Corporate Parenting (Case in context- Acquisition of Gillette by Procter & Gamble)

Dr. Rakesh Premi

Abstract

Corporate predators are on the prowl in the prevailing global business environment. These predators spot corporations with insufficient financial & managerial resources, over employment, bureaucracies that are difficult to clear and an innovation driven company culture. All this provides an excellent parenting opportunity to grow at a faster rate by transferring competencies, resources and skills among strategic business units. The acquisition of Gillette by Procter & Gamble was such an example. This parenting opportunity created strong records of innovation and retailer partnership ensuring stronger sustainable growth in the future.

Introduction

Procter & Gamble which is the 5th most admired company in the world and has a revenue collection of $ 82.6 billion in the year 2011 has grown to this level because of their carefully crafted corporate strategies which also includes a dash of 'corporate parenting or in more simple words 'mergers & acquisitions. It has already become the most popular way to grow at a faster speed and the cases of acquisitions have just doubled since 1990. According to Campbell et.al (1995) "Corporate Parenting views the corporation in terms of resources and capabilities to built business unit value and generates synergies across business units." Corporate parenting help generating corporate strategies by focusing on core competencies of Parent Corporation and the value created from the relationship between the parent and its business unit.

Look for Parenting Opportunities

- Size & Age: Small and young business may have insufficient managerial skills, financial resources etc. to come out of troubled times and old, large houses with buildup overheads and bureaucracies which are difficult to clear.
- Management: The business has top-quality managers as compared to competitors.
- Business Definition: The trend of outsourcing and agreements is changing definition of many businesses, creating new parenting opportunities.
- Predictable Errors: Nature of business and its situation leads managers to make predictable mistakes.
- Linkages: Could the organization associate effectively with other business to improve efficiency or market position?
- Common Capabilities: Business maintains external stakeholders to manage better relations.
- Special Expertise: The business benefit from special or rare expertise than that the parent has?
- Major Decisions: Business difficulties in important decisions of the area where it lacks expertise.

Dr. Rakesh Premi
Campus Director
Leeds Met India
Bhopal

- Major Changes: The business needs to make changes in the areas with little experience. According to Pearce, et.al (2008).

Parenting Advantage

The parenting advantage is creating more value than your competitors would with the same businesses. For example, eBay (previous owner of Skype) of Microsoft (current owner of Skype) creates more value owning Skype. Chances are Microsoft will create more value so they would have the parenting advantage over eBay in this case. There are certain propositions to parenting advantage for successful implementation of corporate strategy. (R.Srinivasan, 2008)

Justify the Parent

Many businesses in multi-business corporate enterprise could be feasible as stand-alone entities. Since the corporate parent has no external customers for its product/services, it can justify itself if it influences businesses collectively to perform better than they would as independent entities.

Parenting Advantages

Corporate parents compete for ownership of businesses. Therefore, for keeping their stakeholders, the parents must add more value to the businesses in the portfolio than other rival parents would. This is the objective of corporate strategy.

Value Destruction

Multi- business enterprises corporate hierarchy; especially senior management predictably destroys some value. Corporate parents must be more disciplined i.e. intervention in businesses. Unless they have specific reasons, good corporate strategy should recognize the tendencies of value destruction to minimize their influence as much as to maximize value creation.

Lateral Synergies

Since there is potential for lateral linkages between the businesses in corporate enterprises, the main role of parent managers should be to create synergy (transfer competencies, resources and skills among SBU's).

Value Creation

Value creation occurs when parent sees an opportunity for a business to improve performance and has the skills, resources and other characteristics for helping the business to seize the opportunity. The conditions for value creation are important because they force corporate parent to think about major opportunities for added value through the corporate strategy.

Corporate Office and Management Processes

The important of the size, staffing and design of office as well as managing corporate processes are not important for managers. But if corporate functions and processes are not developed properly for value adding corporate strategy, they may lead to little of no improvement in performance. For parent managers it is important to possess the skills that are suitable for the parenting opportunities targeted by the corporate-level-strategy.

Diversity

Highly diverse corporate enterprises are more difficult to manage than less diverse ones. Diversity is best measured in terms of differences in parenting needs and opportunities between businesses in portfolio. To avoid excessive diversity, corporate parents should build its portfolio around businesses with similarities in terms of parenting needs and opportunities.

Stretch and Fit

Corporate parent must consider the speed with which it can build new skills and understand new types of businesses. It's supposed to search for new opportunities, refine and extend parenting skills, which encourage innovative ideas and help eliminate many disasters of excessive corporate strategy should maintain balance between stretches for new opportunities and fit with the parent's skills.

Business Unit Definition

Business units represent the basic "building blocks" in any multi- business corporate enterprises. Its definition has deep impact on both the value creation opportunities and the value destruction risks for the corporate parent. They impact the behavior and aims of business managers and the size and nature of parenting opportunities. Inappropriate business definitions lead to compromised business strategies and missed opportunities for parenting value creation. Only conditions of value creation in corporate Parent: is when business units are not fulfilling their potential and there lies an opportunity for parenting. If the centre has relevant resources or capabilities then there is an opportunity for parenting skills. (Campbell et.al, 1995)

Case of Procter & Gamble Acquired Gillette in 2005

The acquisition from P&G was announced in 2005 which was worth US$ 57 billion. Analysis shows both companies operate in same cultures, acquisition was called a perfect fit i.e. the Heartland Business, as per the Parenting fit Matrix. Proctor & Gamble known as the US's largest consumer product company, was producing from Pampers to Tide and from Crest toothpaste to Head & Shoulders shampoo. Gillette well-known for its signature razor, Duracell batteries and Braun and Oral B brands dental care products (P&G, 2005). Further analysis shows that two companies had 20 billion dollars brand and number one position, indicating two-thirds of total sales. Also both companies created strong records of innovation that helped them to influence strong market capabilities to build retailer partnerships.The deal also positioned them both for stronger sustainable growth in the future. (Anthony Henry, 2008)

The Reasons for the Parent Company to Acquire Gillette

We know, the product line of Gillette was mostly men's grooming products complemented the P&G's women product line.The overlap was only in teeth whiteners,deodorants and toothbrushes,which didn't make any major sinking of assets.

