From the delisting case of P&G to its strategic adjustments and financial status in recent years

Yihong Wang

Business Administration, Nankai University, 300071 Tianjin, China

Abstract. As a giant in the FMCG industry, P&G's every move has influenced the choice of consumers and the trend of the industry. In order to maintain their profitability and competitive position, they attach great importance to strategic management. They had their best moments. In 2008, P&G became one of the world's top 20 companies with net profits of $12 billion. Big acquisitions had allowed them to grow rapidly and continuously. However, in 2013, they began to decline. Declining sales have forced P&G to make strategic changes. In 2019, a piece of news about Procter & Gamble's delisting from Euronext Paris swept the Internet. In order to explore how large enterprises make the right strategic choice in the face of crisis and analyze the outcomings, this paper will start with the delisting case of Procter & Gamble, analyze its strategic environment, strategic adjustments and financial results in recent years, and finally form conclusions and some suggestions.

1 Introduction

1.1 Industry profile

For a long time, the FMCG (Fast-moving Consumer Goods) industry has enjoyed a huge market share and commercial value. There are more than 20 brands and companies in this industry that rank in the top 100 worldwide and have delivered high returns for investors over a long period of time. The segment products in this industry are basically necessities of life, such as food and beverages, personal and home care products, etc., which means that there is a rigid demand for such products. However, due to the differences in product functions, features and brands, the competition has been fierce. With the development of economy, science and technology, the FMCG industry has also been rapidly upgraded in recent years, which has brought opportunities and challenges to large and small enterprises in the industry.

1.2 Company profile

P&G (Procter & Gamble), founded in 1837, is a multinational commodity business comes from Ohio, USA, which makes superior quality products and uses every ounce of their power to make a difference. For more than 180 years, P&G products have been a household name by combining “what’s needed” with “what’s possible”, including baby care, fabric care, family care, feminine care, grooming, hair care, home care, multi-brand programs, oral care, personal health care, and skin & personal care. P&G makes all over the home more enjoyable.

2 Delisting case study

© The Authors, published by EDP Sciences. This is an open access article distributed under the terms of the Creative Commons Attribution License 4.0 (https://creativecommons.org/licenses/by/4.0/).
In 2019, P&G chose to take the initiative to delist from Euronext Paris, which attracted widespread skepticism in the market. Next, this paper will analyze the reasons for P&G to make this strategic decision from both the internal and external environment of the enterprise, and look at the impact it brings.

2.1 Internal causes

The first is internal. P&G's overall profitability has been declining since 2008, and although it experienced an uptick around 2016, it has since declined across the board. The reason behind this is that P&G's costs have been high in recent years. In other words, they are not effectively controlling costs. To maintain its European listing, P&G must pay a hefty price, including the costs of complying with the high regulatory standards required of a listed company and internal administrative expenses. In addition, in order to control costs, P&G has significantly adjusted its organizational structure and carried out a large number of layoffs. This makes their brain drain serious, including core research and development personnel, marketing personnel and so on. A large number of brain drain and administrative management changes have led to the slow or even stagnation of innovation in P&G. Without enough new products to attract consumers, P&G is no longer at the forefront of fashion. Younger and more dynamic consumers are no longer attached to the products of established big companies, but tend to niche, personalized high-end brands. And P&G's attempts in this area have not been satisfactory.

2.2 External causes

Then there are external reasons. The FMCG industry is notoriously competitive. Not only are the original enterprises growing, but new entrants are also seizing the market because of strong financial support or personalized design concepts. In turn, this has accelerated the speed of upgrading in the FMCG industry. However, P&G's huge system and many brands make it hard to keep up with industry changes quickly. They desperately need change. In addition, due to the impact of the Internet and e-commerce, P&G's traditional marketing channels are under great pressure. Mass advertising and offline marketing no longer provide P&G with a significant marketing advantage. Most importantly, the benefits of cross-listing have faded over time as economic globalization has allowed investors to move beyond their home markets [1]. P&G itself, meanwhile, accounts for less than 1% of its trading volume on Euronext Paris. P&G's European listing is doing more harm than good. If P&G does not make adjustments as soon as possible, it is bound to be dragged into a more unfavorable situation by high costs.

