

Business analysis of procter and gamble



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William Procter and James Gamble form Procter and Gamble, a partnership in Cincinnati, Ohio, to manufacture and sell candles and soap. He established Procter and Gamble in 1837 in United States of America. The leading maker of household products in the United States, P&G operate in nearly 80 countries around the world and markets its nearly 300 brands in more than 160 countries, more than the half of the company's revenue are derived overseas.

Among its products, which fall into the main categories like:

- Fabric care
- Beauty care
- Family care
- Health care
- Baby care
- Home care and beverages

Are 16 that generate the more than \$1 billion in annual revenues, Actonel (osteoporosis treatment), Always (feminine protection), Ariel, and also Tide (laundry care), bath room tissues and also Crest products, shampoos like Head & Shoulder, Pampers, Pringles etc. P&G provide the branded products and services of superior quality and value that improve the lives of the world's consumers. As a result consumer will reward us with leadership sales, profit and value creation allowing our people, our shareholders, and the communities which will make the beginning of the marketing of branded products. P&G buying raw materials and converted into the finished goods to sell in the market.

P&G is a multinational company which was formed in 1837. P&G 1837

Launch: Maker of Candles and Soap. Both men had emigrated from the United Kingdom. William Procter had emigrated from England in 1832 after his woollens shop in London was destroyed by fire and burglary. The suggestion for the partnership apparently came from their mutual father-in-law.

Alexander Norris, who pointed out that Gamble's trade, soap making, and Procter's trade, candle making, both required use of lye which was made from animal fat and wood ashes. P&G is one of the world's leading suppliers of fast moving consumer goods. P&G is a well reputed company all around the world which is satisfying its customers by providing fast moving consumer goods.

P&G is a public limited company and also listed on the NYSE. P&G has operations in nearly 80 countries around the world and its market includes nearly 300 brands in more than 160 countries all over the world. They deal in all kinds of products from animal feed to foods and detergents plus other personal and consumer products, to which it applies its vast knowledge and resources.

P&G Corporate Strategies:

- Growth Strategy:

After 1857 the company went into new markets and decided to expand and update its facilities. In 1869 the transcontinental railroad linked the two coasts and opened still more markets to P&G. In 1875 the company hired its first full-time chemist to work with James Gamble on new products, including a soap that was equal in quality to expensive castile soaps, but which could

be produce less expensively. In 1878 P&G white soap hit the market and catapulted P&G to the forefront of its industry and sales were twice in detergents, personal products and packaged foods. The success of Ivory and the ability of P&G to spread its message further through the use of national advertising caused the company to grow rapidly in the 1880s. In 1886 P&G opened its new Ivorydale and improve the quality and consistency of P&G products. P&G soon introduce another successful brand: Lenox soap. Marketed as a heavier-duty product, the yellow soap helped P&G reach sales of more than \$3 million by 1889.

- Restructuring Strategy:

In 1990 P&G restructured its brand management system into a “ matrix system.” P&G that year launched a major restructuring effort aimed at making the company’s brand name products more price competitive with private label and generic brands, brining products to market faster and improving overall profitability. The program involved severe cost-cutting, including the closure of 30 plants around the world and elimination of 13, 000 jobs, or 12 percent of P&G total workforce. Category managers became responsible for several brands, making them sensitive to the profit of other P&G products in their areas. P&G continued to compete against one another, but far less activity. The restructuring also eliminated certain layers of management, quickening the decision making process. P&G core businesses were foods, soap, and detergents, toilets etc. Harley Procter develops a new soap’s potential. Harley Procter was inspired to rename the soap by Psalm 45, all thy garments smell of myrrh, and aloes, and cassia, out of the Ivory places where they have made thee glad. Procter, committed to the

excellence of the company's products, had them analyze and improve even before they went to market. This was the origin of P&G's superior product development

- Divestment and Retrenchment:

P&G invest a lot of money on the advertisement for his product but the return is not enough from the product and they don't capture the large part of the market. So the management of the P&G decides that they only focus on their core brands and it ended the 20th century with a strategic plan, later called the " Path to Growth " that included a focus on the top brands within core sectors and an emphasis on growth within developing countries. P&G redirect the money it saved from trade promotion for direct marketing efforts that helped bring coupon and sample programs to targeted groups for brands with narrow customer bases such as Pampers, Clearasil, and Oil of Olay.

