

# Procter and gamble (pandg) pest analysis part i: strategic analysis



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## **Overview:**

\nProcter & Gamble (P&G) is America's biggest maker of household products, with at least 250 brands in six main categories: laundry and cleaning , paper goods, beauty care, food and beverages, feminine care and health care. P&G's famous brands include Ariel, Pantene, Head & Shoulders, Fabreze, Sunny Delight, and Oil of Olaz. About half of P&G's sales come from its top ten brands. This report will show a picture of and explain for these successful results by focusing on the external and internal analysis of PG, assessment of performance in terms of efficiency, effectiveness, and return on investors, a review of options available and recommendations for structures, systems, and policies.\n

## **Part I: STRATEGIC ANALYSIS**

\nExternal general and industry environment analysis\n

### **PESTL Analysis of P&G**

\n\nIn 1837, William Procter and James Gamble formed a humble but bold new enterprise. What began as a small, family-operated soap and candle company grew and thrived, inspired by P&G's purpose of providing products and services of superior quality and value.\n\nStrategic analysis of PG Company includes 2 factors: General environment and Industry environment.\n

## 1. General environment

These are very effective tools to know about the power balance between organisation and each environment factors: political, economic, socio-cultural, technological, legal and environmental as macro-level (PESTLE).

### **(P)olitical environment:**

The P&G Political Action Committee (P&G PAC) is a voluntary, nonpartisan political action committee. Registered with the U. S. Federal Election Commission (FEC) and appropriate state offices, the PAC allows P&G employees to pool personal, voluntary financial contributions to support candidates at the federal, state and local level, who support issues important to the business and the quality of life in the communities in which they live and work.

P&G PAC operations are transparent and compliant with all applicable laws. The PAC is governed by a set of by laws and supervised by a diverse board of Company senior managers, U. S. Government Relations personnel, and Legal counsel.

Support of candidates is based on their support of P&G issues and sustained constituent relationships. The PAC generally does not contribute to Presidential candidates; industry, association or leadership PACs; or multiple candidates running in the same race. In 2006, the P&G PAC contributed \$260, 880 to candidates running for office. The average contribution per candidate was \$1, 335.

### **(E)nvironment**

P&G supports the goals of Climate R. E. S. O. L. V. E. (Responsible Environmental Steps, Opportunities to Lead by Voluntary Efforts). Even with the slight increase in emissions, they have met the 2012 goal, but this will not stop their solve to continue reducing greenhouse gas emissions. Their <https://assignbuster.com/procter-gamble-pg-pest-analysisnpart-i-strategic-analysis/>

actual emissions in 2007 are less than the emissions in 2002 - 2, 970, 000 vs. a base of 3, 215, 031. This was during a time when global sales increased from \$40 billion to \$77 billion. The most recent acquisitions - Wella and Gillette - are in the most recent years but not in the base year.

Procter & Gamble believes that there is growing scientific evidence linking greenhouse gas (GHG) emissions and global climate change. As a global citizen, P&G is concerned about the potentially negative consequences of climate change and believes prudent and cost-effective action by governments, industry and citizens to reduce emissions to the atmosphere are justified.

They will focus their efforts in two main areas:

- Reduce the intensity of greenhouse gas emissions from their own operations through
  - continued energy efficiency measures throughout our facilities.
  - continuing to transition fuels sources toward cleaner alternatives.
  - setting goals to drive continued improvement in their GHG emissions.
- Help consumers to reduce their own GHG emissions through the use of our products via
  - product and packaging innovations that enable more efficient consumer product use and energy consumption.
  - consumer education.

**(S)ocial environment:**

P&G leaders are expected to build an inclusive work environment that welcomes and embraces diversity - an environment where people feel comfortable being who they are, regardless of their individual differences, talents or personal characteristics. This is an environment that provides everyone equal access to information, opportunities and involvement so each person learns, grows, excels and maximizes his or her personal contribution.