2.3 The impact of delisting

Eventually P&G made the decision to delist. This news is shocking at first glance, but it actually has a small impact on P&G. 99.99% of their trading volume is on the New York Exchange, just to make things more efficient and easier. For shareholders who do not wish to sell their shares, their trades are automatically transferred to the NYSE. If there are shareholders who want to sell, they can also trade with a securities company in Paris within a specified period of time, and P&G will bear the relevant procedures. The long-term financial impact will be analyzed with the subsequent strategic adjustments.

3 Strategic adjustments and financial statement analysis

3.1 General strategy analysis

P&G is one of the undisputed giants in the FMCG industry. Their products touch every aspect of people's daily life. Due to the rigid demand for daily necessities, huge market but fast update and iteration, P&G has formed three important core competitiveness at different stages, and has been all retained until now, becoming unique advantages in their strategy and value chain.

In the start-up period, P&G won the original market and consumers by relying on strong technology R&D capabilities. High technical barriers brought P&G to the high-end market and made them abandon the price strategy from the beginning. As competitors emerged and grew, P&G's technological barriers gradually broke down, forcing a shift in strategy. Nonetheless, P&G, which started with technology, has not abandoned this tradition, and technology is still a bright spot in their value chain. Then P&G gradually turned its focus to brand...
In the 1930s, P&G began to create the second core competence - brand management. They were the first to apply the marketing theory of brand management, and to evolve marketing from the era of commodities to the era of brands [2]. The long-term emphasis on the “brand name” rather than "P&G" has allowed the concept of brand to penetrate into all aspects of the P&G value chain today. In terms of firm infrastructure and human resource management, they divide different products and brands by SBU, and use the brand manager system for the first time. In terms of marketing & sales, P&G has invested a lot of resources in advertising and endorsement, and has always led the trend of marketing methods.

Although P&G's current brand advantage is still leading, with the intensification of market competition and the wide application of marketing theory, the barriers brought by this core competitiveness are gradually broken. In the mid-1980s, P&G creatively developed a seamless cooperation model with downstream customers. Wal-Mart is P&G’s largest retailer, and it has reached a supply-chain collaborative management model with them. P&G has developed a "continuous replenishment system". Warehousing, logistics and sales are jointly managed through EDI (Electronic Data Interchange) and satellite communications. From there, they developed the CPFR process, which evolved into the standard for supply chain management. CPFR has 9 steps, from the business plan, marketing, sales forecast, order forecast, and finally marketing activities together, forming a sustainable development cycle [3]. However, it also gives their customers high bargaining power. Up the supply chain, P&G has developed a series of management systems for their suppliers. These include the Ariba Network, Service Level Execution Agreement, Supply Schedule Performance and RCCP. In general, P&G's high utilization of raw materials, joint research and development model and environmental requirements have limited bargaining power for suppliers.

In conclusion, this paper will make a summary of the above analysis.

First, there is a brief result of the five forces analysis. The FMCG industry has high profit potential and fierce competition due to low entry barriers, moderate suppliers bargaining power, high buyers bargaining power, fierce existing industry rivalry, few substitutes which only have differences on brand. These give P&G much pressure on innovation and cost.

Secondly, after years of resource accumulation and capability evolution, there are some bright spots in P&G's current value chain. They take brand as the core point in firm infrastructure and human resource management, and set up SBUs and brand manager system [4]. Then they have the traditional advantage of technology but also brings high cost. In addition, P&G has optimized procurement and inbound and outbound logistics through deep cooperation with suppliers and retailers. Finally, their long-term heavy investment in marketing & sales enables P&G to have wide brand popularity and high marketing costs [5]. Overall, P&G has chosen a differentiated strategy from the beginning due to its deep exposure to the high-end market and high costs, but they still need to reduce costs as much as possible to maintain high profits. What’s more, they have integrated the value chain, transforming support activities such as finance, technology, and market research into primary activities that provide direct services to customers. This has led to the formation of ECR strategy and a comprehensive, multi-sectoral strategic partnership with retailers.
Fig. 1. SWOT analysis of P&G.

Now this paper sum up P&G's existing strengths and weaknesses (shown in Figure 1). With the improvement of consumers' living standards, people's consumption patterns tend to be online, and the focus of consumption is gradually inclined to high-end and personalized products. So there are the opportunities and challenges facing P&G (shown in Figure 1).

3.2 Strategic adjustments measures

After years of deep strategic management, P&G has made several important strategic adjustments in recent years in order to better adapt to the rapidly changing market environment and improve the sluggish operating conditions.

