

COMPANY PROFILE

Reckitt Benckiser Group plc

REFERENCE CODE: C62A3104-054F-4A32-AA68-7311274905BE
PUBLICATION DATE: 28 Sep 2017
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COMPANY OVERVIEW

Reckitt Benckiser Group plc (RB or 'the group') is engaged in the production and distribution of household cleaning, and health and personal care products. The company's major brands include Nurofen, Strepsils, Mucinex, Dettol, Lysol, Veet, Harpic, Mortein, Finish and Vanish. It also sells food products, over-the-counter products and pest control products. The group operates in Europe, North America, Latin America, Asia Pacific, and the Middle East and Africa. It is headquartered in Slough, Berkshire, the UK.

The company reported revenues of (British Pounds) GBP9,891 million for the fiscal year ended December 2016 (FY2016), an increase of 11.5% over FY2015. In FY2016, the company's operating margin was 24.4%, compared to an operating margin of 25.3% in FY2015. In FY2016, the company recorded a net margin of 18.5%, compared to a net margin of 19.6% in FY2015.

KEY FACTS

Head Office	Reckitt Benckiser Group plc Turner House 103-105 Bath Road Slough Berkshire Slough Berkshire GBR
Phone	44 1753 217800
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Web Address	www.rb.com
Revenue / turnover (GBP Mn)	9,891.0
Revenue (USD Mn)	13,363.1
Financial Year End	December
Employees	34,700
London Stock Exchange (LON) Ticker	RB.

SWOT ANALYSIS

Reckitt Benckiser Group Plc (RB) is engaged in the production and distribution of household cleaning, and health and personal care products. The group has a strong brand portfolio of 19 Powerbrands which hold number one or number two positions globally. However, the competitive landscape may require the group to increase its spending on advertising and promotions or reduce prices that may lead to reduced profits and could affect growth.

<p>Strength</p> <p>Portfolio of market leading brands Continuous focus on R&D Geographic diversification</p>	<p>Weakness</p> <p>Product recalls</p>
<p>Opportunity</p> <p>Strategic acquisitions New product launches Positive outlook for homecare services market in Europe Positive market outlook for laundry and dish washing products market</p>	<p>Threat</p> <p>Increase in counterfeit products may hurt the brand image Intense competition Rising labor wages in the UK</p>

Strength

Portfolio of market leading brands

RB has strong brands across its health, hygiene, home, and food categories. The group's brand portfolio is led by 19 Powerbrands, which have market leading positions globally and contribute more than 80% of its total revenue. These brands include Durex, Gaviscon, Nurofen, Mucinex, Scholl and Strepsils in the health category; Cillit Bang, Clearasil, Dettol, Finish, Harpic, Lysol, Mortein and Veet in the hygiene category; Air Wick, Calgon, Vanish, and Woolite in the home category; and French's in the food category. For instance, in the health category, Strepsils is the most sold sore throat products globally and considered as number one sore throat remedy, Mucinex is the number one cough brand in the US, and Durex is ranked number one globally for condoms. The group also has leading positions in footcare and comfort footwear in many markets with the Powerbrand Scholl. Nurofen and Gaviscon are one of the leading analgesic and gastro-intestinal brands in Europe and Australia. The group is a dominant player in the hygiene category with its world leading brands such as Dettol and Lysol (germ kill), Veet (depilatory products), Finish (automatic dishwashing) and Mortein in the pest control segment. RB also leads the overall surface care category globally due to leading positions across disinfectant cleaners, non-disinfectant multipurpose cleaners, lavatory care, and specialty cleaners. The group's brands also have strong market positions in the home category with Vanish (ranked first in fabric treatment globally), Calgon (ranked first in water softeners globally), Air Wick (ranked second in air care globally), and Woolite

(ranked second in garment care globally). RB has a strong market position in the food category with French's being a leading mustard brand in the US. Strong brand portfolio lends better visibility and presence in all distribution channels and enables RB to reach a large customer base and grow its revenues and margins.

Continuous focus on R&D

RB has been regularly strengthening its research and development (R&D) department. A key element of the group's strategy is to invest in building its brands through an ongoing program of product innovation and increasing marketing investment. In 2016, the group was ranked among the world's 100 most innovative companies by a business magazine. RB continues to carry out R&D for new and improved products in all its categories as well as for increased manufacturing efficiencies. This is evident from the fact that the group incurred a direct expenditure of £146 million in R&D activities in FY2016. It operates R&D centers worldwide with major research centers in six countries including the US, the UK, Germany, Italy, India and Thailand. The focused approach has helped RB in launching several new products in the recent years. The group's continuous focus on R&D helps it to innovate and introduce new products in line with changing consumer preferences. This offers new revenue sources for the group. Besides, it helps the group in strengthening the market leadership position of its Powerbrands further.