The distribution and marketing issue for both companies' products were very much similar. Both companies used same mix of advertising vehicles. This was of advantage for P&G.

They felt that bigger company will have more control against the encroachments of every bigger retail chains, most notably Wal-Mart and also the various supermarket and drug retailers. It allows P&G with its large number of essential brands increased by numerous.

The new company became even a more dominant advertiser, allowing it more control with agencies and with media outlets.

Each of the products lines had willing advantages in emerging markets. Like P&G is strongly rooted in Japan and China, while Gillette is better established in Brazil and India.

The general reason for acquiring Gillette was to target more customers in new market, which is a sign of a huge improvement and growth by expansion. Gillette and P&G also had the comparable cultures and matching core strengths in branding, innovation, and scale making it a terrific fit. P&G believed that, together with Gillette, they will overcome the world of personal care business and will search for another expansion that will help both of them in continuous change.

Here the corporate strategy adopted was **'Corporate Parenting'.**

P&G did intense study with regards to the acquisition of Gillette; the plan of buying the company gave P&G a tremendous success. The first quarter financial results following the merger with Gillette showed a big success for P&G. Results were much ahead of the expectations as the largest consumer goods company tripled its revenue growth, at the fastest rate in more than ten years. Analysis shows that the net earnings increased 29% to reach £2.55 billion, which the company said was driven largely by the addition of Gillette (P&G, 2006).

Further analysis says, the company also made progress on both the revenue and cost synergies and remains on track with its three year revenue and cost synergies plan.The sale of company's beauty products volume also boomed by 9%, the Gillette personal operations are already included to the statistics. Net sales also hiked by 7% to reach $5.37 billion, while net income also raised 7% to reach $848 million (P&G, 2006).

Gillette also added balance leadership to P&G. Gillette increase the shift of P&G's business mix toward faster-growing, higher margin, more assetefficient businesses: beauty and health. With Gillette, P&G will have 22 billion-dollar brands. Merging provided P&G with more brands, broader and deeper consumer and shopper knowledge, more product and market innovation. Although Gillette was part of the P&G family, the management of the activities, tasks, innovation and other things with regards to management of affairs were still on the shoulder of former management team and staff of subsidiary. The only difference was that P&G made the final decisions. The employees and staffs of Gillette were coordinating with that of P&G in developing products and innovation for both of the companies. As seen, Gillette offered P&G the opportunity to grow. P&G considered Gillette as their biggest growth opportunities, because Gillette had its own line of products that was parallel to the products of P&G. another factor was that Gillette already built a name and reputation in different part of the globe. So, both of the companies helped each other by improving to maintain their names in the market of different geographical areas. Gillette was strong in countries like Brazil and India, where P&G always outperformed by Unilever and had excellent access and distribution in China, in the Philippines and fast-growing eastern European markets such as Russia and Poland (P&G, 2007). Another benefit of P&G from Gillette is the use of manpower. Gillette is known for its innovative ideas and technologies that offer their customers easy way of doing things that they are used to. P&G's management targeted the team behind the innovation of Gillette and combined it with their own team. By doing this, the talent, ideas and knowledge of both team will be used for the sake and improvement of the both parties.

It can be said that the acquisition also changed the approach to innovation of the parent company. Earlier, all inventions and new products were generated in house under highly secretive conditions. The doors to research and development had been kept open to the outside world through a department called Connect and Develop (P&G, 2007).

Performance of Gillette

Affect of acquisition on Gillette shows that, the first six months (April-September 2006), sales have grown 5% to Rs 241 crore compared with the same period last year while the operating profit before tax has increased nearly 12% to Rs 65 crore. "This is due to best in class effort towards integration of business and continued focus on the key revenue drivers and cost synergies," the Gillette India Director, Mr. Ashok Chhabra. (P&G, 2006)

Mr. Chhabra said, Gillette India Ltd repositioning its headquarters to Mumbai the office space is spread across 67,000 sq. ft. He further said post acquisition, Gillette as a part of P&G, has been able to further accelerate growth and enhance the reach of its brands by leveraging synergies such as access to sufficient distribution set-up; bigger scale to improve efficiencies and effectiveness with suppliers. "The company operated in three segment namely grooming, oral care an portable products, had place an new distribution structure which significantly increased Gillette direct coverage, enhance wholesale coverage and helped to service more retailers and reach more consumers efficiently" (P&G, 2008 and Business Line, 2006)

Conclusion

To conclude this can be said that, Corporate Parenting adds value to the organization as, P&G's acquisition of Gillette is worthy. The statistics, figures and numbers that was shown by P&G after the acquisition is the proof. The overall performance of both companies improved. The parent company is creating value. The impressions of the customers worldwide also brightened up. The decision of acquisition helped P&G to target two birds in one stone. One is the marketing impact of the decision made, such as the global competitiveness and innovations. Second is the productivity of the company that lead to satisfaction and also meeting the demands of the customers worldwide.

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