The first one is divestiture. Once upon a time, P&G built a huge brand empire by relying on its own innovation and acquisition. Multi-brand enabled P&G to rise rapidly and occupy the market extensively. However, with the changes in the market environment and the intensification of competition, the resources they scattered into each brand gradually became an obstacle to P&G's progress. In 2014, P&G CEO Lafley announced that P&G would divest nearly 100 non-core brands by selling, stopping production and natural elimination, so that resources could be invested in core brands [1]. Core brands are those that have contributed more than 90% of P&G's revenue and earnings over the past three years, such as Crest and Tide [1].

In order to slim down, P&G gave up its position as the world's largest seller of beauty products. In 2015, P&G sold 43 of its brands (including Wella, Covergirl and perfumes) to Coty Prestige for $12.5 billion [1]. This quickly made Coty one of the largest cosmetics companies in the world. In 2017, P&G announced yet another downsizing, selling nearly 100 more brands and eventually reducing it to 65 [6]. The aggressive divestitures have cost P&G much of its goodwill, but they have also helped improve its financial position.

Second, P&G has adjusted its corporate structure. In 2018, P&G began restructuring the company's organizational structure, reducing the original 10 business units to 6: Textiles and Home Care, Infant and Feminine Care, Home Care and New business, Grooming, Health, and Beauty [7]. Although this saved P&G a lot of costs, the layoffs brought by the adjustments also led to a brain drain, which set the stage for the future changes.

In addition, the upgrading of the consumption of the masses makes the performance of P&G's traditional products not ideal. In order to develop new markets and younger consumer groups, P&G began to develop high-end personalized products. In the beginning, they chose traditional mass brands as the parent brands of high-end products, but the sales figures were not as good as
expected [8]. Therefore, P&G replanned the brand positioning and target customers of high-end products, which brought some good results. At the same time, P&G also rearranged its main products in different markets around the world, such as China, where P&G began to focus more on promoting products such as SK-II and upgraded Olay.

Third, it is about the Internet and information technology. P&G’s technical level is their traditional strength, not only in product development, but also in the management systems and platforms that the company invests in and develops. Examples include a range of systems and websites for supply chain management mentioned earlier. In addition, P&G is also a well-known company in the world that has widely used OI and achieved excellent results [9]. The development of information technology has undoubtedly also provided a great help to the company’s internal R&D.

P&G has made big changes in marketing. P&G used to be known for its massive advertising, and they liked to invite celebrities as spokespeople. This is an option with high benefits and high costs. P&G has cut billions of dollars in marketing spending in recent years in an effort to improve its financial position and become more efficient with its money. These funds have been invested in places that are more in line with marketing trends, such as the upgrading of marketing creative teams and the construction of new digital media marketing. With the rapid development of the Internet and e-commerce, P&G has also paid more attention to online marketing and operation. P&G has evaluated its social media capabilities and options to optimize digital advertising so consumers see the right amount of online promotion in the right place. In 2020, P&G’s marketing on social media accounted for 5% of the company’s overall marketing spend, and overall advertising spend also increased, which is the first time in four years that P&G has experienced an increase in advertising spend.

3.3 Financial statement analysis

After summarizing the strategic adjustments made by P&G, this article will look at the results of these adjustments from the financial statements. (All calculated indices are based on the annual report published on P&G’s official website.)

Firstly, there are profitability ratios (shown in Table 1) which can assess how well P&G employing the funds, and to what extent it can control over its operating costs.

<table>
<thead>
<tr>
<th>Table 1. Profitability ratios of P&amp;G.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Gross profit margin</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Net profit margin</strong></td>
</tr>
<tr>
<td><strong>Return on capital employed (ROCE)</strong></td>
</tr>
<tr>
<td><strong>Return on equity (ROE)</strong></td>
</tr>
</tbody>
</table>

Gross profit margin provides an easily understandable measure of the profitability of the core trading activity of P&G [10]. It has been maintained at a high level for nearly 3 years and exceeded 50% in fiscal 2020 and 2021. Although the latest year’s report showed a decline in gross profit margins, it’s still a healthy state. And for net profit margin, it is also a ratio that company wants it as high as possible. P&G still keeps a very stable level in this indicator. ROCE shows how well investors funds are being used to generate profit. P&G’s ROE in the past two years showed a better investment utilization rate, with an increase of nearly 3% compared with fiscal 2020. The ROE ratio concentrates on the return available to the shareholders, which also can be used as an investment ratio. A rising trend can be seen in late 3 years. It is also a positive sign for investors.

