COMPANY PROFILE

The Procter & Gamble Co

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COMPANY OVERVIEW

The Procter & Gamble Co (P&G) is one of the world's largest consumer goods companies. It manufactures, markets, and sells various beauty, health, fabric, home, baby, feminine, family, and personal care products. These products include conditioners, shampoos, male and female blades and razors, toothbrushes, toothpastes, dishwashing liquids, detergents, surface cleaners and air fresheners. In addition, it offers baby wipes, diapers and pants, paper towels, tissues and toilet papers. P&G markets these products under various brands such as Head & Shoulders, Tide, Ariel, Olay, Pantene, Pampers, Gillette, Braun, Fusion, Bounty, Vicks and Oral-B. It merchandises these products through grocery stores, membership club stores, baby stores, specialty beauty stores, high-frequency stores, online channels, pharmacies, drug stores and department stores. The company has a direct presence in several countries across Asia Pacific, Europe, the Middle East and Africa (EMEA), South and Central America and North America. P&G is headquartered in Cincinnati, Ohio, the US.

The company reported revenues of (US Dollars) US$65,058 million for the fiscal year ended June 2017 (FY2017), a decrease of 0.4% over FY2016. In FY2017, the company's operating margin was 21.4%, compared to an operating margin of 20.6% in FY2016. In FY2017, the company recorded a net margin of 23.6%, compared to a net margin of 16.1% in FY2016.

The company reported revenues of US$16,281.0 million for the third quarter ended March 2018, a decrease of 6.4% over the previous quarter.

KEY FACTS

Head Office	The Procter & Gamble Co One Procter and Gamble Plaza Cincinnati Ohio Cincinnati Ohio USA
Phone	1 513 9831100
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Web Address	www.pg.com
Revenue / turnover (USD Mn)	65,058.0
Financial Year End	June
Employees	95,000
New York Stock Exchange Ticker	PG

SWOT ANALYSIS

The Procter & Gamble Co (P&G) is one of the world's largest consumer goods companies. Its products reach nearly 4.4 billion people worldwide. Dominant market position garnered on a strong brand portfolio, large scale of operations, profitability position, research and development (R&D) activities and distribution network are the major strengths of the company, even as, declining revenue and lawsuits remain major areas of concern. In the future, foreign exchange risk, intense competition and stringent laws and regulations could affect its business operations. However, positive outlook for skin care market in the US, strategic initiatives to drive productivity and reduce costs, and positive outlook for personal hygiene market in the US could provide new growth opportunities to the company.

Strength Large Scale of Operations Research and Development (R&D) Activities Profitability Position Distribution Network Dominant Market Position Garnered on a Strong Brand Portfolio	**Weakness** Lawsuits Could Hamper the Brand Image of the Company Declining Revenue Could Affect its Future Expansion Plans
Opportunity Positive Outlook for Personal Hygiene Market in the US Portfolio Transformation Strategic Initiatives to Drive Productivity and Reduce Costs Positive Outlook for Skin Care Market in the US	**Threat** Foreign Exchange Risk Stringent Laws and Regulations Intense Competition

Strength

Large Scale of Operations

P&G has large scale of operations, both in terms of revenues and geographic presence. The company manages and operates on-the-ground activities in 70 countries worldwide. It markets and sells its products in approximately 180 countries and territories around the world. In FY2017, P&G generated 45% of its revenues from North America, 23% from Europe, 9% from Asia Pacific, 8% each from Greater China and Latin America; and 7% from India, Middle East and Africa (IMEA). As one of the world's largest consumer packaged goods companies, P&G has scale advantages across its brands, businesses, and operations. This allows the company to optimize its spending and streamline resources to better serve consumers and continuously improve its efficiency and productivity. The company produces products in the US through its 24 manufacturing facilities spread across 18 states and territories. In addition, it owns and manages 89 manufacturing plants in 38 other countries, of which fabric and home care products are produced in 43 plants, baby, feminine and family care products in 41 plants, beauty products in 24 plants, grooming products in 21 plants and health care products in 17 plants. Therefore, large scale of operations helps it in expanding its customer base and its competitive advantage. Additionally, the company's large scale of operations offers it strong bargaining power.

