***EXECUTIVE SUMMARY:***

P&G over its journey of about 175 years (Annual Report, 2012), has become one of the world's largest FMCG Company with sales of nearly $80 billion and with a net profit of about $10 billion. The company has a presence in more than 180 countries (Annual Report, 2012), with brands that accumulate to in excess of $25 billion. The company enjoys one of the largest Brand Names in household products like "Pampers, Gillette, Tide, Ariel, Downy, Pantene, Head & Shoulders, Olay, Oral-B, Crest, Dawn, Fairy and Always" (Annual Report, 2012) and segments like "household care, beauty, grooming, and personal health care" (Annual Report, 2012).

Over the past few years the company has seen a decline in its operating margins and has also witnessed a drop in its operating profit figures as well especially in the matured markets. The major reason for same has been attributed to rise in costs especially R&D cost and increased expenses in marketing. However we see that the company has taken important and strategic decisions that would help company shore up its market share, revenue and profits. As such the company has its own share of mistakes and success from which it has taken lessons. We shall discuss many of these in the report herein, and how the company has evolved and what makes it, or would help it grow the way forward.

***INTRODUCTION:***

The company under consideration is Procter & Gamble (P&G), which is Ohio, based American Company that has been around in our homes and an integral part of our daily lives for the past 175 years in various ways. The company has its presence in more than 180 countries. The company is the only one in the world that has a portfolio of over 140 products and 40 of which generate revenues in the tune of $1 billion to $10 billion each and have a combined brand value of about $25 billion. The company is a cash rich company that generates about 90% of its $10 billion net profit as free cash.

The company operates in the FMCG Industry and operates in the following business segment which are "Beauty; Grooming; Health Care; Fabric Care and Home Care; and Baby Care and Family Care" (Annual Report, 2012). The company has divided its markets into the matured or developed market and the developing market. The company is a part of a perfectly competitive industry in every form of demographics, and as such faces very stiff and fierce competition from the rivals. The competition faced by the company is virtually on every front like, market share, product line up, innovation of new products, R&D for new and existing products. As such the company has witnessed a drop in market share and revenue from the developed market and has sustained appreciable performance in the developing markets. But the overall impact on its results has been evident. As such the company is pushing for renewing its performance across the board and as such has initiated many strategic steps in the same direction.

***COMPANY OVERVIEW:***

Procter & Gamble was founded in 1837, by William Procter and James Gamble, who laid the foundation of P&G by initially making and selling soap and candles (PG, History). Today after 175 years, P&G today is more than just a brand. P&G operates out of Ohio, US, and has its products being sold in over 180 countries worldwide. Procter & Gamble Company along with its subsidiaries is engaged in the manufacturing and sale of a wide range of branded consumer goods or we may say the FMCG segment. The company operates in the following segments which are: Beauty, Grooming, Health Care, Fabric Care and Home Care, and Baby Care and Family Care (Annual Report, 2012)."The company markets its products through mass merchandisers, grocery stores, membership club stores, drug stores, high-frequency stores, department stores, perfumeries, pharmacies, salons, and e-commerce in approximately" (PG Profile, Yahoo).

Off late, the company's performance has dwindled as the company has been shuffling its strategy and has not been able to keep competitors at bay (Chung, Jul 2012). Recently the company's Board has unanimously accepted CEO McDonald, who had joined in July 2009, as the one who would plan and head the company's turnaround of performance (Chung, Jul 2012). As such the company has adopted a multi-fold strategy to cut costs by a big chunk and bring up new and innovative products to shore up sales and profits. Example being the fact that "the company will launch at least nine new products in the next four months, many of them priced at a premium to generate higher profit margins" (Monk, Sep 2012). Hence only time will tell that with increasing competition and change in market dynamics, whether the company would be able sustain its past performance or will the same further deteriorate.

***MANDATE:***

The Mandate of any company actually represents the reason why a company exists. It also discusses what the company hopes to achieve and what it is willing do for it. The mandate of the company includes its mission/vision or both, its core values and principles along with the stakeholder analysis.

