P&G Puts Up Its Dukes Over Pricing

Consumer-Products Makers Risk Margins to Grab Market Share From Rivals and Cheap Store Brands

By
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Updated April 29, 2010 9:11 p.m. ET

Procter & Gamble Co. is waging one of the most aggressive market-share wars in years, cutting prices, accelerating product launches and spending more on advertisingin an effort to win over shoppers slowly reawakening from their recession-induced coma.

The moves are aimed at winning back market share lost during the recession to lower-priced rivals, including private-label brands. They also are a sign that consumers aren't yet healthy enough to fully absorb the wave of product upgrades coming at them without some help.

The price cuts paid off last quarter for P&G, which on Thursday reported a 7% surge in year-over-year sales volumes, its best showing in 18 quarters.

P&G's major competitors also reported earnings Thursday, saying they too cut prices and saw better sales. Colgate-Palmolive Co. CL -0.58% said its North American prices were 3.5% lower last quarter than a year earlier. Unilever PLC, whose CEO Paul Polman, a former P&G executive, began cutting prices to boost volumes a year ago, said its overall prices were 3.3% lower in the period.

"It's war inside stores," says Burt Flickinger III, a former P&G executive who now tracks pricing patterns nationwide as a consultant to major retail chains. He says the last time he saw this level of promotional activity was about 20 years ago, when P&G's market share had been dented by a recession, a string of difficult acquisitions and disappointing product introductions.

"Lately, we have seen several of our key suppliers bring a higher level of creative thinking" to promotions, says J.K. Symancyk, executive vice president of merchandising for Meijer Inc., a Midwestern retail chain selling groceries and other goods.

P&G has lowered prices across nearly every one of its product categories this year to boost sales, according to a Sanford Bernstein analysis of data collected by Nielsen Co.

Pricing Pressure

Change from year earlier in retail prices for selected Proctor & Gamble categories vs. a major competitor.

The company's U.S. prices for batteries are down 12.7% in the 12 weeks ended March 20 from the same period a year ago. For liquid laundry detergent, the drop is 4.6%; for shampoo, 4.3%; for diapers, 1.3%. In contrast, P&G's Gillette razor-blade prices were up 5.6%. The data don't reflect pricing at club stores or Wal-Mart Stores Inc., which has been touting recent price cuts.

Those are big percentages in the market for fast-moving household staples, which command much lower margins than slower-selling goods like apparel. A 64-ounce bottle of Downy fabric softener, which last summer cost $4.49, or $3.49 on sale, now often goes for $2.99 on sale, says Mr. Flickinger, who regularly tracks prices in stores. Tide 2X, which last fall cost $6.99 on sale, now can be found at two bottles for $11.

P&G's new chief executive, Robert McDonald, "has put the industry on notice, essentially saying, 'You can't just take our market share by discounting and promoting around us,'" says Bill Chappell, an analyst at SunTrust Robinson Humphrey. "They're now going to focus on market share first, and profitability seems to be somewhere behind that."

"We're doing what we have to do price-wise to stay price competitive," P&G's Mr. McDonald said on a conference call Thursday.

P&G turned in a better-than-expected bottom line for its fiscal third quarter. Profit fell 1% to $2.59 billion, or 83 cents a share, due to a charge stemming from the health-care overhaul. Low prices, however, cut into sales growth excluding acquisitions and currency influences, which came in at the lower end of the company's range.

Many industry experts caution there are long-term risks to the highly promotional environment consumer-product companies are fostering. Overall profits could be hurt, and consumers could learn to wait for discounts.

"How do you turn it off?" Mr. Chappell, the SunTrust analyst, says. "If you do enough promotions where the consumer expects a product to be off 20%, it becomes a behavioral change so that the shopper won't buy it until it's on sale."

Alberto Culver Co. ACV 0.48% , which reported earnings Monday, said rampant promotional activity continued to weaken the market for U.S. hair-care products. The maker of hair-care brands including Tresemmé, Nexxus and Alberto VO5 said it increased its own advertising and marketing investments in the just-completed quarter by more than 20% over the year before.

Household-product companies that hold back on promotions do so at their peril. Last week, Kimberly-Clark Corp. KMB -2.98% said it didn't heavily promote its Huggies diapers in North America during the past quarter, which led to a 5% drop in sales volumes compared with the year before.

Profit at Unilever—which makes Lipton tea, Vaseline petroleum jelly and Ben & Jerry's ice cream and which remains aggressive on price—jumped 33% to €973 million ($1.28 billion). Sales volumes at the Anglo-Dutch company rose 7.6%, well ahead of analyst expectations.

Colgate's earnings fell 33% on charges related to a currency devaluation in Venezuela, even as revenue rose 9.5%.

Colgate, Unilever and P&G each said they spent more on advertising, which cut into margin improvements driven by cost cuts.

Tensions from the escalating price war played out on Thursday's conference calls with analysts. Unilever's Mr. Polman chided "the amount of pricing activity that we see by some selective competitors going on." M

Meanwhile, Colgate signaled a need for moderation. "Pricing is often a nonsustainable answer," Colgate CEO Ian Cook said.

—Paul Sonne contributed to this article

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Citation:

Ellen Byron, “P&G Puts Up Its Dukes Over Pricing-Consumer-Products Makers Risk Margins to Grab Market Share from Rivals and Cheap Store Brands,” Wall Street Journal (Online), April 29, 2010.