

Procter and gamble | analysis



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Introduction

Procter & Gamble was founded in 1837 in the United States, Ohio and it is now one of the largest consumer products companies in the world. Their main competitors are Unilever and Johnson & Johnson. It has operations in more than 80 countries, with more than 300 brands on the market in 160 countries. The best known P&G brands are Rejoice, Safeguard, Olay, Pampers, Tide and Gillette, which are currently No. 1 brands in China's hair care. Products you mention are not hair care products. P&G came to China in 1988 and is currently headquartered in Guangzhou.

Why Procter & Gamble Came to China

Coming to China was part of a bigger globalization strategy. Prior to coming to China, P&G was in Canada, United Kingdom, Mexico and Japan that they had operations in 23 countries around the world. 4 Their strategy is to introduce as many products as possible to the world market. Today P&G factories and marketing offices are found in 80 countries in regions such as North America, Latin America, Europe and Asia.

China has the largest population which is about 1.3 billion around the world and many people need the work. Therefore, the company can get cheap labors there. However, the products from P&G would meet the Chinese market needs rather than there need possessive own brands. Besides, their products like shampoo did not appear in China, this is an untapped market. Could be clearer.

On the other hand, staying out of China while competitors moved in, P&G would lose potentially vital strategic ground that might be even riskier.

5 These all above prove that China is a great country with great potential.

Therefore, Procter & Gamble entered Mainland China in 1988 by establishing its first joint venture - P&G (Guangzhou) Ltd. Headquartered in Guangzhou.

In 1980s, China is just at the beginning of reform and opening up, also the initial period of urban development. Then the government began to open local markets to foreign investment. In 1980, it began to build up a series of special economic zones, and in 1984, the number of that expanded to 14. However, Procter & Gamble paid attention to this seriously. Furthermore, industry and the rapid development of cities are all in the 90s which brought P&G tremendous business opportunities. The company aimed to enter China at this time because the Chinese government would give its maximum support and the smallest resistance. ¹² In addition, in the 1980s, Guangzhou was one of the first group which adopting the reform and opening up policy in China, it had the superior investment environment and favorable investment policy. Guangzhou is located in the hinterland of the Pearl-River Delta, abutting Hong Kong and Macao, so it has the favorable terrain, and adding with advanced technology and better establishment, which appealing appealed to a large number of oversea investors. Prosperous economy brought the obvious increase in annual income of the local people and heightened the consumption perhaps its level, which as a result, forming the powerful purchasing power. What's more, compared with other cities in China, Guangzhou was more concerned about combining western culture with the local culture which forming the innovative culture deeply influencing the style of the local people's consumption. After that, P&G China currently

has operations in Beijing, Shanghai, Chengdu, Tianjin, Dongguan and Nanping, and a technical center in Beijing.

Barriers

As multinationals, many challenges should be faced in a country that is quite different in terms of culture, geography and trade channels. The company conducted its first market research in Beijing and Shanghai in 1985 and find that it was still hard for consumers to buy imported things, which means there was no real Chinese consumers market yet. As they want to investigate deeply for how to operate in China, a young Chinese-speaking market researcher, Berenike Ullmann was sent to China. P&G was very careful about all these preparation works, and they wanted political authorities and the Chinese public to know them. According to Artzt, they have spent two or three years going into the market before actually selling goods. However, they started with laundry brands and conducted a laundry research program. But the result was not encouraging as the Chinese consumers' standards for detergent performance is low. Although the products of P&G were superior to locals, they may choose the cheaper one, which is not good for the company. Fortunately, Ullmann found the potential of hair-care. They found Chinese consumers bought shampoo in bulk and brought containers to shops to collect that and this provided them chances to test Head & Shoulders, which registered dramatically then.

In order to enter easier, P&G cooperated with a huge trading company based in Hong Kong and increasingly active in China which called Hutchison Whampoa. Hutchison helped P&G identified identify a promising initial joint venture partner - Guangzhou Soap Factory. Then in 1988, P&G and

Hutchison struck the deal that P&G control over the new company's (P & G (Guangzhou) Ltd.) management while Hong Kong office providing most of the needed managerial talent.