Geographic diversification

RB is a global player with business operations in more than 60 countries and sales in 200 countries. It operates 46 manufacturing facilities worldwide, of which 12 are involved in consumer health products. The company classifies its geographic operations into two regions: ENA and Developing Markets (DVM). ENA region comprises Europe, Russia/CIS, Israel, North America, Australia and New Zealand, while DVM comprises North Africa, the Middle East (excluding Israel) and Turkey, Africa, South Asia, North Asia, Latin America, Japan, Korea and ASEAN. In FY2016, the ENA region contributed 65.7% of the company's total revenue, while DVM region contributed 30.3%. Such wide geographical presence limits the company's risk and helps it to improve margin and develop business further.

Weakness

Product recalls

RB has recalled certain products in the recent past. For instance, in November 2016, the company's subsidiary Reckitt Benckiser LLC recalled 108,342 units of Durex condoms pleasure packs due to missing information on the package labeling related to the active ingredient, Benzocaine. Further in 2015, RB recalled liquid bottles of MUCINEX FAST-MAX night time cold and flu; MUCINEX FAST-MAX cold and sinus; MUCINEX FAST-MAX severe congestion and cough; and MUCINEX FAST-MAX cold, flu and sore throat, due to undeclared levels of Acetaminophen, Dextromethorphan, Guaifenesin, Phenylephrine and/or Diphenhydramine. Earlier in 2014, Reckitt Benckiser (UK) recalled certain batches of Fybogel Orange due to a potential risk of contamination with metal particles. Fybogel Orange is available in the form of granules intended for oral use which helps in relieving constipation. Similar instances of product recalls could weaken the consumer confidence in the group's brands, leading to possible sales and revenue loss for RB.

Opportunity

Strategic acquisitions

RB is expanding its business through strategic acquisitions. In February 2017, RB entered into an agreement to acquire Mead Johnson, one of the leaders in the global infant and children's nutrition category. The proposed acquisition is aligned with the group's established strategic focus on growing in consumer health and on investing in Powerbrands with attractive growth prospects. In January 2016, the group signed a definitive agreement to acquire Brazilian condom and lubricants business of Hypermarchas, one of the leading Brazilian condom manufacturers, through its three brands Jontex, Olla and Lovetex. The acquisition could help the company to enhance its sexual wellbeing business in Brazil and significantly improves RB's presence in healthcare channels within Brazil. In 2014, the group acquired the K-Y brand, an intimate lubricants brand, from McNEIL-PPC, a subsidiary of Johnson & Johnson. K-Y brand is one of the global leaders in intimate lubricants and will further strengthen the group's portfolio of brands in sexual wellbeing category, particularly in the US, Canada and Brazilian markets. Therefore, the group, through such strategic acquisitions can increase its sales and improve its profitability.

New product launches

Innovation plays an important role in RB's growth strategy. The group launched several new products in FY2016, including the KY Duration spray and liquid electrical fragrance diffuser in the US, Clear & Cool range of liquids, Wet & Dry rechargeable pedi, Scholl Light Legs compression tights and GelActiv invisible insoles and inserts. In addition, it also launched Durex invisible extra thin condoms, Mucinex Fast Max Day/Night gelcaps, Mucinex Clear & Cool, Dettol Gold and Dettol Squeezy and Harpic Bathroom cleaner products in 2016. In FY2015, RB launched Nurofen soft chews for children; Scholl velvet smooth wet and dry; Scholl athlete's foot complete pen and spray kit; roll-out of Durex Invisible condom; Durex Pleasure Ring; Dettol Gold; Lysol disinfectant max cover mist; Harpic/Cillit Bang/Lysol fresh power 6; Finish supercharged powerball in health and hygiene categories. The new product launches in the home and food categories included Air Wick Pure; Air Wick scented Oil Warmer and French's 'better for you' ketchup and mustard. Such new product launches enables the company to expand its product portfolio and business presence.

