Getting Procter & Gamble Back on Track

By A.G. Lafley

On March 7, 2000, **Procter & Gamble** announced it would not meet its projected first quarter earnings, and the stock price abruptly fell from $86 to $60 per share. In total, between January, 2000 – when the stock peaked at $116 – and March 7th, 2000, P&G stock fell 52 per cent. The biggest crisis at P&G was not the loss of $85 billion in market capitalization, however: it was the crisis in confidence -- particularly leadership confidence -- that permeated the organization.

In too many of our businesses, best-in-class competitors were on the attack.

P&G business units around the world were blaming headquarters for their problems, while headquarters was blaming the business units.

Analysts and investors were up in arms: how could this reliable company have messed up so badly? Employees were very vocal about their lack of confidence in leadership and were calling for heads to roll. Retirees were madder than hatters, and understandably so: they rely on P&G's stock for a comfortable and secure retirement – and their nest eggs had lost more than half their value.

On the day I was announced as the new CEO, P&G's stock fell another four dollars, and after 15 days on the job, it fell another $3.85 – which was not much of a confidence builder. The business media – and the media in general – were not kind. Reporters and commentators had a right to express their views, and they exercised that right with aplomb. Headlines from the spring and summer of 2000 read:

"P&G Investor Confidence Shot" (*Cincinnati Enquirer*); "Trouble in Brand City: We love their products. But in a tech-crazed market we hate their stocks" (*Time*); "Analysts Unsure When Tide Will Turn for P&G" (*Dow Jones Wire*)

The lowest point was the front page headline from *Ad Age* on June 9, 2000: "Does P&G Still Matter?" I've kept that article close at hand, and not a month passes that I don't look at it. We'd made a mess, and everybody knew it. So what did we do to clean it up?

We faced up to the reality of our situation. We started seeing things as they are – not as we wanted them to be.

First and foremost, we had to come to grips with reality: we weren't delivering on goals and commitments to analysts and investors. Major P&G businesses were under-performing -- only three of them accounted for 80 per cent of the total value created in the 1990s. Competitors were swooping in and gobbling up market share. We were over- invested: we over-built capacity, hired too many people, funded too many aggressive introductions of new products and expansions of existing brands.

P&G brands were not delivering good consumer value: we weren't consistently leading innovation, and prices were too high. We had priced-up big established brands to pay for new products and aggressive geographic expansion. Our costs were also too high.

We had frayed relations with important customers who were frustrated with incompatible strategies, poor service levels, and P&G's inability to create value for them.

We were too internally-focused. Consumed with the massive reorganization, and with so many people in new jobs, we were all spending too much time managing internal transactions.

We accepted change, and rather than trying to resist it, we committed to leading it. We started making choices – clear choices – about what P&G would do and not do.

Once we came to grips with reality, we started making choices – particularly choices that required changes in behavior to get better results.

We reset goals. We chose to take another hit to P&G's already-battered stock and compromised-credibility by issuing our third earnings warning in three months on June 8, 2000 -- my first official day on the job! We made sure these new goals were realistic, and we said publicly it would take three years to get P&G back on track.

We chose to forego profit to get P&G brand prices right. We made it clear that consumer value comes first.

We stuck with the new organization design – with inter-dependent global business units, market operations, and global shared services. There was a lot of pressure to turn the clock back to independent geographic profit centers, but we stayed the course, and it's paid off in faster innovation and greater responsiveness.

We dramatically focused the company's business strategy:

- on four core businesses – representing 54 per cent of sales and 60 per cent of profits;
- on big, established leading brands – 10 brands with sales ranging from $1 billion to $4 billion.
- on our top ten countries – which represented 80 per cent of sales and 95 per cent of profits – and on our leading retail customers.

We continued to drive our big North America business, and at the same time, mobilized for a major turnaround in Western Europe – our second biggest market. We also continued to invest in growth markets like Central and Eastern Europe and China.

We committed to best-in-class cost structures, and we attacked several 'sacred cows'. Capital spending had skyrocketed to a record eight per cent of sales. (It's now down to four per cent, without foregoing investment in a single initiative or needed capacity.) Our corporate innovation fund had increased seven-fold in four years. We cut two-thirds of these projects, and at the same time, increased the commercialization success rate.

The hardest choice of all was to reduce the size of the organization. In the mid-to-late 1990s, we'd built an organization to support a $50 billion business. We had a $40 billion business, and this meant that nearly 10,000 jobs would be lost around the world. This was a very necessary but nonetheless emotionally-draining decision. It was the toughest thing we had to do, because it impacted the livelihood and lives of our colleagues and friends.

We shut down under-performing businesses and exited non-strategic businesses. We discontinued product lines like **Olay Cosmetics** and geographic expansions like tissue/towel into Asia. We wrote-off a huge investment in **Olean** and sold off the manufacturing plant. We made a very tough decision to sell P&G brand icons like **Comet**, **Crisco** and **Jif**. But we did it in a way that preserved jobs for our people, and provided the best possible homes for our brands. We even sold our historic, hometown Ivorydale plant – but again, we did it in a way that preserved jobs.

We opened up to more external partnerships. We partnered for innovation on **Spinbrush** and our new diabetes drug. We found new ways to commercialize technologies through partnerships with competitors such as **Clorox** and with **Glad** food bags and wraps.

Even before we were out of the woods, we chose to make the biggest acquisition in the company's history: **Clairol**. We took some heat for this initially, but it's proven to be a great addition to our hair care business – tracking ahead of acquisition economics.

We put together a strong, cohesive team to lead the business. We put the right players in the right seats on the same bus, headed in the same direction.

The thing that has made all this work is the leadership team we've put together. We are <u>one</u> company in many businesses with many leaders.

In June, 2000, we weren't a team: we were all fighting fires and trying to fix problems in our individual businesses. We had contradictory strategies. We were chewing up financial and human resources, and we had no framework for setting priorities and making choices.

The first thing we had to do was establish a functioning Global Leadership Team. We started talking to each other – every Monday morning – about the business and organization, from wherever we were in the world. We started to own problems as a leadership team – and work toward solutions together. We started having quarterly meetings of all the business unit presidents.

Over the past two years, half the members of our Global Leadership Team are new to their responsibilities. They are the most diverse and broadly experienced leaders we've ever had. Half hail from countries outside the U.S., and the vast majority has extensive international experience in developed and developing markets. They've toiled in businesses and in countries where P&G is *not* the leader.

What most distinguishes this group of men and women is their ability to work together collaboratively, to put the greater good of the company and its longer-term health above all else. We have become one team, with one dream.

Three Years Later

The outlook is much brighter in spring, 2003 than it was in spring, 2000: we are meeting or beating all our goals; volume and sales are growing above target; earnings-per-share are comfortably growing double digits; market shares are growing in all four core businesses, and 18 of our 20 U.S. brands are growing share. Free cash flow is at all-time high levels. Most important, we are closer to the consumers we serve, we are better partners with our retail customers, and we are leading innovation that makes everyday lives better.

These happier results notwithstanding, we will not become complacent. We are competing in a very tough global marketplace, and it's only going to get tougher. Despite these challenges, I am confident we have the clarity of purpose, values and principles, the focus of clear strategic choices, and the strength of leadership to continue growing.

A.G. Lafley is chairman, president and CEO of The Procter & Gamble Company, based in Cincinnati, Ohio. He spoke at the Rotman School on April 21st in the ongoing *Rotman Integrative Thinking Seminar Series*.