Effort to enter, but several kinds of barriers blocked it down. According to the textbook, the barriers to entry are mainly manifested in the competitors, economies and brand loyalty. Our group does not think the brand loyalty does much effect on the company. However, the others may have some of that.

Government: As reform and opening up for 30 years, attracting foreign investment is an important component of China's open door policy. However, with the deepening of reform and opening up and economic globalization, China has to change the policy for foreign investment, which is not good news for them, also the P&G. Firstly, China would introduce technology through competitions. P&G should be more competitive and preserve their advantages. Secondly, the preferential policies for foreign investment would be changed. As the company enjoyed less preferential treatment, they must find favorable topography, material, new improvements, new technology or some other things to develop themselves. At the same time cut back on the cost while preserving the quality of products in order to have an advantage place in China. At last, since China joined in WTO, it has more options to foreign investment, and then it seems that to be friend with Chinese government is necessary. According to P&G, cultivating strong relationship with government officials is a key factor to their success. They donated China every year to various charities and cooperate with the Hope Project to be the largest donor.

Competitors: It is hard to survive in the Chinese market which is full of competitors. However, P&G is in the first place of the field for years. With Unilever Johnson & Johnson as their most powerful Opponent, they keep on innovating. In order to study products for the Orientals, try Asians they established the world's largest technology centers in Japan, providing specialized services for Asia. P&G also meet the consumers' needs from the quality of the product, formulation and packaging design. Their variety of products will do the improvement and upgrading at least once per year. Since the world's first high-performance synthetic detergent – Tide launch in 1946, it has been done 60 times to improve. 3 Thanks to the pursuit of continuous innovation; they can win the position in the competitions. In addition, the company also faced challenges in the form of fierce competition from local Chinese manufacturers such as the Nice group (that manufactured detergents) and C-Bons (a national shampoo and skin care Products Company) and also the presence of fake products.

Economies of scale: Chinese companies quickly understood the meaning of branding and started building their own brands in many ways. While P&G noticed that would be tougher to compete with. For instance, one of the Nice's TV commercials ten years later featured a little girl said to a laid-off mother " Just a little DIAO laundry powder will make a lot of clothes clean." Then some voice would tell you DIAO emphasizes " choosing the right instead of the expensive". This became a threat to P&G, also a force for them to cut Tide's price. In order to reposition in Chinese market, they became aware that high price would affect their sales, so they explore new ways to change

that. They learned from their competitor in Philippines and India and began to sell shampoo in small bags at the price of 0.5 yuan.

Economies of scale also allow P&G to spend much more than competitors, both R&D and promoting. Comparing with Unilever, Kimberly Clark and Johnson & Johnson, only the first one spends the similar amount of money on advertising to P&G. “ Moreover, the same economies of scale allow P&G to efficiently signal this value to consumers through advertising”, which will help P&G win more customers.

Diversification Strategies for China

At first, they use advertisements for brand marketing. As Chinese consumers could only read the literal meaning, their ads failed to communicate with them. For example, when women watched “ the adapted Philippines copy thought Safeguard was designed to treat children’s cuts and bruises and to deodorize sweaty men. They told us, ‘ we don’t get dirty and sweaty like the men – so we don’t need Safeguard.” Realizing this point, P&G use a new advertising about the usage for the family instead. Then the brand began to acquire strong share. P&G’s product advertising use its unique perspective, accurate positioning and popular persuasive language to broadcast on TV frequently so that a lot of people could know it.

P&G would usually carry out large market research projects. At times, market research was not used and the company used what is called “ gut instinct.” As an example, market research showed that the Chinese could not afford to buy a shampoo called Head and Shoulders. However, P&G didn’t listen to that and enter the market. From the research, they found that

dandruff was a common problem for Chinese hair. Among several shampoo goods, no one aimed to remove it. They saw this potential field, and introduced Head & Shoulders, which now is popular for its anti-dandruff properties. After its launch, it became the bestselling shampoo of China. Although the price of Header & Shoulders was much higher than local brands, consumers would like to choose it. It took up most of the market share in core categories including laundry products, baby products and pet nutrition, etc.