Research and Development (R&D) Activities

Being a consumer products company, P&G focuses heavily on innovation and continued marketing investments to establish a significant competitive advantage. As a result, the company has made significant investments in R&D and marketing. P&G invested US$1.9 billion in FY2017 on its R&D. Innovation based strategies enables the company to stay abreast of the changes in the industry and provides it with 'first mover' advantage by launching products ahead of competitors and also delivers advanced products and services to its customers. P&G's R&D team consists of more than 700 in-house experts who are involved in identifying and developing eco-friendly products based on the changing market trends and preferences. Its ingredients are certified and are compiled with various laws and regulations that ensure delivery of products to its end users. It also analyzes and develops various new methods, formulas and standards and also holds good scientific knowledge in the areas of analytical chemistry, biostatistics, computer science and modeling, environmental science and engineering, genomics, molecular biology, systems biology, and toxicology. Its F&HC Innovation Center, located in Cincinnati, Ohio, the US, has 775,000 sq. ft. of laboratory space, capable of conducting various activities such as product research, product technology and development, analytical chemistry and human and environmental safety for both fabric and home care brands. Its Sharon Woods Technical Center is equipped with 717,000 sq ft of floor space and is primarily involved in developing products related to beauty and global chemicals businesses. P&G's continued focus on product innovation has enabled the company to further enhance its market position through additional revenue streams. For instance, P&G is recognized as the industry's global innovation leader. Furthermore, a study conducted by an industry source that tracks and ranks the most successful new consumer products introduced in the US revealed that over the past 20 years, P&G's strong R&D capabilities and consumer-based innovations are backed by significant marketing investments. Strong focus on R&D allows P&G to renew its product line at regular intervals, which boosts customer loyalty and revenue growth. Significant marketing investments to support its brands and a broad product portfolio help P&G to remain at forefront in a competitive market.

Profitability Position

Strong operational performance indicates the company's focus towards efficient cost management. In FY2017, P&G's operating margin was 21.4% as compared to 20.6% in FY2016. The company's operating cost as a percentage of sales decreased from 79.4% in FY2016 to 78.5% in FY2017, which was primarily due to decline in selling, general and administrative expenses. The company's selling, general and administrative expenses decreased from US$18,747 million in FY2016 to US$18,431 million in FY2017. Similarly, its net profit margin increased from 16% in FY2016 to 23.5% in FY2017. This had a positive impact on its returns, with the company's return on equity for FY2017 standing at 27.8% as against 18.3% in FY2016.

Distribution Network

P&G is one of the leading providers of branded consumer goods to various customers around the world.

Its diversified distribution network helps the company to gain operational synergies and to efficiently serve its customers. The company’s ten product categories - hair care, skin care and personal care, shave care, oral care, personal health care, fabric care, home care, baby care, feminine care and family care products - are primarily merchandised and sold through various mass merchandisers, grocery stores, membership club stores, drug stores, department stores, distributors, wholesalers, baby stores, specialty beauty stores, online channels, high-frequency stores and pharmacies. In addition, its sales to Wal-Mart Stores, Inc. represent approximately 16% of the company’s total sales in FY2017. P&G’s top ten customers accounted for approximately 35% of its total sales in FY2017. A part from these, it interacts and collaborates with various customers to enhance their in-store and online shopping experiences and also receives feedback and reviews from their end users for identifying the performance of these products. This allows the company to build long-term relationships with its existing customers and also enables it to attract new and potential customers.

Dominant Market Position Garnered on a Strong Brand Portfolio

P&G is one of the world's largest consumer products manufacturers with revenues of US$65,058 million. The company serves nearly 4.4 billion people worldwide. It holds top global market shares in variety of product categories. The company holds nearly 65% of the global market share in the blades and razors category; 25% share in the male shavers market, and 50% share in the female epilators market. It is also second major player in the global oral care market, with nearly 20% share. P&G is one of the global market leaders in the feminine care market, with a share of more than 25%. The company's global home care market share is around 20% across the categories in which it competes. In the baby care category, it holds approximately 25% market share in diapers, pants and baby wipes categories. The company holds either number one or number two positions in most of the major baby care markets in which it competes. It also holds a 10% market share in adult incontinence category in certain markets in which it competes. It has built its leadership position around its strong brand portfolio and product offerings. The company has largest number of brands, which includes 22 billion-dollar brands. Its brand strength is demonstrated by the fact that its brands are market leaders in most important consumer categories in which it operates globally. For instance, the company's Bounty paper towel and Charmin toilet paper brands hold a market share of approximately 40% and 25%, respectively, in the US.. Furthermore, its Olay brand is the top facial skin care brand in the world with a market share of 6%. Its Tide, Pampers, Head and Shoulders, Oral B and Old Spice brands also maintain a dominant market position in various emerging and potential markets.

Weakness

Lawsuits Could Hamper the Brand Image of the Company

Involvement in various lawsuits and legal proceedings could affect the company’s brand image. It also needs significant commitment on the cost and management resource front. In March 2017, four residents of New York, Pennsylvania and Illinois filed a lawsuit against the company’s Old Spice deodorant brand in the US District Court for the Southern District of New York, the US. The plaintiffs claimed that the company’s Old Spice deodorant when used has resulted in severe rashes and chemical burns compiled with a sense of irritation and allergic effect. Approximately 100 people were affected with similar allergic reactions which in turn could affect the health of its customers leading to loss of life or permanent injury.

