

Colgate competitor analysis



**ASSIGN
BUSTER**

It all began in 1806, when soap was commonly made at home; William Colgate had the genius idea to start selling individual portions of starch, soap and candles. This business was born on Dutch Street, in New York City, from where he delivered his merchandise to all customers, an innovative approach at the time. By 1817, the first Colgate advertisement appeared in a New York newspaper, and several years later, they expanded and established a factory in New Jersey, an indication of their growing success. This company was passed down from son to son, each and every one of them striving for integrity and quality in every aspect of the business. Concepts such as “ Colgate people” were a way of managing, not just a team, but a family. This concept was first introduced by the founder and is still used today. Throughout the years, Colgate was an innovator, always developing new products. They were able to forecast market trends before the competition and develop strong brand equity through mergers, acquisitions, and joint ventures. The first merger was with Palmolive Company, a soap company as well. Together, they created the first scented soaps, perfumes, and essences. In 1872, Colgate introduced toothpaste in malleable tube similar to the one we know today. Superior merits gave this convenient and simple brand the prestige to successfully tap into several different markets. In 1900, they won an honorable award for their premium soaps and perfumes at the World’s Fair, which was conducted in Paris. In 1906, the 100th anniversary pronounced the success of over 800 brands, multiplying considerably in the years to follow.

The years to come involve Colgate starting to think globally, by doing so through a subsidiary in Canada, quickly followed by operations in Europe,

Asia, Latin America, and Africa. The development of new brands begins going rapidly, and what seems to be like one influential brand after the other is constantly bombarding the market. Many cleaning products are established such as Ajax and Soupline, which was first popular in France and is now sold in 54 countries around the world. The Palmolive dishwashing liquid was introduced in 1966 and can now be found on rack of your local grocery store. Irish Spring, Caprice hair care, and Protex, are brands that you are also probably aware of, proving to still be successful to this day, and can be found in over 70 countries. In 1976, they even acquired a leader in dog food named Hill's, which shows to what extent they were confidently conquering the world horizontally with this wide variety of products. In 1983, one of today's extremely popular products, the Colgate Plus toothbrush, is launched. So many are sold annually that "if you lined them up end to end, they would circle the globe 16 times." (Colgate Website) Soon after, a joint venture is made with leading oral care companies in Hong Kong. Acquisitions are made buying Murphy Oil Soap, Mennen, Kolynos Oral Care, popular in Latin America, Gaba, prevalent in Europe, and they most recently bought Tom's of Maine, a US based natural toothpaste. By 1989 the annual sales were surpassing 5 billion dollars, and by 1997, Colgate Total toothpaste is recognized as the market leader. With sales today surpassing the 15\$ billion benchmark, Colgate continues to be a strong player in today's oral care market.

Moreover, the company also conducts triple bottom line practices, reaching for success while targeting benefits for people, profits, and the environment. They have a You Can Make A Difference Program, which distinguishes the

Colgate people for their grand efforts. Furthermore, they established Colgate's HIV/AIDS initiatives in South Africa. As for performance and profit, they have been ranked in Business Week and GovernanceMetrics International Inc. as having the top Oral Care products. Concerning sustainable practices and respect for the environment, they contributed in a 40% decrease in water use, a 22% reduction in CO2 emissions, and was the first of its industry to use recycled material in Europe.

Market

Industry and Market Analysis

With over 24% category share in 2009, Colgate-Palmolive maintained its position as a world leader in oral care followed by Procter & Gamble Co with 19.9% of company shares, and GlaxoSmithKline Pc with 9.9% (GMID – company shares) (appendix with company shares graph). A significant reason why Colgate benefits from the highest market share in the oral care category is due to its high level of product development. They constantly launch new and innovative products, which gives them a competitive advantage in the market, and this is a big part of the company's strategy driving profitable growth. For example, in 2009 the company introduced the Colgate Wisp which was the first disposable mini-toothbrush with a breath freshening bead that allows the user to have a clean, fresh mouth with no water or rinsing. Due to their strong product development capability and focus on innovation, Colgate-Palmolive is in a position to continuously upgrade its product line regularly, thereby increasing customer loyalty and revenues.