- Branding Strategy:

P&G launched a shampoo (Pantene Pro V) in 1992 in the United States, this product capture the huge market in the US. In 1994 P&G entered the European tissue and towel market through the purchase Vereingte Papierwerke Schickedanz AG's European tissue unit. That year also saw P&G reenter the South African market following the lifting of US sanctions. Among new products introduce in 1999 was swiffer also an electrostatic dusting mop that was part of new category of household product (quick cleaning). The Swiffer line went on to become one of P&G's fastest-growing brands of the early 2000s.

- Innovation Strategy:

P&G introduce first detergent (Tide) product 1946 in the United State. Within two year tide backed by a \$21 million advertising budget, was the number one laundry detergent. Tide remained the number one laundry detergent into 21st century. In 1950 cheer was introduced as bluing detergent and over the years other laundry products were also marketed: Dash in 1954, Downy in 1960, Bold in 1965, Ariel in 1967 was the number one detergent. 1950 is highly profitable for the company. After five year another innovation of the P&G establish itself in the toilets business with crest toothpaste. In 1960 American Dental Association endorsed crest, and the product was on its way to becoming the country's number one toothpaste nudging past Colgate in 1962.

- Merger & Acquisition Strategy:

In 1980 P&G acquire the grocery business through a number of acquisitions, including Ben Hill Griffin citrus products. The company also entered the over-the-counter drug market with the 1982 purchase of Norwich-Eaton Pharmaceuticals; the company completed its biggest purchase in 1985 with the acquisition of the Richardson-Vicks company maker of Vicks respiratory care products, cold remedies and oil of Olay skin care products, this purchase make the P&G a leader in over the counter drug sales. In 1988 P&G made its first move into the cosmetics and planned to further develop its international operation. 1955 there was a rapid economic growth in the Western World. During that time P&G strategy was to takeover or acquires new companies in new geographical areas. P&G strategy was to acquire those companies who were in the food and chemical manufacturing. In

March 2001 P&G reached an agreement with the Coca-Cola Company to create a \$4 billion joint venture designed to join Coke's Minute Maid brand and distribution network with P&G Pringles chips and Sunny delight drink brands. P&G also acquired in 2001 was Dr. John's SpinBrush, maker of a battery-powered toothbrush featuring spinning bristles that at \$5 was much cheaper than existing electric toothbrushes. Soon thereafter, the newly named crest SpinBrush was successfully launched. In 2001 P&G also were crest Whitestrips, a tooth whitening product. These two new products helped increase global sales of the Crest brand by 50 percent, propelling it past the \$1 billion mark during fiscal 2002.

Business Strategy

- Growth Strategy:

In 1902 P&G to expand its business in the cleaning industry in the market, for this purpose P&G opened a new plant in 1904 in Island, New York. After this P&G also introduce a beauty soap Camay in 1920, company started to expand its product lines and also the market capacities. In 1946 it had made a synthetic detergent. The P&G business strategy also include the acquiring the small firms within the geographical areas, and in the mid 1950 P&G also acquired a Kentucky food company. The 1950 is highly profitable for the company because in this year company make a lot of acquiring small companies and also establish new business like detergent through which company earn a huge profit and also entered in the cosmetics business. They opened different market throughout the European market.

- Cost Leadership:

In 1980 company mainly focus on its production setup. To open new market throughout Europe, these things for the P&G can go anywhere it thought that production cost will be minimum. P&G started their business in those areas where the production cost, labor cost, raw material cost is minimum, because these areas were best economically for the company point of view.

- Diversification:

P&G diversified in many businesses like in 1946 in detergent and also diversified in the cosmetic business, to open the market throughout the Europe. In 2001 P&G also make a joint venture with the Coca-Cola Company to create a \$4 billion joint venture designed to join Coke's Minute Maid brand and distribution network with P&G's Pringles chips and Sunny Delight drink brands.