Training, policy and sensing systems are utilized to reinforce

development of an inclusive culture. Focused diversity training/learning processes are utilized to equip leaders to value and nurture differences in experiences, styles of leadership and problem-solving/decision-making approaches. All employees have access to supportive and enabling policies and practices in the areas of flexible work arrangements, family care, resource/referral services and wellness management to improve work/life integration and personal productivity. Employee surveys and culture sensing, as well as the diverse leadership networks, provide advisory data and leanings to top leadership about how to be more effective at leveraging local customer/employee practices and perspectives.\n

### **(T)echnological**

\nP&G's Global Medical organization advises and assists management and employees to assure a safe, healthy work environment. Global medical delivers preventive health services to all employees, at all sites. It manages health issues that may affect employees, technologies and brands.\n\nAs P&G is a principles-driven company, all medical system work follows this order of priority:\n\n1. Save a Life (Protect P&G People)\n\n2. Obey the Law (Protect P&G's Reputation)\n\n3. Protect Key Technologies (Protect Brand Integrity)\n\n4. Enhance Speed to Market (Protect Emerging Technologies)\n\n5. Optimize Employee Productivity\n\nAll medical standards of performance\n\nThey recognize that environmental progress is a never-ending journey of continuous effort and improvement. By focusing on improving the lives of consumers through innovative technologies that work better and more efficiently, they believe they can continue to sustain both the growth of their business and the health of the environment.\n

## **(L)aws and Regulations**

\nThere are numerous health, safety and environmental requirements worldwide. Plants are subject to emission limits and operating requirements embodied in these statutes, regulations, laws and permits. It is P&G's intent to comply with both the letter and the spirit of statutes, regulations, laws and permit requirements. Identified compliance issues are treated seriously, and all non-compliance matters are resolved as soon as possible.\n\nP&G is subject to various lawsuits and claims with respect to matters such as governmental regulations, income taxes and other actions arising out of the normal course of business. They are also subject to contingencies pursuant to environmental laws and regulations that in the future may require them to take action to correct the effects on the environment of prior manufacturing and waste disposal practices. Accrued environmental liabilities were not material.\n\nWhile considerable uncertainty exists, in the opinion of management and their counsel, the ultimate resolution of the various lawsuits and claims will not materially affect our financial condition, cash flows or results of operations.\n

## **2. Industry environment of P&G**

\nFristly, we can look deeply about Industry life cycle:\n

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- Growth \n \t
- Maturity \n \t
- Decline \n \t
- Time \n \t
- Industry sales \n

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### **Industry life cycle Model**

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The 165-year-old Procter And Gamble Company (P&G) is a recognized leader in the development, distribution and marketing of products in nearly 50 categories—from laundry products and toothpaste, to diapers and bone disease therapies. P&G products consist of nearly 300 individual brands used by customers in over 160 countries. P&G's supplier diversity network is comprised of over 1, 250 minority- and women-owned businesses. The company first established a minority supplier development program in 1972. In the past ten years, minority purchasing at P&G grew almost ten-fold from \$115 million in 1989-1990 to almost \$1. 0 billion in fiscal 2001-2002. During the decade of the 1990's, P&G's spending with minority and women-owned businesses exceeded \$4 billion dollars for the period.\n\n\nIn the year 2007, P&G has upheld its unique manufacturing mind-set and focused on developing human resources, consolidating foundations and looking forward management strategies. Moreover, the company also concentrates on strengthening the international competitiveness of production and a range of initiatives to consolidate foundations and realize future growth. P&G company is committed to steadily improving its value by continuing to pursue farsighted innovations and building a solid management platform.\n

### **Porter Five Forces Analysis of P&G:**

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Secondly, Michael Porter developed a framework consisting of five competitive forces, which analyze how industry factors impacts a company's strategy. These factors are: the threat of new entrants, power of suppliers,

power of buyers, availability of substitutes and competitive rivalry.\n\nUnder Procter & Gamble's name, the sheer scale of products that are distributed 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(R&D), would hardly be able to compete.\n\nHowever, 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. Proctor and Gamble must continue to expand its operations internationally, due to the decline of the US dollar to other currencies and the emergence of new markets, such as India or China.\n\nA codependent 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. P&G can use its generous size and available cash to its advantage during the current credit crisis. Rising interest rates and the declining availability of credit should not affect P&G's relationship with its suppliers. The company's successful history and large market share can be used to back its borrowings, under the assumption that P&G continues to maintain its current market share.\n\nAlthough P&G is a very large company, its future is dependent on buyers. Wal-Mart and affiliates represent 15% of the firm's total revenue in 2006. This percentage of total revenue gives Wal-Mart the ability to bargain with the Company for lower prices, which would result in lower earnings. The current credit crisis will not have a significant impact on P&G because of the diversity and " recession-proof" status of its products.

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The products that P&G offers can sustain a slowdown or recession in the US economy because of their product types. Consumers will continue to purchase these goods through an economic correction. While P&G had disappointing 2nd quarter earnings due to higher commodity costs, analysts reported strong sales forecasts and growth opportunities.