Total damage costs exceeded US$75,000. The court intimated P&G to stop promoting and advertising these Old Spice deodorant products claiming that these products are not safe to use by its customers. In the same month, the company's Charmin Freshmate wipes were primarily held responsible for creating sewer overflows of untreated waste water in the US sewer system. This could have a serious impact on the environment.

Declining Revenue Could Affect its Future Expansion Plans

The company's revenue declined in FY2017. Weak growth in revenue limits the company prospects of gaining investors' confidence and its abilities in allocating adequate funds for its future growth. In FY2017, P&G reported revenues of US$65,058 million as compared to US$65,299 million in FY2016, indicating a decline of 0.4%. The decline in revenue was primarily due to weak performance from its Beauty, Grooming and Baby, Feminine & Family Care segments. Total sales of its Grooming segment declined by 2.5% in FY2017 compared to previous fiscal. In addition, the company's Baby, Feminine & Family Care and Beauty segments also realized a declined sales growth of 1.4% and 0.4% respectively, in FY2017.

Opportunity

Positive Outlook for Personal Hygiene Market in the US

The company could benefit from the growing demand for personal hygiene products in the US. Awareness about cleanliness, hygienic activities and promotion of health initiatives governments and large organizations are the reasons behind the market growth. Increasing disposable income among users and the increasing willingness to spend on personal care are some of the major factors that could augment market growth in the future. According to in-house research report, the personal hygiene market in the US was valued at US$8,574 million in 2016 and is projected to grow at a CAGR of 2.2% during 2016-21 to reach US$9,562.4 million by the end of 2021. In terms of volume, the market reached 1,994.9 million units in 2016 and is projected to grow at a CAGR of 1.9% during 2016-21 to reach 2,193 million units by 2021. Bath and shower products led the market with 37% share, followed by anti-perspirants and deodorants (33.1%) and soaps (29.9%) in 2016.

The company took several initiatives to strengthen its personal hygiene business. In February 2018, P&G acquired New Zealand skincare brand, Snowberry, a provider of natural ingredients, including cleansers, toners, brighteners, exfoliators and moisturizers. The acquisition is expected to increase its customer base in China, New Zealand and the US. In the same month, the company introduced its first premium line from Head & Shoulders for women. In January 2018, it introduced Gillette Venus, a hair removal product for women.

Portfolio Transformation

P&G focuses on ten product categories comprising 65 brands by shedding over 100 underperforming brands within 16 categories to streamline its portfolio. The new categories include baby, grooming, feminine, family, fabric, home, hair, skin and personal care, oral, and personal health care. It completely exited businesses that were driven by fashion, fragrances or flavors. The company's new products categories focus on areas in which consumer purchase decisions are primarily driven by the product's effectiveness. The new portfolio includes its daily-use household and personal care brands, designed leveraging its prowess in consumer understanding, product and package innovation, and branding. It added several new brands under these categories including Pampers Swaddlers and Pants, Tide Pods, Downy Unstopables, Always Discreet and Radiant, and Oral-B Power to achieve profitable growth. It also focused on strengthening its e-commerce business through collaboration with companies comprising Amazon, Alibaba, and Tencent. It recorded annualized e-commerce sales of US$3 billion in FY2017, growing 30% over the previous year, and growing share in eight of ten categories. The company’s focus on two largest geographic markets, the US and China, is also meant to explore significant growth opportunities present within these markets.

Strategic Initiatives to Drive Productivity and Reduce Costs

P&G is taking various strategic initiatives to drive its productivity and reduce costs. The company is also increasing localization of the supply chain to drive savings in transportation and warehousing costs. The program included a non- manufacturing overhead enrollment reduction with a target of approximately 25% - 30% by the end of FY2017. In addition, the company reduced non-manufacturing enrollment by approximately 26% in FY2017. The reductions were enabled by the elimination of duplicate work, simplification through the use of technology and optimization of various functional and business organizations and due to the company's global footprint. In addition, the plan included integration of newly acquired companies and the optimization of the supply chain and other manufacturing processes. In FY2017, P&G announced specific elements of an additional multi-year productivity and cost savings plan to further reduce these costs in the areas of supply chain and certain marketing activities and overhead expenses. Over the next two fiscal years, the company expects to incur approximately US$1.2 billion total before-tax restructuring costs under this plan. This program is expected to implement additional non-manufacturing enrollment reductions, along with further optimization of the supply chain and other manufacturing processes. The company is also simplifying, standardizing and upgrading manufacturing platforms for faster innovation, qualification and expansion, and improved product quality. Furthermore, it is transforming its distribution network, starting with North America. It is moving from shipping products to retail customers from different points to consolidating shipping into fewer distribution centers. These centers are located strategically closer to customers and key population centers in the US, enabling about 80% of the business to be within one day or less of the store shelf and the shopper. This will allow both P&G and its partners to optimize inventory levels while improving service and product availability for consumers. As part of this supply chain redesign program, the company announced plans to construct a multi-category manufacturing plant in Berkeley County, West Virginia. The plant will be one of the advanced and sustainable plants among P&G’s global manufacturing and supply-chain operations, with over one million sq ft facility and also expected to produce multiple brands. Such strategic initiatives will not only allow the company to reduce costs, but also to deliver bottom-line growth.