They also invested significantly in consumer research in China. Jim Stengel, P&G's Global Marketing Officer and his team of 3, 500 marketing executives visited places where consumers lived and worked, in order to observe their behavior. They always put the consumers first and communicate with more than 7 million consumers every year in their own ways.

Multi-brand was another strategy adopted by P&G in China. Company use this strategy might face a considerable risk. On one hand, its success would promote the company's name among consumers. On the other hand, if it failed, other brand under this company would be affected as well. To avoid failing, they conducted extensive studies to understand the relations among different products for different consumers in order to make specific selling plans. Once P&G launched a new product, they would use the brand " P&G" on it. Each of them had their own characteristics, such as Crest, Tide, Sassoon, Rejoice, etc. These products all acquired for market share leadership in their own categories now and help the stable development of P&G.

Besides, P&G's HR strategy had its own special features. It focused on employees who were superior or promising, both recruiting and retention. At first, experienced Americans were sent to China to manage the operations. At the same time, it also hired Chinese and gave them special training so that they would think in American ways. Then the experienced locals were arranged into senior position. Since P&G believed in employees should be trained from the first floor and promoted then with acquired experiences. It seems that their headquarters were all promoted from within the organization. P&G was the first multinational to conduct campus placements in famous Chinese universities and had gained strong awareness among university students. It also helped students to develop their different kinds of skills such as general business skill and core functional skills as it conducted world-class training programs. And now most employees of the company are Chinese.

ORGANIZATION

For Company: Competitive Advantages

P&G was founded in 1837 as a soap company. After selling on soap for the first century, P&G began to expand their productions using its own technology in the 1930s. Although they have a tough beginning, the company has developed in various directions. P&G started to improve its basic product offering (adding flaked soap and beauty soap), then it made its product line diversified (into cleaners, shampoos, toothpaste). More recently, P&G's industry has entered in the field of the paper, food, beverage and pharmaceutical businesses, which made their industry diversified.

P&G not only have multiple products and multiple markets, but also they provided services to the customers and concerned with their products which meet target market needs. Their industry is diversified in the global, so they need to have a structure which is more flexible and more adaptable than traditional manufacturing companies. The structure must adopt with P&G's development of the industry in the world and also need to improve P&G's management.

The matrix structure may be seen as one of P&G's competitive advantages. There is an outstanding characteristic of the matrix structure - the brand managers. The brand managers were product specialists. Their responsibility is that they must completely know their products' external and internal environments in time. Also, they were totally dedicated to coordinate products' market and products' profit. The specialists of functional departments declare in their own right once again and complement the duties of brand managers."

Under this matrix structure, between 1930 and 1970, the company has achieved great success in the organizational management. However, all of P&G's strategic decisions are made by the top of company, while the operational decisions are made by the brand managers. The authority of the company is decentralized." Although this " loose-tight" is seen as a mark of successful company (Peters and Waterman, 1982), it is sometimes difficult to keep the balance of their rights. According to some sources, P&G's decision-making power was skewed towards top management (Griffin and Ebert, 1993). "

It is necessary to have power of controlling at the top which can coordinate the organization's activities and overall strategy. Nevertheless, too much concentration of the authority would be against the motivation and the responsibility of what has happened. Part of the problem was that brand managers were given the responsibility, but it didn't mean that brand managers didn't necessary to use the authority to manage their products. So that it's difficult to making responsive to the changes of environment and markets. This creates conflict in the internal company. It's a difficult problem to the P&G, because it will reduce the brand managers' effectiveness in quickly reacting. 9P&G's strategy is that they want to be a seeker and a market-leader, so that it is requiring it to be innovative and responsive to the environment. Therefore, a more decentralized structure or a decentralized bureaucracy was better suited to P&G's situation.