Secondly, liquidity ratios (shown in Table 2) can show if P&G is capable of meeting its short-term commitments.

<table>
<thead>
<tr>
<th>Table 2. Liquidity ratios of P&amp;G.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Current ratio</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Acid ratio</strong></td>
</tr>
</tbody>
</table>
Liquidity ratios are not the higher, the better. For the current ratio, it measures P&G’s ability to pay its day-to-day expenses. In the usual sense, it should be around 2 [11]. It can be seen that P&G’s current ratio was always under 1. A more stringent test of ability to pay day-to-day expenses is acid ratio, which should be close to 1 commonly. In P&G, acid ratio is still in a lower level. More capital is being put into operations rather than held, which means higher risks and opportunities. Both current ratio and acid ratio of the past 3 fiscal years were decreasing. This is largely due to the continued increase in cost inputs, which have led to larger and larger accounts payable.

Next, efficiency ratios (shown in Table 3) as follows can indicate how well P&G could manage its daily operations.

<table>
<thead>
<tr>
<th></th>
<th>2022</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory holding period</td>
<td>55.88</td>
<td>56.46</td>
<td>54.44</td>
</tr>
<tr>
<td>Receivables collection period</td>
<td>22.46</td>
<td>21.35</td>
<td>23.48</td>
</tr>
<tr>
<td>Payables payment period</td>
<td>123.82</td>
<td>126.84</td>
<td>120.79</td>
</tr>
<tr>
<td>Working capital cycle</td>
<td>-45.49</td>
<td>-49.03</td>
<td>-42.87</td>
</tr>
</tbody>
</table>

Through the above figures, P&G usually takes less than two months to sell out the inventories. They can receive capital from all the customers in about 20 days, but it takes them about four months to make a payment to all the suppliers. This eventually brought P&G a working capital cycle of less than minus 40 days, which indicates that P&G rarely uses its assets in daily operations. This is largely because P&G, as a giant in the retail industry of daily consume products, has long-term stable suppliers and supply chains. In this case, their own assets can be used more for investment and R&D.

Finally, P&G’s gearing ratio keeps at more than 30%, which is a little lower than the general standard figure of 50%. This means P&G may miss some tax benefits and cheaper financing. However, for a leading company like P&G, the added cost of easily switching financing partners and financial changes may not cover the missed benefits.

Over the past 3 years, P&G employees have an excellent execution of the company's comprehensive strategy and have achieved remarkable results in the face of a challenging macro environment and fierce competition. In fiscal 2022, P&G achieved organic sales growth of 7% and core earnings per share growth of 3%. Core earnings per share rose 5% on a constant currency basis and adjusted free cash flow productivity was 93%.

According to the results P&G has achieved and their commitment to executing their growth strategy, they still need to be clear-eyed about the test ahead. The operating, cost and cash flow challenges that P&G has faced over the past three years will continue in fiscal 2023, while consumers will begin the new fiscal year facing the effects of inflation not seen in 40 years.

4 Conclusion and suggestion
To sum up, the strategic adjustments of P&G in recent years has a certain effect. Their cost control and timely transformation have improved their sales in recent years. It also shows that it is necessary to make the right choices when necessary, such as divestitures and administrative settings where the benefits are not proportional to the costs. In the future business activities, this paper believes that P&G should continue to do a good job in cost control, to ensure a virtuous cycle of capital, and maintain brand image. Motivate employees more effectively and provide employee loyalty and sense of gain to ensure the quality of innovation and R&D. More resources will be inclined to the core business, so that the core brand can always meet the needs of consumers, and on the basis of maintaining the existing business advantages, better develop new business areas.

References
1. H. Lu, China Fore Inv 7, (2019)
5. V. Gabrielli, I. Baghi, J Consu Marketing 37, 3 (2020)
7. L. Xu, Comm Acc 9, (2020)
8. X. Chen, Jilin Uni, (2016)
10. X. Jin, Y. Li, Acc Township Enter China 3, (2017)
11. B. Pang, Tianjin Uni Fin Eco, (2019)