of pan-European packaged, branded and advertised products. In the next section, this paper explores P&G's major restructurings and Acquisitions pursued in mid to late 1990s period (Griffin, 2006. p. 138).

The main objectives of P&G at this time were to enhance its competitive advantage in the market through various designed strategies and policy options. Specific goals for the company included; ensuring that her brand-name products became more price-competitive so that they could effectively compete the private label and generic brands in the market; enhancing efficiency so that products reach the market aster, and increasing the company's profit margins. To achieve, these, P&G pursued a number of cost cutting policy measures including winding up of 30 of her international plants and laying off 12% of her total workforce (13000 jobs). The estimated cost of the restructuring program was \$2. 4 billion and the estimated accrued savings for the company were to a tune of over \$600 million. Together with these, the program raised the company's net income margins from 7. 3% to 10. 2% in 1994 and 1998 respectively (Dana, 1997. p. D1).

The restructuring period was to reach its culmination in 1997. But in the course of the restructuring process, P&G increased its pace for acquisitions, making a considerable number of acquisitions in the period, some of which were quite successful, while some became a big failure. These acquisitions included: the 1994 purchase of Vereinigte Papierwerke Schickedanz AG's European tissue unit with aim to venture into European tissue and towel trade. P&G also acquired Giorgio Beverly Hills, Inc's prestige fragrance business. During the same year 1994, when the US lifted the existing sanctions, P&G ventured back into the South African market and subsequently changed its geographic management framework in 1995; apportioning its operations into two (namely- US and International) with four regions in total (i. e. Asia, North America, Latin America, and Europe/Middle East/Africa). At the same time, IN July 1995, the company leadership (CEO) changed hands from Artzt to Pepper. Durk I. Jager (Harmon, 2003. p. 352).

It was during 1996 that P&G bought the Eagle Snacks brand that that was before then a property of Anheuser-Busch. Other brands purchased the same year included; the Latin American brands Lavan San household cleaner and Magia Blanca bleach and Baby Fresh of US. Perhaps the most memorable event of 1996 for this company was the receiving of approval from the U. S Food & Drug Administration (FDA) to use " the controversial olestra" (Boyer, 2009. p. 494).

Olestra was a fat substitute to be applied in snacks and crackers. P&G had spent about \$250 million to conduct research about olestra and by the time FDA was approving the product, a stipulation had already been circulated by FDA that a label must be attached to any food with these substance in it to <https://assignbuster.com/strategy-implementation-procter-gamble-company/>

warn the public of possible gastrointestinal side effects. This impacted heavily on the product's ability to gain market, and even with concerted test marketing efforts, products with olestra never ever caught on in the market. In the long run, Olestra was declared one of P&G's biggest product failures in the company's history (Boyer, 2009. p. 494).

After acquisition of Tambrands, Inc. and the Tampax tampons line in 1997, P&G launched a new restructuring plan in 1998 and named it Organization 2005. This was after P&G had failed to realize the 1996 set goals of doubling profits to \$70 billion by 2005 from the then \$35 billion. The calculated growth rate had to be 7% annually, but the actual realized growth rate was only 4% hence profits had stagnated around \$37.5 billion figure. P&G therefore aimed to make a structural shift from the 1995 Organization centered model (of four regions) to a one centered model with seven business units defined on product line basis. The product lines were as follows; Tissues & Towels, Baby Care, Fabric & Home Care, Beauty Care, Feminine Protection, , Health Care & Corporate New Ventures, and Food & Beverage (Katrina, 1999. p. 146).

These changes were important to P&G since they aimed at attaining higher innovation and speed through the deliberate strategy and profit responsibility positioning of brands internationally as opposed to centering on geographic locations. These events coincided with the scheduled take over of Jager as the company's president and he subsequently was given the mantle to lead the strategy implementation.