Another reason why Colgate has been able to acquire such a high market share is because of its high focus on marketing, leading to strong brand equity. Their marketing strategies involve offering products based on consumers needs and communicating the benefits through methods like free sampling as well as the Internet. Using this approach worldwide has been successful in increasing sales but also in acquiring a larger size of the overall category of the market. A further reason why the market share is high is because the brand enjoys a strong level of consumer recognition. Therefore, they have the possibility of gaining leverage in new markets and maintaining loyalty of existing customers.

In addition to being a global leader in terms of company shares, Colgate Palmolive Co also has the highest brand share in oral care, with Colgate possessing 19.8% in 2009. The Colgate brand is followed by the Braun Oral-B brand having 9% of the market and then by Crest obtaining 6.4% of brand shares in that same year (GMID- product development) (appendix with brand shares graph). Other smaller but still significant competitors that Colgate-Palmolive faces in the oral care category include Johnson & Johnson Inc, with their Listerine brand accounting for 6.4% of brand shares, followed by the Unilever group with Signal that has 4.1%, and finally GlaxoSmithKline Pc who owns the Aquafresh brand with 3.3% of brand shares.

It is important to note that although the Colgate brand is experiencing growth year after year, the oral care is a mature category with limited room for innovation. Even though there are some growth opportunities, because oral care accounts for around 63% of Colgate-Palmolive's beauty and personal care revenue, it is highly exposed to a slump in this category. In

In addition to being a mature category, the oral care products are facing a higher level of competition from private labels, which again hinders the profitability of the category. The increasing purchase of private labels is largely due to the decreasing spending power, which is caused by the high level of unemployment in many sectors since the economic downturn occurred. With a minimal cost per purchase, maintaining a high level of brand equity allows Colgate to remain competitive versus lower cost rivals. It also prevents recently established firms from gaining market share.

With the threat of private label, Colgate increased their effort towards innovation and branding by promoting the fact that they are the most recommended brand by dentists. This has helped Colgate fight the competitive pressures they are facing in the market. Not only does Colgate face increased competition from low-market brands but also from their major competitors such as Procter & Gamble oral care products, who are also looking to expand globally in more perspective markets. Therefore, it is primordial for Colgate to continue investing in product development catering to customer needs, in order to face their increasing competition.

There is also the issue of counterfeiting oral care products which is posing a significant threat to the company in terms of revenue loss. In 2009 thousands of tubes of fake Colgate toothpaste were recalled. This had a negative effect on customer satisfaction since purchasers of the authentic Colgate could stop buying this brand in the future believing that it is inferior to other brands and therefore decreasing customer retention (Datamonitor).

Despite the significant threats that Colgate faced in the oral care category, the company intends to remain in a market leading position and continues to have globally recognized brands by seeking opportunities allowing them to do so. For instance, Colgate had begun taking advantage of the economic and population growth with developing and emerging economies such as Brazil, India and China. Each of these economies show very high growth prospects in terms of demand in the upcoming years for consumer goods like oral care products. For instance, it is expected that between 2009 and 2014, Brazil will be the fastest growing market in oral care by accounting for 20% of the global growth, followed by China with 18%, and India with 9%. Although Colgate-Palmolive dominates oral care in Brazil, China and India with 44%, 26% and 38% of market share respectively, it is essential for the company to maintain and increase its presence in these economies in order to reap the benefits of this growth rate (GMID-product development) (appendix with market presence graph). However, they have already begun facing strong competition from their rivals P&G and Johnson and Johnson in these countries. Local players in India and China have also begun gaining importance in their individual markets. Domestic companies such as Yunnan Baiyao in China, and Dabur in Japan, have begun offering herbal/natural oral care products and there is a growing demand for them. Since Colgate is one of the most valued and recognized brands globally, they are in a good position to take advantage of this market and further increase their market share.