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. P&G notes that working collaboratively with customers and developing deep shopper and consumer understanding will improve the in-store presence of its products and win the "first moment of truth." This happens when customers choose which brands to buy. Winning the "second moment of truth," when consumers decide whether P&G products deliver on the brand promise, is essential for growth in such a competitive environment.

P&G has a presence in a variety of industries; Personal Goods, Household, Paper, Healthcare, and Food products. Companies in all of these industries are always fighting for their share of the market. Currently, the firm is a leader in numerous markets. The release of P&G's 2007 1Q Earnings report illustrated that the firm has a 40% share of the U. S. shampoo market and a 61% share of the U. S. laundry detergent market. This diversity in product development allows P&G to sustain cyclical economic events, such as the current credit crisis, because their products are spread out over different sectors.

Also, the type of products they sell are considered "recession-proof," in that they will continue to sell despite a slowdown in consumers markets because of their nature (personal health, food, etc).

To keep its current percentages of market share, P&G needs to

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place high priority on continued growth and research and product development activities. Marketing strategies and brand name awareness will set the Company apart from its competitors. An important growth factor is the implementation of their products to internationally emerging markets. This is for two reasons: Markets, such as India, are taking to American culture and consumerism and provide a budding market for US retailers. The decline of the US dollar to foreign currencies makes international trading promising due to the changeover of exchange rates. Growth in foreign markets will provide P&G with strong revenue, along with its “ recession-proof” products available to American consumers.\n

### **Summary of general environment**

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#### **Opportunities**

- Well defined market niche, just in time manufacturing technology, wide range of demography, and the removal of trade barriers in some foreign countries.\n\n- The removal of trade barriers in some foreign countries has enabled the company to operate competitively without much government intervention\n\n- Trade barriers historically has been known to be one of the biggest threats for most multinational businesses because of hostile takeovers by some foreign governments, difficulty of entry, corruption among government officials and bribery, and unhealthy business

#### **Threats**

- New entry into the household industry, use of substitute products, increased trade barriers in some developing nations, unfavorable business laws and political instability\n\n- Investors do not like uncertainty. They want to ensure that there is democracy and stable government in whatever country they invest in. Importantly, they should be able to repatriate their profits without

environment.

restrictions

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## **Part 3: Internal Analysis of P&G**

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### **Company Resources**

\nService's quality: They deliver their objectives with the integrated efforts of market and customer logistics, distribution organization, , customization, market planning and their customer service operations. Customer

Service/Logistics owns the flow of products and information between P&G sites and retail customers. Their mission is to satisfy consumers' needs by ensuring that all products are available in the right place at the right time — and at the right cost and quality\n\nHuman resources capacity:. Human

Resources ensures that P&G has the employees, organizational design and work culture to deliver business productivity and to continually improve consumer, employee and shareholder value. They provide recruiting, training, development, diversity, benefits and compensation coordination for

the Company.\n\nCapital sources: based on the Annual report 2007, The Company reported net earnings of \$10. 3 billion for the fiscal year ended June 30, 2007, an increase of 19 percent compared to \$8. 68 billion in 2006.

Diluted net earnings per share were \$3. 04 in 2007, compared to \$2. 64 in 2006. Net sales were \$76. 5 billion in 2007, up 12 percent from last year.

P&G has grown sales from \$39 billion to \$76 billion in the past seven years.

They've more than doubled the number of brands that generate \$1 billion or more in annual sales and more than quadrupled the number of brands that

generate at least \$500 million.\n\nDepartment: P&G's world headquarters is located in Cincinnati, Ohio, U. S. A. The Company markets more than 300 brands in nearly 130 countries. We have on-the-ground operations in more than 80 countries and employ 138, 000 people.\n\nP&G is a publicly owned company. Its stock is listed and traded on the New York and Paris exchanges.\n\nAs of June 30, 2007, there were approximately 2, 220, 000 common stock shareowners, including shareholders of record, participants in the Shareholder Investment Program, participants in P&G stock ownership plans and beneficial owners with accounts at banks and brokerage firms.\n

### **Company Culture:**

\nP&G leaders are expected to build an inclusive work environment that welcomes and embraces diversity - an environment where people feel comfortable being who they are, regardless of their individual differences, talents or personal characteristics. This is an environment that provides everyone equal access to information, opportunities and involvement so each person learns, grows, excels and maximizes his or her personal contribution.\n

### **Organizational Structure:**

\nGlobal Business Units(GBUs): In the financial year 2006-2007, three GBUs are Beauty and Health, Household Care and Gillette GBU. For the next year, the GBUs will be structured as: Beauty, Health and Well-Being, Household Care. The GBUs leverage their consumer understanding to develop overall strategy for our brands. They identify common consumer needs, develop new products and build their brands through effective marketing innovations.\n

## Global Operations

The Market development organizations (MDOs) develop go-to-market plans at the local level, leveraging their understanding of the local consumer and customer. MDOs are organized along seven geographic regions.