The ***mission*** of the company is to improve the lives of its customers throughout the world by providing superior quality products and services. And this would automatically generate value for its stakeholders in form of higher sales and returns (PG PVP). The mission statement of the company is pretty appropriate given the fact that the size of the company is so huge and has so many SBU's and Brands to manage, that this ideology would be applicable to all and also achievable by all, and as such would lead to the desired goal of better operating performance by all the SBU's.

The ***vision*** of the company is to be recognized as "the best consumer products and services company in the world" (PG PVP). According to me, this could be the best vision statement that any company could have, especially for someone like P&G. P&G has kept is goal powerful and yet pretty clear. This vision of the company is so simple that it can be easily comprehended by all its stakeholders and it would be the best thing given that everyone in the organization would know, what to work for, and would eventually work together to get the same common goal without any confusion or hassle, which is the case with many organizations around the world, whose vision actually spells doom for them, but that is not the case with P&G. They have set a goal and have achieved it, but still work together to achieve it on a daily basis.

The ***core values*** of the company rotate around the consumers, its brands and its employees. These values are leadership, ownership, integrity, passion for winning and trust. The company, through all its core values, ha tried to address the fact that they seek to work and deliver a trust to their consumers with the help of their employees, who are expected to work with leadership and ownership and must have a passion for winning s that they can together work to strive to achieve the vision of the company. Just like the vision of the company, the core values also are very clear and straight forward that define the reason for the existence of the company. Part from these core values the company also has some embedded ***principles*** in their organization, important of which are namely (PG PVP):

a. Show Respect for All Individuals
b. Interests of The Company and The Individual Are Inseparable
c. To be Strategically Focused in Our Work
d. Innovation Is The Cornerstone of success
e. Seek to Be The Best

P&G's ***stakeholders*** are its Customers, Investors, Shareholders and Employees. P&G's customers are the ones who ultimately use the products and given the fact that the industry is highly customer oriented and demand driven, the Customers are very critical and responsible for driving P&G. The Shareholders are the people who own the Company financially and the company rewards them by consistently creating and increasing the Shareholder Value or the dividends or the overall profitability. The Company and the Employees are considered as a single unit that is interdependent, and for the company its employees are considered to be the most valuable asset.

## ***EXTERNAL ANALYSIS:***

We start the external analysis of P&G by using the ***Porter's Five Force Model***. We know that Porter's five force model is an extremely useful tool as far as the analysis of the external environment of any industry, business and organization is concerned. The five forces of the model with respect to P&G are discussed herein:

1. **Threat of New Entrants:** In case of P& G the threat of new Entrants is pretty low. The wide range of products in the company's portfolio named under the Brand P&G's makes it extremely difficult for the new entrants to compete and gain any significant market share. P&G enjoys a significant proportion of the market share; any potential entrant would require an enormous amount of capital for manufacturing alongside a huge budget for marketing activities, R&D, supply/sales channel in order to compete at the same level as P&G (Annual Report, 2012). This creates a substantial barrier to entry in the industry that makes the threat of new entrants, very ***low*** for the industry. The patents held by the company on various products also act as barriers to entry. "All major products and trademarks in each business are registered. In part, our success can be attributed to the existence and continued protection of these trademarks, patents and licenses" (Annual Report, 2012).

2. **Bargaining Power of the Buyer Power:** It is well known that the profitability of FMCG companies depend heavily on its buyers. Similarly P&G heavily relies on stores like Wal-Mart, that is P&G's largest Customer (Annual Report, 2012), to generate a considerable portion of revenue. However over the past three years, the revenue generated from Wal-Mart has been declining by a hundred percentage points every year (Annual Report, 2012). This is a serious point of concern and as such we can say that in case of P&G the bargaining power of buyers is pretty ***high***.

3. **Bargaining Power of Suppliers:** P&G does not rely heavily on any specific supplier and their "Supplier diversity is a fundamental business strategy" (Annual Report,

2012), which helps make the power of suppliers quite ***low***. Also the sheer size of the company gives it substantial bargaining power over the suppliers.

4. **Competitive Rivalry:** The product range of P&G has vast number of substitutes, and as such the products of P&G face competition from other branded products and private labels. The consumers get many different options, as far as product offerings are concerned in this industry. To add to this the oversaturated and mature markets of America and the Western Europe make things even tougher which contribute to about 58% of companies sales (Annual Report, 2012). As such, the competitive rivalry is pretty ***high*** and highly dependent on Brand recognition and product offerings.