Competitive Analysis of Oral Care in the Canadian Market

In the Canadian market, as of 2009, Colgate-Palmolive was the second leading company, with 18% of the market share in the oral care sector, after P&G who possessed 34%, and just before Johnson and Johnson, who owned 17% of shares (Euromonitor) (Appendix oral company shares 2005-2009). In terms of company shares by brand in Canada, in 2009, Crest led the oral care category with 18.6% of shares, followed by Colgate Total with 7.8%, Listerine with 7.1%, and Braun Oral-B with 6.4%. Refer to appendix xx for oral care brand shares. Nevertheless, during that same year, Colgate was a leader in the sales of toothpaste with 42% of the value share (with Colgate Total accounting for a total of 21.5%) followed by Crest with 30.2% (Appendix toothpaste brand shares). The third company was SmithKline Beecham Consumer Healthcare Inc (SBCH), whose 13% market share was largely due to the introduction of Sensodyne in 2007, which was very popular in the Canadian market. In reaction to this, Colgate launched a similar toothpaste in 2009 for sensitive teeth called “ Colgate Pro Relief”, which was clinically proven to deliver instant and lasting relief from sensitivity. Another significant rival in the oral care category in Canada is Johnson and Johnson whom, aside from having a big presence in toothbrushes and denture care, was the leader in mouthwash/dental rinses with its Listerine brand, holding 52% of the value share in 2009. Not far behind was Scope (P&G) with 26%, and Peroxyl (Colgate) in fifth place with less than 1% share (mouthwash/dental rinses shares appendix).

When looking at P&G, Colgate’s main competitor, their portfolio of brands in oral care category is highly diversified with Crest toothpastes and

toothbrushes, whitening strips; Oral-B toothbrushes, and Scope mouthwashes/dental rinses. Also, like Colgate-Palmolive, P&G continuously invest in strong marketing and advertising in order to maintain excellent brand image and brand awareness in the Canada. Therefore, in order to remain competitive and gain greater market share in the Canadian market, not only will Colgate need to continue to invest heavily in marketing, but a large amount will also have to be allocated towards innovation and product development. Knowing this, the company has recently introduced a multitude of new products including Colgate 360° ActiFlex, Colgate Max White, the re-launch of Colgate Total toothpaste and many more.

Even though Colgate faces fierce competition in the Canadian market, there are many opportunities for them to exploit in order to gain market share. For instance, it is expected that tooth whitener products will be increasingly profitable, with a CAGR of 4% from 2009-2014 (Euromonitor). In addition, a CAGR of 3% is expected during that same period for manual toothbrushes, mouthwash/dental rinses and dental floss (Oral Care- Canada). Due to the increasing number of elderly people in Canada, it is expected that the denture care products will grow at a CAGR of 3% from 2009-2014. It is essential for Colgate that they take advantage of these relatively high growth rates in Canada for the different oral care products, in order to acquire new customers and retain those who have been loyal to this day.

Canadian Consumer Profile

Being part of such a competitive market, Colgate aims to deliver maximized customer value to the market, offering a multi-product segment strategy.

Colgate has identified all ages with any economic backgrounds as their

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target market, with the most focus on the baby boomer generation. There is an increasing growth of older demographics with low rate of childbirth, and this has had a direct impact on Colgate products. This shift resulted in a larger demand for oral care products that helps tooth discolouration, tooth sensitivity, and gum problems. The baby boomers usually have the highest disposable income, and they demand additional health benefits. This allows Colgate to position this segment's products at a premium price. With this strategy, Colgate had 19.1% of sales from sensitive toothpastes in 2009, illustrating a profitable customer focus. As well, the recession in 2008 allowed Colgate to further focus their sales towards baby boomers. Due to the recession, the number of professional tooth whitening surgeries fell, which caused an increase in the demand for whitening toothpastes. Colgate, offering a wide variety of whitening toothpastes, was able to increase their sales in this sector, with sales of \$78.2 million, which consists of 38.9% of their sales. It is also forecasted that the demand for tooth whiteners are to increase by 4% from 2009 to 2014.

Not only is Colgate targeting baby boomers, but it is also targeting children to capture a long-term relationship with this age group as 6.8% of sales are from children's toothpastes. For low to middle class consumers that are price-sensitive, Colgate offers traditional toothpaste. They comprise about 6.9% of their total sales. For quality-conscious consumers, Colgate offers wide variety of complete care toothpastes – 18.2% of the sales. Colgate continues to increase brand recognition in this mature market to increase retention and loyalty by consistently offering a variety of products that best suit any customer's needs.