Operational Strategy:

- Research & Development:

P&G doing a lot of research to improve the quality of its product, domestically and also internationally, P&G flexible management structure and diverse product range play an important role in the rapidly changing international market. P&G broad product range directed to overall profit increases in the company. In 1886 P&G opened its new Ivorydale plant on the edge of Cincinnati to keep up with demand. In 1890 James N. Gamble hired a chemist, Harly James Morrison, to set up laboratory at Ivorydale and improve the quality and consistency of P&G's products. P&G soon introduce another successful brand: Lenox soap. Marketed as a heavier-duty product, yellow soap helped P&G reach sales of more than \$3 million by 1889.

2. Current Strategic Situation of P&G

SWOT Analysis of P&G

(S)trengths:

P&G has a strong brand name and it is a multinational company because it is a fast moving international consumer goods company which is operating more than 160 countries all over the world. P&G is a well known reputable global organization and is well known all over the world and have big brand impact on the market all over the world. It has created goodwill in the mind of the customer and P&G have more 300 brands all over the world with and 138, 000 employees across the world. Research and development is the key department for the P&G for the innovation of the products and also the advertising and marketing is the key thing for the P&G. Strong research and development network helps it to develop new products and entre into new markets. P&G invest greatly in its research and development to about \$2 billion are invested every year by P&G for improving and introducing new products

P&G is a global leader in different product like fabric, home, and beauty care in different countries. Strongest brand in the world is the biggest strength of the P&G. P&G is tightly integrated with some of the largest retailers in the US as well as world around and also around the world the world have distribution channels.

(W)eaknesses:

P&G acquired Clairol business in year 2001; it was unable to grow this business. The Clairol herbal essence brand failed to enter new markets as

the market had access to better and innovation products. So many top brands of the P&G are losing their share market rapidly

P&G has a lack on focus on advertisement of its brand because people do not have clear idea about the products of P&G. People mostly not aware about the brand of the product like Pantene Pro V and other cosmetics and detergent products.

(O)pportunities:

Opportunity for the P&G is health and beauty products for men, with the acquisition of Gillette; the company now has several growth opportunities in this market segment. P&G has doubled its environment goals for the year 2012 and thus promises more value for the environment concerned customer today.

Almost in all over the world growth rate is increasing which in turn increases the demand of products and necessities and especially in Asia the market is growing at a faster rate as compare to other continents so they have a to attract new entrants.

(T)hreats:

There is big threat for the P&G is in the fast moving consumer's goods market today. Companies like Unilever and Kimberly Clark, Johnson & Johnson and Colgate-Palmolive etc pose a serious threat for the P&G in different countries.

Political condition is the biggest threat for any company because each country has their own rule and regulation of taxes and other things. This is the biggest threat for the P&G

PESTLE Analysis:

- (P)olitical Factor:

Political factors some time make a very big impact on the companies; every country has different condition and rule of the taxes within the business sector. In some countries there are heavy taxes and there are some countries like in Europe where taxes are not so much.

- (E)conomical Factors:

P&G also affected by the economical factor because every country has different economical condition, for example like in Asia people have only average scale jobs and earn average money in a month, so they do not afford costly products and also affected by the inflation rate. But P&G has the biggest brand all over the world they set the price according to the area point of view and target the customer according to geographical location. So it can get easily to finance and earn money in the every part of the world and also P&G has the biggest strong brand image in the world

- (S)ocio cultural factors:

Today world is very fast and technological world; people are very well educated and have different life style according to their value and beliefs. They have well known knowledge about the products that they use and they know each and every thing of the world.

- (T)echnological Factors:

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P&G spending a lot of money on their research and development department and always looking for the new innovation in the world.