5. **Threat of Substitutes:** Majority of the P&G's product portfolio is consumer staples, and as such can be classified as necessities, that do not have any substitutes per se, but only in terms of the Brand of such products. For instance, laundry detergents have no substitutes per se other than the different types/brands of laundry detergent. As such this would be true for most of P&G's products. But still we shall consider there to be low to medium threat of substitutes, primarily from the view point of competition due to branding, marketing and advertising.

In our External Analysis, we shall also consider the ***macro environment***, in which the company operates, as the same has wide reaching ramifications on the normal operations of the company. According to the company's Annual report the macroeconomic condition have remained challenging and has lead to a slowdown in market growth (Annual Report, 2012). The company has also been impacted by the recently highly volatile global macroeconomic conditions which have lead to disruptions in the day to day activities due to financial and credit related issues. However the company has been increasing its marketing and advertising expenses so as to boost sales in other developing where they have now almost 38% of their sales (Annual Report, 2012), and in the current environment the BRIC countries promise good performance for P&G where they have witnessed a an average growth of 20% in the past decade (Annual Report, 2012). The company is also of the view that it would be the developing countries that would help P&G scale back to the top and grab the earlier levels of shareholder value.

In short, we can say that the products offered by P&G seem to be recession proof in the sense that they will continue to sell despite a global slowdown, due to their nature. Growth in developing markets, and expansion and increased marketing expenditure by the company in these countries would provide P&G with strong growth in its revenue.

***INTERNAL ANALYSIS:***

While making an internal assessment of P&G we shall lay focus on the following three factors namely the distinctive competencies of the company, the competitive advantage and the profitability of the company.

The most important and ***distinctive competencies*** of the company are the following (Annual Report, 2012):

a. The first and foremost competency of the company is its ability to have high R&D expenses. The reason being that this particular industry is based mainly on innovation and new product launch. The company over the past many years has successfully launched and managed new products. As such, P&G has the ability and also the capability to push for innovation and ensure faster commercialization than any of its competitor in the industry

b. The Brand in itself is a competency for the company. Reason being, those in bad times, people usually switch to cheaper alternatives, but however mature product line and brand associated with it ensures Brand loyalty by the consumer.

c. Another competency is the pool of skilled labour that the company has. Company is very proud of its labour force and considers as its important competency and advantage in the market.

d. The company has a portfolio of 25 billion dollar brands that generate revenue from one billion dollar to ten billion dollars a year.

The most important ***competitive advantages*** of the company can be enumerated below (Annual Report, 2012):

a. The company has one of the widest ranging portfolios that cater to all the income groups and almost all the countries worldwide, which is actually way more than its competitors and as such this enables the company to gain and capture markets share.

b. Superior Brand management and leadership capabilities give the company the benefit of having superior customer loyalty and market penetration.

c. The company is an extremely large operator that gives it scale economies in all its segments and verticals, as such this gives the company, the first mover advantage.

d. The company has one of the vast sales and distribution networks in the world. The company has been listed in Gartner's "Top 25" list of global Supply Chain Leaders and is at the fifth position.

e. The company is 21st in the list of the "World's most respected Company's list".

f. The company's products have always been listed in the Pacesetters List, where they have 140 products, which is way more than the combination of its six biggest competitors.

g. The company has R&D expenses in excess of 2.2 billion dollars.

h. The product mix of the company is not seasonal and seems to be virtually recession proof as mentioned in the above segment.

Next we discuss the ***profitability*** of the company. The company has been following a strategy to focus on higher growth and higher margin and most profitable segments of the business. The company generated sales of almost 84 billion dollars and a net profit of almost 10 billion dollars. Of this the company boasts of having almost 90% of this as free cash flow (Annual Report, 2012). However the company has witnessed a drop in its operating profit margins to the tune of three percentage points and as such there was a 9% drop in the earnings of the company on a y-o-y basis. However the silver lining in these figures was that the company had seen a growth ranging from 1% to 6% across all its business segments and verticals, which ensures that there is no dearth of demand and the company can increase its profits considerably, if it can control its expenses. As such the company has picked up a generic strategy and implemented the same that would help company save $10 billion over a five year period.