Strategy

Product

With over 20 different toothpastes, 11 different toothbrushes, 5 different children's products, 10 different tooth whitening, and 10 different oral care specialties available in Canada, Colgate has successfully gained customer loyalty (see Appendix 1. 1). This variety of products illustrates that Colgate has used a needs based segment strategy to attract every customer with different tastes. To list a few examples, Colgate Sensitive Pro-Relief's feature of plugging and sealing " open dentin tubules" intends to gain interest from adults and elders whose sensitivity levels are much higher than other consumers. Moreover, Colgate Max Fresh mainly targets young adults with their different flavors and protection from bad breath. On the other hand, the idea of Colgate SpongeBob SquarePants Battery-Powered Toothbrushes was innovated to attract children, but it also was created with gentle bristles to protect their gums. From these following examples, it is obvious to note that Colgate is recognizing and understanding clients' needs by providing the right products for each age group, which is a key factor when trying to increase loyalty and retain customers.

Colgate continues to increase their value by positioning their products in all sectors of the market; from toothpastes that has no animal ingredients to attract vegetarians, or toothpastes that reduce the speed of the development of " tartar above the gum line", to toothbrushes that are price-conscious or " designed to remove odour-causing bacteria". By providing such a variety of products, they are preventing competition and substitution.

Another factor that helped Colgate gain high awareness was through innovative packaging. For example, when Colgate was trying to penetrate the already existing whitening toothpaste market, they decided to come up with new premium packages matching their idea of creating “sparkling and dazzling smiles”. The toothpaste had a holographic package to catch attention. In order to make sure of this package, they used lead users strategy, where they gained a positive reaction, and therefore decided to launch the new product with this innovative packaging. Another example involves the launch of Colgate Max Fresh toothpaste in a unique clear tube. This new packaging was created for user convenience, so that the users know how much is left in the tube, notifying them when to replace it. With the slogan, “find the right products that are best for you”, Colgate strives to provide satisfaction to their consumers by supplying them with a range of products that meets their needs. In 2011, the company plans to continue innovation to meet consumer needs by introducing new products such as the Colgate Total Gum Defense, Colgate MaxClean SmartFoam toothpaste, Colgate 360° Surround, and Colgate Triple Action manual toothbrushes ([http://investor.colgate.com/releasedetail.cfm?ReleaseID=545863&ReleaseType= Earnings\)/](http://investor.colgate.com/releasedetail.cfm?ReleaseID=545863&ReleaseType=Earnings/)

Promotion

In order for Colgate to maintain its value in this competitive market, Colgate spent a total of \$1, 534 million in 2009. This expenditure was largely involved with the promotion of new, growing, and maturing products. When launching a new product, such as Colgate 360 toothbrush, their advertising objective was to be informative and persuasive. They used advertising, sales

promotion, as well as the publicity approach, including advertising through cable T. V., consumer magazines, providing product samples, and utilizing point of purchase. Furthermore, they used lead user strategy, which helped create great word-of-mouth. (dentist recommended brand)

Even though promoting new products is important, Colgate believes that it is also crucial to continue advertising the existing products in the maturity stage. Rather than promoting in order to be informative, objective for products in this stage involve successfully reminding the consumers in order to create greater retention. Reminding the consumers is essential since this helps consumers acknowledge Colgate products' existence and availability, while preventing them from switching to their competitors. Through using the pull strategy, Colgate has invested a great deal of their revenue to sales promotion, personal selling, and direct marketing. By using extensive mass marketing, consumer promotion at point of purchase, and organizing special events where they aim to build one-on-one relationship and increase net marketing contribution.

Pricing

Colgate-Palmolive's oral care subdivision offers a variety of toothpastes, toothbrushes, mouth rinses and dental floss. These products are characterized as being low priced, requiring minimal buyer effort, and are subject to mass distribution and promotion by the producer. Typically with these sorts of low-involvement products, price plays the most significant role in the decision-making process. However, recent consumer trends suggest an added perceived value of certain oral hygiene product attributes, in particular the newly launched whitening, sensitive, and total care products,

