Has restructuring paid off at Procter & Gamble?

Case taken from The International Business Environment, second edition (Palgrave, 2006), by Janet Morrison

Procter & Gamble (P&G), formed by William Procter and James Gamble in Cincinnati in 1837, is one of the oldest global companies. Its famous brands include Tide, Pringles and Crest. For much of its history, the company has been innovative in producing new consumer products and new marketing techniques, such as the soap opera. However, despite its record of reliable profit growth, by the 1990s P&G had become weighed down by bureaucratic hierarchy. According to Richard Tomkins: 'the company became formula-driven, risk-averse and inbred. Even the smallest decisions had to be referred to senior management. Individuality was frowned upon: employees learnt how to write memos, how to speak and how to think' (Financial Times, 12 June 2000). Times became harder for the well-known brands, which were losing sales to copycat products and supermarket own brands. The big supermarket chains, such as Wal-Mart, grew more powerful and were able to demand lower prices from manufacturers.

In a restructuring in 1990, P&G's chief executive closed 30 plants worldwide, cutting 13,000 jobs. This move brought down prices, but damaged employee morale and adversely affected product innovation. In 1999, a new chief executive, Durk Jager, took radical measures to dismantle the company's multilayered bureaucracy. Aiming to recreate entrepreneurial spirit, he took power away from country-based divisions and created global product managers, with greater control over their budgets. But the change from country-based divisions to product divisions proved expensive, and the costs did not translate immediately into greater sales. Further, the radical changes had a disorienting effect on employees. It has been estimated that of P&G's 200–300 top managers, only 20 per cent were left doing the same job they had done 18 months previously.

Arguably, Jager did what was necessary to drag the company into the twenty-first century, but shareholders expected a speedy recovery, which was not forthcoming. After only 18 months in office, in which three profits warnings had to be issued, he was forced to go. By 2002, recovery seemed to be on track, under a new chief executive, A. G. Lafley, who took over in 2000. Lafley continued Jager's strategy, putting faith in the global business units to generate innovation. At the same time, he has focused on the company's leading brands which are its main earners.

Acquisitions have strengthened P&G's competitive position in global markets. Clairol, the hair products company, was acquired in 2001 for $4.5 billion, followed in 2003 by the acquisition of Wella, the hair care group. These two big acquisitions in the hair and beauty sector shifted the balance in the company's portfolio. The health and beauty care businesses are now driving growth: the beauty care brands enjoyed a 41 per cent increase in volume of sales in 2004. The acquisition of Gillette in 2005 further strengthened the group's presence in health and beauty products, adding Gillette's razor and hair care products to the group's portfolio. Gillette's tradition of innovation is also a major attraction for Lafley. He says: 'Fundamentally you have to ask yourself whether you are inherently a commodity business or an innovation business. What we've tried to do is accelerate innovation from within' (Grant, 4 February 2005). The combined focus on innovation and major brands has contributed to a resurgence in growth, built on the ambitious restructuring carried out by Jager.

Sources: Tomkins, R., 'Revenge of the Proctoids', Financial Times, 12 June 2000; 'Durk's dismissal', Financial Times, 12 June 2000; Jones, A., 'Consumed by the consumer', Financial Times, 23 May 2001; Buckley, N. 'Reconditioned P&G is continuing to shine', Financial Times, 30 October 2002; Buckley, N., 'Change of focus boosts P&G', Financial Times, 3 August 2004; Roberts, D., and Grant, J., 'P&G looks to gain strength through unity', Financial Times, 31 January 2005; Grant, J., '"We can build a juggernaut" – P&G and Gillette lead the way through a new retail landscape', Financial Times, 5 February 2005.

Case questions

In what ways did Procter & Gamble's organizational culture and structure need to be changed?
How has Jager's strategy now been vindicated? @ Procter & Gamble's website is http://www.pg.com