At this moment, the top of the P&G made an advisable decision about company's structure. In the middle of 1980s, John Smale, P&G's chairman, take an effective measure - restructured the corporation. The first thing he did was to add a category management system. 9 He added a position called category managers who were responsible for coordinating brand managers in a particular product line and making them definite the focus of company's strategies.

The matrix structure was the structure of the 1970s (Miller, 1986). It was seen as a way of bridging the advantages of the functional and divisional structures. The matrix structure is based on a dual chain of command. The functional departments are used to gain economies of specialization while the project teams focus on particular products or markets. Each employee in <https://assignbuster.com/procter-and-gamble-analysis/>

the matrix structure is responsible to one functional department and one project manager, hence the dual chain of command. Although the matrix structure is usually a combination of functional and divisional groupings, it can also be a combination of product and market groupings. These matrix structures can be temporary or permanent, depending on the needs of the organization.

The first responsibility of the category managers was to achieve greater coordination among brand managers and quicker make decisions. The category managers had enough authority to make decisions previously at higher levels. They can direct the work towards the change of global environment more effective.

P&G adopted this new matrix structure in its international departments and gave every department more autonomy and flexibility. P&G also increased the communications in the individual department across different countries. P&G's vice-chairman think that the matrix structure would make P&G to be more adaptive to international market trends. The matrix structure also can reduce organizational conflicts between managers and make the environment steady. With the hope, P&G's have turned-around success in the short term.

Much of advantages can be attributed to P&G's restructuring. The top of P&G believed that this matrix structure was suitable, but it's not necessarily ideal in the future. The structure fitted P&G's culture, supported its strategy and was flexible enough to adapt to the global environment.

Procter & Gamble have spent a lot of time thinking and researching about what methods can leave the staff in the company? Their answer is that making the employees of the company has a stronger sense of belonging. In order to making employees' value consistent with enterprise values, the internal selection system is very helpful to achieving this goal.

P&G reached into all areas of the globe. The P&G consisted of nearly 98, 000 employees and worked in almost 80 countries worldwide. Although P&G's structure has evolved, the core of its business is still the same. They rely on the character, skills, attributes and energy of every person in the P&G.

P & G's secret of success is internal promotion, that is, all senior staff is promoted from within. Procter & Gamble does not recruit a person from the outside to do boss. Procter & Gamble pointed out: " We have implemented organizational system from within the development, selection, promotion and reward employee according to their performance without any irrelevant factors. Upgrading depends on the employee's work performance and their contribution to the company. Your personal development will depend on your abilities and achievements. Internal section system becomes one of P & G's corporate values and P & G's corporate culture. It's a core of the employment system.

To achieve internal promotion system, P&G make a great deal of effort. First, the company employed persons must have potential of development. Second, they should identify with the company's values. Third, the company's professional design is quite clear and full of levels. Fourth, the company must build a perfect training system, in order to enhance the

potential of employees. Fifth, the company's upgrade system must come out into the open.

In this way, everyone in Procter & Gamble has the chances to be the boss and it can motivate them. As they have the motivations, which will help the company's efficiency and effectiveness. It's in favor of creating a flexible organizational structure. Besides, such an atmosphere is essential to the success of the company.

Clear sense of direction

Procter & Gamble in 2005 became the most respected businesses. This lasting company has the following three characteristic: have strong leadership and clear direction, with good and positive organizational atmosphere and effective implementation.

The last century, in the early 1990's, Procter & Gamble outstanding achievement continued to decline, but at end of 1990's, the new CEO, Dirk Jacob, who decided to lead the strategic transformation of Procter & Gamble. In the past five years, Procter & Gamble, there will be a new patent everyday. It can be seen that the leaders of P & G pointed out a clear direction in this period.

