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P&G, Colgate Hit by Consumer Thrift

Household Products Makers See Sales Weakening, Raise Prices to Keep Quarterly Profits From Plunging

By
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Shoppers continue to pare back spending even on basic household staples, resulting in lower-than-expected sales for Procter & Gamble Co. PG -0.74% and Colgate-Palmolive Co. CL -0.58% The consumer-products giants are responding by raising prices to keep profits from plunging.

P&G said that rather than splurge on premium-priced brands like its Tide detergent and Pampers diapers, consumers are choosing less-expensive versions, including its own Gain detergent and Luvs diapers. Some shoppers are forgoing discretionary purchases all together.

P&G hasn't been able to turn the tide of consumers switching to lower-priced alternatives to its premium household brands. Associated Press

"There is some trade down, there's obvious pocketbook pressure," P&G Chief Executive A.G. Lafley said in a conference call Thursday. "Frankly, more consumers will try private-label brands and retailer brands than would try them in more normal economic times."

Kimberly-Clark Corp. KMB -2.98% last week reported lower sales of discretionary everyday basics such as paper towels and facial tissue.

To offset higher commodity prices and global currency swings, P&G and Colgate raised prices in the quarter through March. P&G said higher prices increased its total sales by 7%. Colgate raised prices by 8%.

Despite pressure from retailers to lower prices for cash-strapped shoppers, neither company conceded much willingness to do so.

Higher prices hurt sales volumes, especially in emerging markets, but still paid off for the companies.

"While painful, pricing to protect the structural economics of our business is the right thing to do," P&G Chief Financial Officer Jon Moeller said.

Analysts said higher prices could backfire. "Investors are certainly concerned by unit-volume trends, especially on the Procter side, and wondering whether they're going to have to lower price points or kick up promotions," said Bill Pecoriello, CEO of ConsumerEdge Research LLC, a consumer-products research boutique in Stamford, Conn.

P&G blamed lower sales on inventory cuts by retailers world-wide. Colgate said consumers still are pulling items from their cupboards before buying new items.

To keep consumers loyal to their brands, Colgate and P&G are developing new and improved products and intend to ramp up ads that emphasize why their brands offer more value. Still, Colgate cut its first-quarter advertising spending by about 24%.

Beauty products were a particular blemish for P&G last quarter, with the division's sales falling 9% to $4.3 billion. Discretionary items were hardest hit, especially luxury fragrances and salon hair-care products.

Investors have said P&G should stick to the household necessities it knows best. But Mr. Lafley defended the company's emphasis on beauty, saying it is a "brand- and innovation-driven industry" that is shifting away from department stores to P&G's home turf.

"There are a lot of things that are dead right for us, and I don't get too excited by a quarter or two, or even a year or two, if it is the right fit."

Mr. Lafley signaled a willingness to exit some of P&G's current categories and consider acquisitions, though he didn't provide specifics.

He said there has been "significant interest" in acquiring P&G's pharmaceutical business, but the company is still weighing a variety of options for the operation.

P&G reported net income of $2.61 billion, or 84 cents a share, for its fiscal third quarter, down 3.6% from $2.71 billion, or 82 cents a share, a year earlier. Revenue fell 8% to $18.42 billion.

Analysts polled by Thomson Financial forecast earnings of 80 cents a share on revenue of $18.9 billion.

P&G's organic sales, which exclude the impact of acquisitions, divestitures and foreign exchange, increased 1%, short of the company's forecast gain of 2% to 5%.

P&G cut the high end of its already-lowered outlook for the fiscal year that ends June 30. It now projects earning $4.20 to $4.25 a share, compared with its January forecast of $4.20 to $4.35 a share.

"The quality of results looks worse than expected and we expect questions about the sales outlook to remain," Goldman Sachs analyst Andrew Sawyer said in a research note.

At Colgate, first-quarter net income including noncontrolling interests rose 9.8% to $536.5 million, or 97 cents a share, from $488.5 million, or 86 cents a share. Revenue decreased 5.7% to $3.5 billion.

Beauty company Revlon Inc. posted first-quarter profit of $12.7 million, compared with a year-earlier loss of $2.5 million. Revenue fell 2.7% to $303.3 million.

—Anjali Cordeiro contributed to this article.

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