## Global Business Services (GBS)

GBS operates as the “back office” for the GBU and MDO organizations, providing world-class technology, processes and standard data tools to better understand the business and better serve consumers and customers. GBS personnel, or highly efficient and effective third-party partners, provide these services.

### Strengths

-Strong financial position both in the domestic and foreign markets.  
- the company has the ability and capability to push innovation to commercialization faster than any other competitor in the industry.  
Another unique strength of P&G is its pool of skilled labor.  
- P&G has a track record of producing high quality products which is very difficult to match or beat.  
-P&G has significant scale advantages. It is the global leader in all its four core categories - fabric and home care, beauty care, baby and family care, health care

### Weaknesses

-Lack of effective distribution in some foreign countries and cost of inputs.  
-Another area of weakness is the employment of based local management who have any international business experience. This makes collaboration with headquarters a little difficult because of their inexperience in global business arena.

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### Assessment of the Performance of P&G

In this part, the performance of the company in terms of returns to investors and efficiency, effectiveness by providing the P&G Company's financial index within 3 years: 2005, 2006 and 2007 will be mentioned. The data is obtained from P&G company three - year financial history.

#### Returns on investment (ROI)

Return on investment is a performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. The table below will show the returns on investment of P&G within 3 years: 2005, 2006 and 2007:

	2007	2006	2005
ROI =			
Net profit	10,340,000	8,684,000	6,923,000
after tax * 100			
Total assets	138,014,000	135,695,000	61,527,000
	49%	6.39%	25%

From the table, we can see that the returns on investment were raised up 1.17% from 2006 to 2007. It means that in 2007, the amount of money that PG used for investing activity is increasing.

#### Effectiveness and efficiency of PG

To assess the performance of the company in terms of efficiency and effectiveness, I will calculate and analyze the financial ratios of PG Company within 3 years from 2005 to 2007, following by my comments and opinions based on the computation of the financial ratios.

n\n

	2005	2006	2007	Comments
Financial Ratios	7	6	5	
Current Ratio = \n\nCurrent Assets\n\nCurrent Liabilities	0.78	0.33	0.47	The current ratio is highest in 2007 that means in 2007, PG had more sufficient current assets but it can be in liquidity. Current ratio in 2006 seems to diminish and increase again in 2007 but not much. Anyway, PG was in a comfortable position with the amount number of the ratio.
Return on Equity (ROE) = \n\nNet Profit after Tax * 100\n\nShareholders' Equity\n\n(%)	0.15	0.13	0.37	PG's return on Equity was much higher in 2007 compared to 2006 and 2005. The higher PG's return on equity was better. So in this ratio, it is clearly that PG was in running business in 2005.
Net Profit Margin = \n\nNet Profit after Tax * 100\n\nNet Sales\n\n(%)	0.135	0.13	0.122	From the result shown the Net Profit Margin of PG was raised 1.1 times in 2007 compared to 2005. PG has been always in generates and retains money since 2007.
Earnings Per Common Share (USD per share)	3.04	2.64	2.53	Company's Earnings per share was increased 2 times from 2005 to 2007. It means amount of profit left for shareholders after taxes of PG was high. PG was getting more profitable.
Cash Ratio = \n\nCash +	0.0	0.0	0.0	A cash ratio is below 5.0 might mean that PG

Cash Equivalents  
 Current Liabilities

	17	33	25
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having cash flow problems, possibly because of a significant backlog in account receivable.

Gross Profit Margin =  
 $\frac{\text{Gross Profit} * 100}{\text{Sales}}$ (%)

	33.	28.	29.
	97	98	01

In 2006, PG's Gross Profit Margin seemed to be decreased a bit but it increased again in 2007. This means from 2006 to 2007, PG could make a reasonable profit on sales.

Asset Turnover =  
 $\frac{\text{Sales}}{\text{Total Assets}}$

	0.	1.	1.
	95	12	21

The result is shown that from 2005 to 2007, PG Company's Asset Turnover was reducing 22%. Lower the Asset Turnover, the higher the Net Profit Margin. As we can see that the Net Profit Margin was raised up year - to - year.