Positive Outlook for Skin Care Market in the US

The company could benefit from the growing skin care market in the US. P&G offers skin creams, facial masks, wrinkle repair creams and eye firming serums in the US. The growing skin care market in the region could increase the demand for the company’s products. The market underwent a paradigm shift in the recent past, inclining more towards increased product differentiation and serving a diverse, more conscious and demanding customer base. Changing dynamics in fashion trends and increased brand consciousness among youth and adults are leading to growth in the market. Growing urban population and increasing disposable income are also aiding market growth. According to an in-house research report, the US skin care market was valued at US$11,885.7 million in 2016 and is expected to grow at a CAGR of 1.4% during 2016-2021 to reach US$12,771.2 million by the end of 2021. In terms of volume, the market grew 0.5% to reach 1,408.9 million units in 2016 and is projected to grow at a CAGR of 0.7% during 2016-21 to reach 1,456 million units by 2021. Facial care was expected to lead the market with 75%, followed by body care (18.4%), make-up remover (2.4%), hand care (2.1%), and depositories (2%) in 2016.

The company took several initiatives to strengthen its skin care market. In May 2017, its Dreft brand launched 65% plant-based hypoallergenic baby detergent. The new product is free from dyes, chlorine, phosphates, ethanolamine and optical brighteners and is produced using 100% renewable wind power electricity at a zero manufacturing waste that in turn offers smooth and comfort feel to babies. In April 2017, the company's Braun brand launched the new Series 3 Shave & Style, the starter kit for men. In February 2017, the company launched Olay Skin advisor, a platform designed to help women to better understand their skin and allow them to find the relevant products that are best-suited for their personal skincare needs.

Threat

Foreign Exchange Risk

P&G operates in many parts of the world and is exposed to fluctuations in foreign exchange rates. The company reports financials in the US dollar and therefore its revenue is exposed to volatility of the US dollar against other functional currencies such as Argentina peso, Egyptian pound, Nigerian naira, and Euro. Major elements exposed to exchange rate risks include the company's investments in overseas subsidiaries and affiliates and monetary assets and liabilities arising from business transactions in foreign currencies. In FY2017, the company registered a gain of US$239 million from foreign currency translation adjustment compared to a loss of US$1,679 million and US$7,220 million in FY2016 and FY2015, respectively. To minimize risks from currency fluctuations, the company could involve in foreign exchange hedging activities by entering into foreign exchange forward contracts. However, there could be no assurance that such hedging activities or measures would limit the impact of movements in exchange rates on the company's results of operations.

Stringent Laws and Regulations

P&G has a global presence with manufacturing operations in nearly 39 countries. The company generates a significant portion of its revenues from international operations, which are subject to risks of non-compliance with various laws and regulations involving intellectual property, product liability, marketing, antitrust, privacy, environmental, employment, and anti-bribery or anti-corruption (such as the US Foreign Corrupt Practices Act), among others. The company's sales outside the US also subject to increased tariffs, quotas, trade barriers or similar restrictions. In countries like Argentina, Egypt, Nigeria and Ukraine, P&G maintains local currency cash balances with exchange, import authorization or pricing controls. Therefore, non-compliance with any of the above mentioned policies, laws and regulations could significantly increase the cost structure of the company and limit its ability to invest in future growth opportunities. It could also impact the brand image of the company.

Intense Competition

P&G faces significant competition across all its product categories and geographies. The company's products compete with similar products of various large and small companies, including well-known global competitors. P&G also competes with other branded products and retailers' private label brands. Key factors influencing the company's competitiveness are product quality, performance, value and packaging. It faces stiff competition from Unilever and Colgate-Palmolive Company. Colgate-Palmolive and P&G compete in developed and developing markets, where they sell products such as deodorants, soaps, dishwashing liquids, and fabric conditioners. In addition, P&G competes with Unilever mainly on the basis of price positioning. This might put pressure on the company's global market share. It also competes with L'Oreal in the skin and hair care segment.

P&G also faces competition from Avon Products and Revlon in personal and other related products. Other competitors of P&G include Kimberly-Clark Corporation, Johnson & Johnson and Church & Dwight Co. Such a competitive landscape may require the company to increase its spending on advertising and promotions or reduce prices that may lead to reduced profits and thereby affect growth. The reduced profitability and revenue growth could then limit the company's future growth opportunities.