Porter's Five Forces Analysis

- Bargaining power of customer:

Bargaining power of the customer is high because there is a lot of same product of the different companies available in the market at the almost same prices. P&G is produce the consumer product and its customer are individual or large number of individual in the different geographical areas, that's why bargaining power of the customer is high. Due to the fast and the technological world people is very much awareness about the product and its brand. Mostly today people are very price conscious and health conscious. This thing affect P&G and increase the buyer power of purchasing.

- Threat of new entrants:

There is a lot of existing competitors in the market and they have low cost while if new competitors want to enter in the market, the cost will be high for them, and the cost like property, land, equipment, transportation cost, fixed cost. These all costs recover, if you have high sales in the market and the production of the products. But the P&G multinational company and has the big brand name in the market to meet the customer needs. So it does not face any difficulty to produce the product in the market, it is difficult for the new player which enter into the market first time. But in some countries the government asks the investor to come and invest money in the tax free industrial zone. In that area it is possible for the new entrant to enter into the market.

- Bargaining power of suppliers:

Bargaining power of supplier of the P&G is that, if P&G rely on the few suppliers with a large volume it can create a problem for them. In order to reduce their supplier power, they have a good supply system, due to which their switching cost is low. P&G As Unilever is getting fresh milk on a much lower rate as compared to its processed milk rate, and also fresh milk is a commodity, so it does not cost much to Unilever. Here power remains with the Unilever Unilever do not have any threat from their suppliers of forward integration as it is a high capital requirement industry and their suppliers are small and do not have ability to forward integrate.

- Threat of substitute:

As people are well educated and they know the other substitute in the market like local seller, through internet buying. But Unilever has created a brand image because it is supplying quality products. So the switching cost is low. The prices of substitutes are lower when we compare them with other substitutes. But the quality which Unilever is providing is not the same. And convenience because Unilever products can be purchased from anywhere. So buyers can easily switch to substitutes whenever they want to switch. So, the threat for substitute is low.

Degree of Rivalry:

The major competitors are Procter and Gamble, Kraft and Nestle. As it is a fast moving consumer goods industry. So the growth in this industry is so high. So there is a big gap mean competition is low. These businesses need high fixed costs, including their costs for distribution and advertisement. The switching cost is high because there is high fixed cost. Exit barriers also very

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high because they are performing their duties all over the world. So it is not easy to exit from the industry.

Organization:

Unilever is a multinational company which is doing its business in different parts of the world. Unilever recruits the local people of that region for their management and employees and then it trains those people so that they can perform their jobs effectively.

Structure:

Internal and external resources:

- Intangible Resources:

Employees of Unilever are its intangible resources. It has brand awareness. It is a multinational company so its goodwill counts. Outlook of their plants and their products.

Research and development and good relationships with their customers.

- Tangible resources:

Unilever has 500 plants in different countries. It has trained and skilled labour. It has a better transportation network. The products that they are providing.

- Capabilities:

Unilever is doing its business in more than 170 countries. It has 500 production plants in different. There are 400 core products of Unilever from which it is getting 100% return. It has 13 such products from which it is

getting 75% of total sales. Unilever has grown 2.3% and its sales has been increased by 3.5% in 2009.

- Shareholder Powers:

Unilever has shareholders from both Unilever PLC and Unilever NV. Shareholders of both companies has made the decisions which are implemented Unilever Global.

Future Strategies:

- Corporate Strategy:

Our future corporate strategy is to become No1 Globally in Fast Moving Consumer Goods by delivering innovative products and by fulfilling and satisfying consumer preferences.

- Business Strategies:

Our business strategy is Market Penetration. We will emphasize on those products which are already in the local markets like lux, Knorr, Sunsilk, Omo, and Dove.

We will go for Market Development by doing this we will introduce existing products in the new Geographical areas.

Our strategy is cost Leadership strategy. In cost leadership strategy we will make plants in those geographical areas where the land cost, labour and cost as minimum and where are tax free zones. We will go for Asians and European countries where the people are more prices conscious.