Inventory to Net Working Capital =  
 $\frac{\text{Inventory}}{\text{Current Assets} - \text{Current Liabilities}}$

	0.	0.	0.
	03	03	02

The inventory to net working capital of PG was low in 3 years. It was stable in year 2006 and 2007 with the ratio is 0.03. The number of ratio is low that the company's business was not carrying much inventory.

Quick (Acid Test) Ratio =  
 $\frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$

	2.	2.	2.
	32	21	91

Quick Ratio of PG was fluctuating among 3 years. The company might be relative high liquidity in 2005. The ratio was lower in 2006 and still increased again in 2007 but not much as 2005.

Let I have calculated and the comments above as from the result of financial ratios, we can see that the PG Company's finance from full year 2005 to full year 2007 was noticeable increasing especially in 2007. And



moreover, based on the PG's income statement in year 2008 that I have seen and examined, PG is still continuously developing and expanding greatly in running business through year - to - year.\n

## **The Future of P&G**

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### **Strategic options available to PG and recommendations:**

\nIn order to remain competitive and achieve growth, they must be able to retain customer loyalty which has contributed to their success. Besides, the company should exploit new market segments and opportunities to support for the concentrated growth strategy, gain market share, and minimize the threats of losing market caused by its vibrant external environment and fierce competitive market. In addition, there are some strategies that PG can implement to improve and solidify its performance as follow:\n\nUtilize the strengths in research and development and human resource to develop its technological resource. This will help the company to reduce harmful biological effects on human caused by electromagnetic emissions, meet Safety standards and government regulations about electromagnetic emissions, and minimize the threat of substitutes due to the rapidly changes in technological environment.\n\nUtilize the strengths in financial resource, invest more in marketing to build up reputation with consumers and minimize the threat of losing market due to its high extent of competitive rivalry.\n\nThey have also sustainably strategies and goals for next years such as: Delight the consumer with sustainable innovations that improve the environmental profile of their products, Improve the environmental profile of

P&G's own operations and children's lives through P&G's social responsibility programs. And more, engage and equip all P&Gers to build sustainability thinking and practices into their everyday work. Finally, Shape the future by working transparently with their stakeholders to enable continued freedom to innovate in a responsible way.\n

**Recommendations for structures, systems and policies:**

\nInnovation, flexibility, free-flowing of information, and adaptability are key factors to implement these strategies successfully. It due to the large size of the company and the high level of environmental uncertainty, technological complexity, and geographic dispersion that PG Company is facing. Therefore, an organic organizational structure is most suitable for the company.\n

nFurther more, The degree of formalization is low in organic organizational structure,. It has less written policies, rules, procedures, job descriptions, and other documents specify what actions are (or are not) to be taken under a given set of circumstances. Rules and regulations often were not written down or, if written down, were ignored. People must find their own way through the system to discover what to do. In other words, the employees in organization will encourage the innovation f they have more freedom in their work.\n\nIn addition, decision-making authority was decentralized. Power and decision making authority are delegated to lower levels of an organization. It leads to faster decision making at the lower levels, because most decision do not have to be referred up the top organizational levels.

Thus, by adapting organic organizational structure, PG company will be able to increase their flexibility and adaptability.\n\nFinally, in organic organizational structure, the hierarchy of authority is not clear and simple.

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There are just a few layers of management level. Therefore, the exchange and transfer of information process within the company will be better.\n

### **Assessment of the usefulness of strategic management models for the analysis**

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#### **1/P. E. S. T. E. L :**

\nPEST Analysis is a simple, useful and widely-used tool that helps company understand the “ big picture” of your Political, Economic, Socio-Cultural and Technological environment. As such, it is used by business leaders worldwide to build their vision of the future. PESTEL analysis is a standard way of environmental scanning. Successful managers need an all-round view of their environment for decision-making. PG company uses PESTEL analysis to draw attention to each of the key external environmental factors.\n

#### **2/Porter’s Five Forces analysis:**

\nFor understanding where power lies in business situation so it is powerful tools. It is useful because it enable PG to understand both the strength of the current competitive position and the strength of a position that PG suppose to be. Moreover, it also helps PG to improve a situation of weakness and prevent taking wrong ways. As a consequence, Porter’s Five Forces is an important tool for assessing the potential for profitability of PG company.\n

#### **3/SWOT analysis:**

\nThe usefulness of SWOT analysis is not limited to profit-seeking organizations. SWOT analysis may be used in any d