McKinsey&Company

# P&G-GILLETTE CASE STUDY

P&G Gillette

## NOVA SBE BUSINESS SEMINAR

Organization | March 2019

# P&G acquisition of Gillette

"This merger is going to create the greatest consumer products' company in the world"

***– Warren Buffet***
***(Gillette's largest shareholder)***

# Both Procter & Gamble and Gillette were already major players in the consumer goods' industry

Key numbers in 2004

**167** years old

Strong company (**+80** countries)

Growing inorganically (**16** billion-dollar brands in its portfolio)

**110,000** employees

**$51** billion net sales

*"Governed by our Purpose, Values and Principles"*

**Acquiring**

**103** years old

Global company (distribution in **200** countries)

Fast growing (**5** billion-dollar brands in its portfolio)

**30,000** employees

**$10** billion net sales

*"Culture of Collaboration and Achievement"*

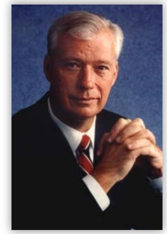
SOURCE: Annual Reports from P&G and Gillette

# The acquisition proposed by the CEOs was unanimously approved and supported by both companies' Board

**Alan G. Lafley**
*CEO of Procter & Gamble*
*58 years old*[1]

- **Led the company from 2000**, slowing the pace of a restructuring plan that was going too fast, hurting its results
- When P&G resumed growth, **Lafley started guiding acquisitions** that fit P&G's strategy – $5.7 billion was the biggest before Gillette

"This combination of two best-in-class consumer products companies, at a time when they both are operating from a position of strength, is a unique opportunity"



**James M. Kilts**
*CEO of The Gillette Company*
*57 years old*[1]

- **Joined Gillette in 2001** increasing its earnings with its decisive management style
- **Personally benefited from the transaction** due to the great number of Gillette's shares retained
- **Became Vice Chairman of the Board at P&G**

"I believe the consumer product industry needs to consolidate …I'd rather lead it than end up with the leftovers"

1 Age in 2005 – Merger year

# Gillette offered P&G an opportunity to expand its presence in high-growth beauty and health

| | P&G | Gillette |
|---|---|---|
| **What were both companies looking for?** | ▪ Increase growth in personal care business (historically a stable, mature business) | ▪ Gain access to new markets, diversify product portfolio and reap cost savings<br>▪ Discussions with another CPG company about a business combination in 2002 and 2004 failed |
| **What did they had to offer?** | ▪ Experience in acquiring companies, although not the size of Gillette<br>▪ Organizational structure suited to major integrations – core centralized units (Global Business Unit, Market Development Organization, Global Business Services) | ▪ Gillette's beauty and health portfolio would expand P&G's growth and improve margins<br>▪ "Gillette will accelerate the shift of P&G's business mix toward faster-growing, higher-margin, more asset-efficient businesses: beauty and health." – 2005 Annual Report |

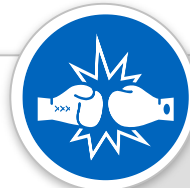
# The deal was approached as a merger in order to incorporate the strengths from both companies

| | P&G | Gillette |
|---|---|---|
| **Complementary portfolio** | ▪ **Women's** personal care | ▪ **Men's** grooming category |
| **Complementary geographic footprint** | ▪ Strong positions in Japan, China and Mexico | ▪ Strong position in Brazil and India |
| **Distinct capabilities** | ▪ Go-to-market capabilities | ▪ Ability to "lock-in" customers with growing list of features |
| **Valuable assets** | ▪ Scale – combine the strengths from the different brands, working as one company to create advantages for all | ▪ High-profit brands |

"The merger is a brilliant move strategically"
***– Linda Bolton, Oppenheimer & Co.***

1 Consistently ranked by leading retailers in the industry surveys as preferred supplier

# However, cultural differences were particularly noticeable in the modes of communicating and deliberating on decisions which could affect the deal



P&G

Specialized in the **female consumer** – focus on “what does she want?”

Management culture
- **Slow**-moving
- Communications mainly on **paper** (memo)
- **Consensus**-driven decision
- **Slow**, deliberated decision

Principal executive officer in Cincinnati, Ohio

Gillette™

Specialized in **male’s needs**/ purchasing habits

Management culture
- **Fast** rollout
- **Meetings** (PPT presentations)
- **Hierarchical** decision
- **Rapid**, efficient decision

Principal executive offices in Boston

“The cultural differences were real”

***– Bruce Cleverly, Gillette’s Oral Care president***

# The value of the planned cost savings at the time of the announcement was between $14 to $16 billion

| Synergies | Description |
|---|---|
| **Workforce** | Downsizing of ~4% of the combined workforce (~6,000 employees) through:<br>▪ Elimination of management overlaps<br>▪ Consolidation of business support functions |
| **Power** | With a combined portfolio of 21 billion-dollar brands of must-have products, the combined company will **increase its negotiation power with retailers for the display space** |
| **Advertising** | P&G quickly became the nation's largest television advertiser and Gillette spends almost $1 billion a year on ads – together they should get **further savings on advertising purchases** |
| **Scale** | The merged company was also able to achieve **scales savings from: manufacturing, distribution and corporate administrative costs** |

In order to get the maximum potential value of this acquisition, **the deal was approached as a merger**

Therefore, it was announced a "**field the best team" concept.** This meant a **combination of talents, best practices and capabilities** from both companies

With this announcement, **teams from both companies felt the pressure to prove their value and defend their job.**

# Questions to discuss

If you were P&G's CEO, given the context of both companies, **how would you manage the acquisition of Gillette?**

In that same situation, how would you **manage the differences in order to retain the best talent**?