However since we are doing an internal assessment of the company it is imperative that we also consider some of the weaknesses or threats for the company. These includes the likes of the change in consumer demand patterns, which off late has being fluctuating a lot especially due to the recent global slowdown and also due to the changing demographics of the world and countries. For example “P&G has been tackling criticism from investors and analysts for failing to focus on areas where it has been traditionally strong: in understanding consumers and launching innovative products” (Kala, 2012). Also international trade barriers and the threat to lose market share have significant bearings on a company especially the size of P&G.

***STRATEGIC OPTIONS:***

P&G’s organizational structure comprises of

a. Global Business Units (GBUs),
b. Global Operations,
c. Global Business Services (GBS) and
d. Corporate Functions (CF)

The company has executed numerous significant business/organizational changes like workforce optimization, acquisitions, divestitures and projects to support growth strategies. The Company's core strategy revolves around long-term financial targets which are (Annual Report, 2012):

a. Increasing organic sales by a couple of percentage points faster than the normal market growth rate in products, categories and geographies where they compete.
b. Delivering growth in core EPS in “high single digits to low double digits”, and generating free cash flow of 90% or greater as a % of net profit.

In order to achieve the above goals P&G is prioritizing resources and strategies that would allow P&G to be more focused and win over both the near term and long-term goals (Annual Report, 2012). The initiatives taken by the company in this direction includes the likes of (Annual Report, 2012):

1. Strengthening Core Business
2. Improving productivity
3. Creating a Cost Saving Culture
4. Strengthening the Innovation Program

The company has taken “significant steps to accelerate cost savings, including a five-year, $10 billion cost savings initiative” (Annual Report, 2012). In order to achieve growth and remain competitive P&G must retain their customers' loyalty, which is the backbone of their success. Besides that the company should also try to exploit new market segments in order to support their concentrated growth strategy and gain market share. In addition to this the company has other options as well, like:

a. P&G should utilize its strengths in R&D and also use its human resources to develop and meet rapid changes in technological environment and improve on positive effect and reduce the negative effect of its products on consumers and the environment.

b. The company should, and is also, utilize its financial resources and strength to increase its investment in marketing and keep/build reputation with new/existing consumers in order to minimize the chances of losing market share due to high levels of competitive rivalry. For example: in article it was mentioned that in country like India "P&G lags HUL in vital categories" (Kala, 2012).

Let us now specifically check some strategic options for the company:

1. **Targeting Low Income Consumers** – the company can thus follow a generic strategy of "Broad Cost". In this strategy the company would cater to the lower segment t of the market, from which the company is always shying away. Second feature of this strategy is that, as the company looks to gain greater share in the developing countries, it needs to adjust its planning according to the demographics of such country, where majority of population falls under the low income group. As such if the company can use it strengths like innovation to cater to this segment, the company would be able to outdo the fall in their sales in the matured markets especially during a downturn.

2. **Innovative Product Launch** [like in the Beauty Segment (Example Male Beauty Care Products or Completely Natural or Herbal Products)] – it is well known that the number of beauty segment products for women outdo the numbers of products

available for males. Also such products are mainly chemical based and less natural, and thus perceived to be harmful than beneficial. As such the company can bank upon this strategy where the company could revolutionize the market with such innovative products that are not available in the market or may be appealing to a new set of consumers.

3. **Brownfield Expansion** – The Company can take a more aggressive path through the M&A route/activity. Though the company over the past has been known to take over various famous brands and products, the company could also look forward to taking over local brands in different countries as well, as they would have a larger appeal to the local masses than a new product launch by the company. This would not only allow the company to increase its product base and sales, without much R&D or Investment, it would also strengthen the company's existing sales and marketing channel.

4. **Joint Ventures** – or instead of the above option, the company could also look forward to having Joint ventures instead of the M&A activity, with the renowned local brands/suppliers, in different countries, as they would provide the company with the expertise regarding the local market and assist in generating better sales, apart from getting better resource availability and utilization.

With this said, it is imperative to understand the list of such options is not exhaustive, but utmost care is required in selection of such options, as the same may not be able to become a best fit either with the organization or with the stakeholders, as this very same, continuous shift of strategy has not gone down well with the stakeholders earlier. As such the company should not rely on only one option but rather consider a combination of various strategies together.

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