For instance, Procter & Gamble aware of consumers need a way to quickly remove dust at home. As a result, P&G created the Swifter Duster technology, a kind of free to use the surface of the mop clean. In product design, P & G seize the two important moments: the first one is designing productions; the second is applying productions. The experience of consumers will determine whether they will re-purchase of P & G products.

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P&G know that they need to think globally and act locally. This approach is supported by their commitment to operate efficiently and their constant striving at the best. This simplify structure allows P&G to get to market faster.

Some cases

P&G China actually don't have the power of making decisions. they just need to do something as a executor. Many things are considered by headquarters of the P&G. P&G China just need to do things step by step. This system obviously has benefits. The headquarters of Procter & gamble can make the right decisions on the whole and ensure the company acting on the unification. Moreover, that can also have a good image of the company. But there are also have shortcomings. It is that P&G China basically lost some abilities of thinking and making decisions. What's worse, P & G's corporate culture has continued to indoctrinate the staff concept of P & G is the best. They are too arrogant in some fields, the consequence of which is they will have problems. When they meet the new situations and the new challenge, Procter & Gamble China will often have some mistakes, like just as the SK - II events.

Since 2004 SK-II who keep the top three of market sale sort in the world cosmetics brand. However, it is a turning point In September 2006. National Entry-exit Inspection and Quarantine Authorities announced that they found banned substances - chromium and neodymium in SK-II. When the news came out, counters and boutiques of Procter & Gamble Company in Shanghai, Beijing, Guangzhou, Wuhan and other places immediately appear

a great deal of returned purchase. The brand of SK-II faced a serious crisis of confidence.

When P&G faced crisis, they don't adopt effective measures immediately. Instead, they have some serious mistake. In the first place, P & G is not as fast as possible to communicate with the media, this mistake bring out that consumers feel deceived and angry. We need to know that when the crisis comes, we have to gain time to bring out minimum losses. Later, September 15 evening, P & G sent a declaration to media. The declaration says that consumers can handle the formalities of return products in the counters of SK-II. Announcing returning product in time could be a right strategy which can give consumers a responsible company's image.

However, consumers are at a loss. At this special moment, P & G announced returning production immediately, which will cause the situation out of control. In the period, P&G's primary task is setting consumers' mind at rest. Then they can have time to start the work of returning products. P & G China had failed to carry out the survey, which lead to this disturbance.

Conclusion

Procter & Gamble was founded in 1837 and established its first Chinese joint venture - P&G (Guangzhou) Ltd. Headquartered in Guangzhou in 1988. How could this company survival for more than a century and become more and more popular in China? There are many reasons for that.

Firstly, for company, they saw the tremendous potential in China in 1980s and did a lot of extensive market research. Then they chose the right time as during the reform and opening up to enter China with the smallest resistance

in 1988. After entering, in order to keep in an advantage position compared with competitors and local brands, they have kept on innovating, launching new products all the time. They do improvement and upgrading to their products at least once per year so that they could meet the needs of Chinese market from quality, price and package design. They also spent a lot of money promoting their products so as to build the leading brands. Now their products are all in leading position in different field such as shampoo (Head & Shoulder), laundry powder (Tide), skin care (SK-II), etc. It is also worth mentioning that the structure they used -the matrix structure. Although they have found some troubles about it, they turned it down as quickly as possible. Then the structure suited P&G better after adjusting and made the company more efficiency.

Secondly, for consumers, P&G always put them in the first place. They conducted market research at times to listen to consumers' suggestion. Then they could have the direction to improve their products and change the advertising, package design to appeal to them. They also develop new technology for their products and communicate with consumers much better. Moreover, they regarded consumers as boss so that they could do everything for them willingly and efficiently.

Thirdly, for employees, they emphasized that allow everyone to have a dream. And they did it successfully. They have been selecting managers and executives among all the organization. As they wouldn't hire a person outsider to be their leader, every P&G's employees had chances to be promoted and they weren't willing to leave for other companies. P&G also provided different of training programs for employees. In this way,

employees would be active for works, improved themselves and have a strong sense of belonging at the same time.