On the basis of my analysis as I have done earlier the bargaining power of buyer is low, Threat of substitute is low, Threat of new entrant is low,

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Bargaining power of supplier is low and competitor rivalry is high. I

recommend that Unilever will go for Marketing Development. Unilever will increase its market share by expanding its products and by going in those areas in which it had not gone by doing this it can become better than its competitors. It is a multinational company and financially it is so much strong because its competitors are also very strong like Procter and Gamble and Kraft. As Unilever is a multinational company so it has brand awareness in the customer's mind. It will further develop its business in Asia countries Nepal and Bahrain. It will develop its plants in these countries. By going in these countries it can grow its business. As the per capita income of Bahrain is \$27068 in 2009 and the GDP is \$28.124 billion. Those areas where the people are not aware so much about its brands it will go in those markets with new things.

I recommend Unilever that it will go for market penetration in those areas where it is doing its business but its products are not so much accepted by the people. It means that people do not believe much on Unilever products because they think that its competitors Kraft, Procter and Gamble, Nestle are providing better quality products. It will give a message to its customers by promotions that its products are unique as compared to its competitors. It will increase brand awareness. It will build trust in the customer's mind about Unilever products. It will also attract customers to switch from its competitor products to its products. It will advertise more and more to gain the attention of its customers. Because by doing this it will retain its potential customers. It will also attract those customers which have been using its products but not retained with it. It will give sales promotions for achieving the

confidence of those customers. For example it will give options like buy one get one free. It will give the price discounts. It will give the points on purchasing more. It will also attract those customers who have not used its products before because they think their competitors are giving more quality as compared to its products. It will also do personal selling means that it will build a strong relationship with its customers by giving free trials of its products and it will collect much and much information about its customers it will know the exact needs that what its customer wants. Unilever will increase its penetration by training of their distribution teams. It will invest more in its distribution network so that its products easily approach to its customers.

I recommend that it will use Low cost strategy. For a new company that is going to enter in this industry the economies of scale is not easy and possible. A successful entry requires the company to have significant experience to stay in economies of scale. On the other side as fixed costs are high, so in order to recover its fixed costs a company has to produce in bulk that's required a huge market share. So in the end we can say that it is not easy for new entrants to enter the industry if they are not backed by huge financial investments and with a competent management, and product differentiation. In the end, we can conclude that threat of new entrants is minimum.

Unilever has gain Economies of Scale and it is using New Technology. It will take a look on the prices of those products whose prices are too high because there are many countries where the economic conditions is not good like Pakistan where people cannot easily buy Unilever products

because these products are costly than its competitors. So people give more preference to those products which are cheaper and which products are costly people shift to the competitors brands. Unilever should offer low price to their customers and by doing this it will win the confidence of those poor peoples who cannot afford Unilever brands. in those areas where the operating costs is too low.

I recommend that Unilever will perform its functions as a single business unit. As It a part of two different companies one is Unilever PLC Listed on London stock exchange and the other is Unilever NV which is listed in the Netherland Stock exchange. Both companies are form a single financial report. Due to leadership structure it is not looking like a multinational. Because two different companies are holding one. It reduces the performance of the company. The conflicts between the Leadership and management are creating difficulties for the performance of the overall business. Because the decisions are made by the two different leadership authorities. Its structure should be simple. It will work like one Unilever and there will be cross functional management structure. Each department will emphasize on their responsibility. By doing this their performance will be increased. It will show the clarity of the leadership. Each department will be responsible for their assigned tasks and duties. It will help Unilever to focus on the demand of the their customers. It will provide the balance of operations.

I recommend that Unilever will do research and will do advertising for its core brands to click the mind that it is providing best quality product. It will show through the advertisement that it cares of its customers. It will

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emphasize on those products which are healthy for the customers. By introducing innovative products and knowing the needs of the customers it will increase its sales.

I recommend that Unilever should emphasize and concrete more on its core brands like Knorr, Lipton, lux, omo, blue band, dove, sunsilk. And it will provide Good quality products those will be healthy and convenient for its customers. It will change the customer's preferences by giving innovative products and by maintaining the quality of its products.

I recommend that it will make its own selling stores where people can easily get its products. Like it will make franchises where the people easily get Unilever products. Unilever will also clear people perception about the Unilever products