which now account for over 76% of the value share of toothpastes in 2009. With price being the most flexible of the four marketing mix elements and changes in consumer trends, Colgate has developed dozens of different brand extensions at different prices ranging from \$1. 685 (per 100ml) to \$5. 871 (per 100ml) to reflect these changing demands (see appendix for further detail). Colgate therefore is primarily employing value-based pricing for these products as production costs do not significantly vary. Colgate has been particularly successful in doing so as people tend to be reassured when they buy a more expensive hygiene product, for they make the assumption that it is the best possible thing they can do for their teeth. However, with families and consumers tightening budgets and reducing consumption as a result of the continuing harsh economic climate, it will become harder for manufacturers such as Colgate to continue to raise prices for most oral hygiene products, even advanced formulations, as consumers will readily switch to similar competitors or private label brands. Toothbrushes, on the other hand, face different consumer behaviors. Despite the economic climate, Colgate has employed a similar “ value-based” pricing strategy in its toothbrushes by introducing improved manual toothbrushes that are claimed to be superior to its basic predecessors, and therefore carry a higher price tag. Colgate manual toothbrushes sold at a variety of retailers range from \$1. 99 to \$5. 99. This strategy has been particularly successful as Canadian consumers have developed loyalty to their brand of toothbrush for they sense a more significant difference between the “ regular” and “ improved” toothbrushes, thus dissuading many from switching or trading down, thus increasing consumer lifetime value and profitability. Colgate is also catering

to more health conscious but price-sensitive consumers by increasingly introducing affordable electric toothbrushes.

Distribution

Being low priced, and requiring low consumer effort, Colgate products must be mass distributed and accessible to most if not all Canadians. Colgate employs an intensive distribution strategy aimed at a maximum market coverage which supports the application of product replenishment based on “ pull” strategies, as these come closest to reflecting true consumer demand. Research suggests supermarkets are the largest distribution points for toothpaste as well as other oral care products, followed by mass merchandisers and drug stores. With that in mind, it would simply not be efficient for Colgate to sell directly to small distributors, therefore Colgate products often go through at least one wholesaler before reaching the shelves of our supermarkets. Colgate does however, directly sell to some of the larger retailer chains such as Wal-Mart, who purchase in such large volumes that it is more efficient to do so. Colgate therefore operates in what is called a “ parallel” distribution network in which some retailers are forced to buy through a mass distributor while others are not. However, Colgate is working closely with small shop owners and local wholesalers through Joint Business Plans to ensure greater availability of Colgate products, as well as to provide the right assortment of products with the best visibility on the store shelves. Prior to distribution, while Colgate products are produced around the world, use of contract manufacturers is very limited as more than 90% of products were made in Colgate facilities. Colgate does concede however that the use of contractors often allows to optimize their supply

chain capabilities, deliver innovative technologies, increase speed of delivery, and especially increases flexibility which is key in a rapidly changing marketplace. Three-year globalization contracts with their main suppliers enabled a reduction of the supplier base from 11 to 4 suppliers. For a key toothpaste ingredient, the supplier base was reduced from 7 to 3 to help achieve record savings and cost reductions. With optimized supply chain logistics and control over the manufacturing process, Colgate products are quick to move from their respective factories to stores all throughout Canada. In five years, Colgate managed to cut its time from product concept to retail shelves by 50%.

Results

Colgate-Palmolive's CEO, Ian Cook, claims that his firm will "continue to perform well given the current competitive and economic challenges and are committed to investing and growing our business and expanding our strong market positions" (A-R 2009). Interestingly enough, Colgate-Palmolive's company shareholder's equity has bounced back from a ten year low, in millions, of 350 in 2002 to 3, 116 as of 2009. Colgate-Palmolive (C-P) has clearly proven itself as a successful and innovative company year after year with solid financial results and consistent growth. In fact, the company claims to have obtained significantly superior results versus the S&P index and the average of selected competition over the last 25 years. C-P obtained 3328% versus 2833% growth among competitors. Against the S&P index the results are even greater compared with a 969% return to shareholders (Colgate TSRG). In Canada, Colgate-Palmolive's launch of Colgate Sensitive Pro-Relief has been quite successful. It is now the number one selling SKU

and the firm's number one competitor has reacted with deep discounting, though Colgate maintains that they have taken market share away once the subsidies cease. They plan to invest and grow while still seeking to further already strong market positions.

Operating revenue has increased for Colgate Palmolive steadily over the last 5 years. Although revenues from fiscal year 2009 were virtually unchanged from 2008, operating cash flow was up over 43% in 2009. The firm has consistently maintained its gross profit as a percentage of sales above the 50% threshold, reaching close to 60% in both 2009 and 2010. In addition, diluted earnings per share have seen 65.5% growth from 2004 to 2009.