Aiming at enhanced innovation and high revenue and profit levels, Jager introduced new initiatives in 1999 to extend those introduced in 1995. These included resolve to continue with more acquisitions, cut down the number of workers by 15000 by year 2005, close down at least 10 factories, and spent an estimated \$1.9 billion on restructuring by the year 2005. It is during this period that P&G acquired the Iams Company, marking P&G's biggest deal that cost \$2.22 billion in cash. Iams Company was among the leading manufacturers of premium pet food in the US with established global yearly sales estimated at \$800 million. Next to acquire was the Recovery Engineering, Inc. at an estimated cost of \$265 million. This newly acquired company was based in Minneapolis and produced the water-filter brand PUR that had been on a fast growth path. Attempts by Jager to join the company with the Warner-Lambert company into "a risky" drug business in 2000 flopped. Jager's intention to take over Gillette (razor making) company was rebuffed very quickly in the same year (Dana, 1997. p. D1)

While this was happening, P&G had by June 2000 issued a 3rd profit warning in a year. These developments forced Jager to resign and subsequently A. G. Lafley assumed the company leadership in capacity of the President and CEO of P&G in June 2000 (Dyer, 2004. P. 496). The new CEO, A. G. Lafley had joined P&G in June 1977, starting as a brand assistant for Joy product. Before his promotion to CEO position, he had been heading the global beauty care unit. What a time to be promoted to the top seat! In the next section, this paper considers Lafley's contribution to the company during his entire 9 year tenure. Having made his first impression at P&G "simplifying life in the laundry room" as he led colleagues in launching liquid Tide, Lafley's strategy

applied Drucker's back-to-basics formula to overhaul and clean up the entire P&G House (Redmond, 2010. p. 162).

Right from the beginning of his tenure of the top job A. G. Lafley became famous for his four word business winning principle "The consumer is boss". In what would perhaps appear like a fool's errand to attempt at narrowing down the matching orders that govern an estimated 138000 employees in over 80 nations to simple chestnut, Lafley's keep it simple strategy would emerge to speak a lot for itself through the four word phrase "The consumer is boss", as the business mantra which he kept on singing to his team (Redmond, 2010. p. 163).

Lafley started off by slowing down the existing rush to send products into markets. He did this purposely to ensure that the products would be given adequate marketing support before getting into the competitive arena. Lafley then re-focused the company's resources towards shoring up P&G's top brands that could earn the company global revenue of at least \$1 billion annually. These were just about a dozen products. He immediately re-branded the Oil of Olay to be simply called Olay. This was aimed at allay the notion that "Oil of Olay" was greasy. Focused on a small number of key brands, the company sold off Clearasil (the acne-treatment brand) for an estimated \$340 million to Boots PLC. In the same period FDA gave approval to P&G for Actonel brand (prescription treatment for osteoporosis), which was later marketed and attained a remarkable \$1 billion yearly sales for the trade year 2004 (Boyer, 2009. p. 494).

Lafley changed the traditional Company approach which tended to favor externally sourced product ideas. He significantly reduced development projects, promoted culture of collaboration with external world as opposed to self centered tradition initially pursued, and went ahead to outsource P&G's including manufacturing of oldest brands in the company such as Ivory bar soap. Lafley also significantly restructured the company's workforce through focusing on top-priority countries, advocating for enhanced collaboration within the company divisions, and considerable reduction in number of the total company workforce (by an estimated 20, 000 jobs) which included significant number of top level management staff (about 50%) (Harmon, 2003. p. 352)

A. G. Lafley entrenched some goal winning principles in the remaining team, which he referred to as "two consumer moments of truth"- first, buying P&G products and then, liking them so much that it's "memorable-at least satisfying and ideally delighting." Lafley argued that since more than 50% of P&G's workforce did not have English as their native language, he need to make use of simple slogans which when repeated again and again would keep everyone at pace with current state of affairs in the company.

Therefore he maintained "Human beings don't want to stay focused, so my job is to get them to focus their creativity around the focus; focus their productivity around the focus; focus their efficiency or effectiveness around the focus" (Griffin, 2006. p. 138).

In summary, aside from the simple effective strategies he pursued to turn around P&G, Lafley's 9 year tenure left took the company to the top, more than doubling the sales and significantly expanding the company's range of

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top brands (those with sales between \$500million to \$1billion annually) fivefold. Lafley is recognized for shaping P&G into a more externally focused and consumer-driven alongside developing a more advanced innovations and employee relations culture at Procter and Gamble (Redmond, 2010. p. 163).