Procter & Gamble do all these effort to have an advantage position in China, while keeping step with Chinese development. They do research and make the specific plan in time. Besides, they also cultivated strong relationship with the government and introduced new world-wide technology all the time. They have donated a lot of money to Chinese Project Hope every year to build their brand's image.

During the time of building brand " P&G", they have also met several problems from the competitors and the Chinese market. As the Chinese local brand Nice always emphasized that choosing the right instead of expensive in all of their advertisings. P&G noticed that it was a threat to them and the products of Nice were much cheaper than theirs. But soon they came up with solutions, which was to sell shampoo in small bags at the price of 0. 5 yuan. This helped them to sell shampoo for all stratums in the society. Anyone who wanted it can choose the quantity they needed and it was convenient for them to carry anywhere. From this case, we can see that, P&G could pay attention to the market trend seriously and analyze the problem they meet, at last proposed the solution. This is also reflected in introducing Head & Shoulders in the initial years they came to China. At that time many researches proved that not many Chinese could afford that. P&G rejected that and found the potential market in removing dandruff, which was a common problem for Chinese. They succeed in promoting that to China. It also proved that they could see things for long-term.

Another successful case for P&G was their multi-brand. They have products in different field of Chinese market, including shampoo, laundry, skin care, even food. And each of them has their own small brand under P&G. This helped them became more competitive as each brand has their own space for development. Due to different people want to get benefits from different portfolio, someone has high standard for washing and rinsing, others may care about how to make clothes soft more. As a result P&G divided small brand in detail for different consumers' needs. Like Rejoice for smooth, Head & Shoulders for removing dandruff while Pantene for nutrition. Although sometimes these brands would compete with each other, P&G would make profits at last.

As P&G is not perfect, they could not do all problem down appropriate. First of all, ASCEND only emphasized to have black hair overlooked the herbs as Chinese believed in herbs deeply. As a result, it deserved to fail. In terms of some level, they overlooked the Chinese culture and the history of China. Secondly, SK-II caused a storm among consumers in 2005. Although they announced that it was possible for consumers to return goods, they never admitted that there were any element bad for human skin in their products. Maybe it is not appropriate for them to do that, if their products were really good there wouldn't be so many consumers to return goods and no one would accuse them. A long time after this storm, SK-II came back to the market with low price. They may improve the element of this product or something else to make up the losses, but the trusts from consumers would not come back since then. In these cases, they haven't done well as before.

However, they would learn something from these and it was also a stage the company should experience.

Everything has its advantages and disadvantages, P&G perhaps could not handle down all the problems perfectly, but they could do their best to reduce losses to minimum. In general, P&G was good at preserving their advantages and improving themselves all the time. When they encountered problems, they analyzed the causes, conditions outside and almost everything about the problems. After that they conducted some market researches in order to know the problems deeply. Finally, they carried out the solutions instead of eager to handle the problems without any directions. This is also the reason to both their new and old products are always popular in the Chinese market. In their mind there is not a definition of product cycle because none of their products would be out forever.

As every establishment of brand is not by accident, P&G have also trying hard for years in China. Not only did they have the consistency of global strategy, but also the personalized of regional markets. They launched a new product all around the world while they launching the specific product after adjusting for China. Procter & Gamble also realized the power of brand; they have told us that the process of managing was to choose the best business model in fact, just a model of how to make the company bigger, stronger and more competitive. It is not a process of coping but exploring the best one for our own.

From the management principles of P&G, we may learn of building brand should consider various factors as well. They named every product fitted in

with its effect, so that consumer could identify each of them clearly.

Moreover, each small brand has its own characters while the company

enriching it by adding cultural connotation. At times, P&G conducted

different kinds of activities to help more people know about the company.

And they use the unique perspective on advertisings to grasp consumers. At

last, Procter & Gamble have been playing the role of a qualified corporate

citizen in China. They have donated to the public charities for health,

education and disaster more than 6, 000 billion in total. In this way, P&G

could accept reputation and popularity at the same time.<