EXPLAIN WHAT THE NUMBERS MEAN

As of C-P's last quarter, North America formed approximately 19% of sales and unit volume grew 3.5% and 4.0%. Operating profit increased 22%. Although the 2010 annual report and official audited results have yet to be released as to date, fiscal year 2010 worldwide sales were \$15,564 million, up 1.5% versus full year 2009. Operating cash flow in 2010 was lower by 2% to \$3,211 million, a considerable drop compared to the aforementioned 43% increase in 2009. However, North America remains sluggish, where operating profit decreased 8%. Reported sales gains were 2%, with a 3.5% increase in volume while accepting 2.5% increase in coupons and promotions. C-P's free cash flow, before dividends, does however remain very strong; consistent with 2009 it exceeded 100% of net income. Net income and diluted EPS for fiscal year 2010 were \$2,203 million and \$4.31, versus \$2,291 million and \$4.37 in 2009.

From the Statement of Cash flows, it is clear C-P has been increasingly using debt to increase capital. Proceeds from issuance of debt have increased approximately 3.5 billion and 231.4% from 2007-10 with net cash used in financing activities also increased 45.5%. Capital expenditures have remained consistent since 2007. Despite increases in net income, depreciation and amortization have remained steady over the last 5 years, with no unusual increase or decrease. Total assets are also virtually unchanged from 2009 to 2010. In their 2008 annual report, Colgate stated that they spent over \$1.6 billion marketing its products around the world. In other words, Colgate is spending an amount nearly equal to the book value of its equity capital, which accounts for about 11% of total sales, every year on marketing its products. This is evidently a significant amount of capital that will be creating value for the firm in future business. For a competitor to replicate this company, C-P claims that they would have to spend multiples of this amount to establish and develop the relationships that they have acquired over many years. They claim that the same is true for certain general, administrative, and research and development expenses; all of which are being expensed as incurred. In evaluating the firm's results, it is thus imperative to include the intrinsic value of marketing efforts.

Recommendations

According to oral care forecasts in Canada, Colgate should definitely continue to maintain its position as a domestic leader in toothpaste since it represents the highest level of sales in the Canadian market. This can be done successfully by developing new products and effectively marketing each one respectively. Colgate should then focus on manual toothbrushes

because they have the second highest level of sales, followed by dental rinses, tooth whiteners and then denture care, which do in fact show growth but at more modest levels of sales. Secondly, while basic products provide the necessary means of oral care, more expensive value-added products provide convenience and comfort to the consumers ready to pay higher prices, such as baby boomers. People usually tend to be reassured when they buy a more expensive product, because they feel assured that it's the best possible thing they can do for their teeth. In addition to new product development, companies will focus on marketing and advertising support of their existing brands.

Colgate should continue to remain on the high end scale of the oral care industry and maintain position in the high end category. Moreover, with respect to the Canadian market, they should invest more heavily in the mouthwashes considering that they have no market share while sales are the third highest in the oral care category after toothpaste and toothbrushes.

As previously mentioned, the toothpaste market is generally not price sensitive and brand loyalty plays an important role in majority of the customers. Currently nearly 97% of the population in developed countries uses at least one variety of toothpaste. This gives marketers virtually no space to expand the market with new users. Consequently, adding or increasing value to the product is the preferred alternative. Technological progress made in recent years altered the toothpaste segment and made innovation a driving force. New advancements have led to the launch of a variety of high-priced, value-added multifunctional products in several oral care categories such as toothpastes and toothbrushes. Whitening

toothpastes and products offering multiple functions are driving growth in the dentifrices segment. Currently, for major toothpastes, averting tooth decay is not sufficient, therefore guaranteeing benefits such as fresher breath, healthier gums and whiter teeth. More comprehensive products such as Colgate Total have strengthened Colgate-Palmolive's market position substantially. Technological advancements in recent years have altered the toothpaste segment to one that offers additional benefits besides just fighting cavities. This made manufacturers roll out products with a lot of additional features that were not available previously. Over three-fourths of net sales come from outside United States, so in future years strengthening market position worldwide will be integral to triumph over the competition. In addition, the considerable revenues from international operations are key to sustaining the firm's value proposition, as product innovation has revitalized the oral care market in recent years. To ensure future success Colgate must continue to invest in product in