Positive outlook for homecare services market in Europe

The clinical homecare services market in Europe is expected to grow in the future. According to the World Health Organization (WHO), the homecare services include both long-term and short-term care services provided by the caregivers at patient's home. The services include preventive, acute, rehabilitative or palliative. WHO estimates that the demand for health and social care systems is increasing across a majority of European countries due to various demographic and societal developments. In EU-27, currently, there are four people of working age for every person over the age of 65. This number is likely to reduce to only two by 2050. As a consequence of this, demand for long-term care, including home care, is expected to increase.

RB's health business offers products for common health problems and over-the-counter medications for common ailments such as pain, fever, cold, flu, sore throat or heartburn. Through its hygiene business, the group offers a range of depilatory products, dishwashing products, disinfectant cleaners, non-disinfectant multi-purpose cleaners, lavatory care, and specialty cleaners, which are essential for clinical care services. Growing demand for homecare services demographics in Europe could improve the demand for the group's products and thereby contribute for its revenue growth.

Positive market outlook for laundry and dish washing products market

The market for the laundry and home care products is expected to grow in the next few years. According to MarketLine, the global textile washing products market (which includes retail sale of powder detergents, liquid detergents, fabric conditioners, laundry bleach, detergent tablets and stain removers) is expected to reach a value of \$54.8 billion by 2018, an increase of 12.7% since 2013. According to an in-house research report, laundry products represented US\$60 billion in global spending in 2013. The US remained the top laundry products market with a value of US\$9,335 million, followed by India, Brazil and other countries. In terms of per capita expenditure, Switzerland and Belgium were the top markets for laundry care with a value of US\$66.5 million and US\$56.2 million. In addition, the global dishwashing products market is expected to grow at a compound annual growth rate (CAGR) of nearly 4% during 2016-20. The company sells its products in more than 200 countries worldwide. Therefore, positive market outlook for the laundry and home care division augurs well for the group's business.

Threat

Increase in counterfeit products may hurt the brand image

The spread of counterfeit goods has become global and the range of goods subject to infringement has increased significantly. Some of the major factors that led to an increased trade in counterfeit products include growing internet usage, extension of international supply chains and more recently, the global economic downturn that led customers to look for low cost alternatives. According to the Intellectual Property Rights (IPR) Seizure Statistics by Customs and Border Protection (CBP) Office of International Trade, the number of IPR seizures reached 31,560 in 2016, an increase of nearly 9% compared to 2015. According to the International Chamber of Commerce (ICC), counterfeiting and piracy are estimated to cost G20 countries over US\$125 billion every year. It is also estimated that 2.5 million jobs could be destroyed by counterfeiting and piracy. Besides revenue losses, counterfeits also affect the company's brand because of low product quality and reduce consumer confidence in branded products, thereby affecting sales.

Intense competition

RB operates in a highly competitive industry. The group faces competition from local, regional, national and international companies, which target the same customer base as RB does. The key competitors include Unilever, Procter & Gamble, Colgate-Palmolive, S.C. Johnson & Son, Henkel and Clorox. Some of these competitors have greater resources, to expand and promote their products, compared to RB. The group also competes with private label products and non-branded products, which are sold at lower prices. The key competitive factors include product quality and performance, promotional activities, brand

recognition, price, timely development and launch, and other benefits to consumers. Further, the products of RB compete with other products for shelf space in retail stores. Amidst such a competitive scenario, the group has to increase its spending on advertising and promotion activities or reduce prices to sustain its competitiveness. These, in turn, could lead to a decline in its profitability.

Rising labor wages in the UK

Labor costs are rising in the UK. According to the UK government, the minimum wage rates increased from GBP7.2 in April 2016 to GBP7.5 in April 2017 on an hourly basis for adults. During the same period, the wage rates for the age group 18 to 20 increased from GBP5.3 to GBP5.6 on an hourly basis. The wage rates for the fewer than 18 age group increased from GBP3.87 in 2016 to GBP4.1 in 2017 and for the people less than 21 to 24 years of age increased from GBP6.7 in 2016 to GBP7.1 in 2017. The UK government increased National Living Wage to GBP7.5 on hourly basis for workers aged 25 and older effective from April 2017. Rising labor costs might increase the operational cost of the group as it employed 3,384 people in 2016 compared to 3,176 in 2015. Furthermore, the company increased its average salary for the UK employees by 3%, effective 1 January 2016. The UK is the key market for RB and increased labor costs in the UK could increase overall costs and affect the group's margins.

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