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'Tide Thursday' Comes in Softer Than Expected

P&G Will Spend More on Marketing, but Forecast Indicates No Industry-Destabilizing Price Cutting

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Published: May 28, 2009

BATAVIA, Ohio (AdAge.com) -- Procter & Gamble Co.'s "Tide Thursday" looks a bit less dramatic than Philip Morris' price-slashing "Marlboro Friday" 16 years ago, but it also bodes much better for ad spending.


A.G. Lafley

P&G followed through on widespread expectations that it would pull down earnings targets for its upcoming fiscal year, which begins in July, to invest more aggressively in innovation, marketing and market share. But in a move that averts a potentially industry-destabilizing round of price cutting and leaves room for increased ad spending, very little of the financial wiggle room P&G has given itself appears earmarked for price.

Speaking at a Sanford C. Bernstein conference today, Chairman-CEO A.G. Lafley said P&G will and already is using "surgical pricing" to combat share losses in some cases. But its financial forecast for 2010 actually accounts for slight price increases, essentially legacies of increases taken last year.

Those price hikes, Mr. Lafley said, were "critically important for us ... to make sure we re-established and maintained the right industry economic structure, because we're the leader in most of these industries. ... After you get the industry structure right, you can go back to rebuilding your share positions."

As such, P&G's "Tide Thursday" is less destabilizing for the package-goods industry than "Marlboro Monday" 16 years ago, when Philip Morris decided to go after share declines with a 20% price cut. But it also signaled a P&G that, after a 5% global volume decline last quarter, will much more aggressively seek market share next year.

No more double-digit earnings growth
Chief Financial Officer Jon Moeller said P&G expects organic sales growth of 1% to 3% in 2010, which, while three points below P&G's long-term goals, is expected to come mainly through market-share gains and "mix," or trading consumers up to higher-ticket products.

As a result, P&G appears likely to miss a once-cherished goal of a decade of double-digit earnings growth, as the forecast for fiscal 2010 of $3.65 to $3.80 represents a minimum 10% decline from this year's full-year earnings forecast and only up to a 4% increase on "core earnings," which exclude gains from the divestiture of P&G's coffee business this year.

Mr. Lafley declined to say how much of P&G's increased earnings wiggle room it will put into pricing as opposed to marketing spending. But the earnings range and amount earmarked for restructuring costs to "simplify" P&G's management structure are consistent with an earnings forecast by Consumer Edge Research last week that forecast a roughly $800 million increase in P&G marketing spending, or 1% of sales, next year.

That comes after belt-tightening last quarter that that included a roughly $440 million decrease in marketing spending. Yet Mr. Lafley said P&G has been making investments in the future this year, too -- primarily in such things as new plants in developing markets and increased research and development spending.

"In the year we're just completing," he said, "we made a choice to trade some return in the present for some investment in the future. ... Next year, we're going to invest in share growth." One difference, of course, is that this year still left room for double-digit earnings growth (even excluding the Folgers gain). The forecast for next year doesn't.

How P&G plans to increase share
Mr. Lafley didn't provide many new details on exactly how P&G plans to grow share amid a deep recession. But he said the broad strategy is to grow both "vertically," with value-priced products in more categories, and "horizontally," by expanding brands into new segments. Those two aren't unrelated, as Mr. Lafley said expansion of premium-price products will provide the profits needed in many cases to offer lower-margin value entries.

In laundry, for example, he said P&G will launch two premium products: a reusable Bounce Dryer Bar that can last as much as four months and

Tide Stain Lifter, a laundry pre-treater. But he provided little detail on how P&G will address share losses in recent quarters to value brands in P&G's main laundry business, detergent, which some analysts expect to include a launch or repositioning of a value brand.

Mr. Lafley said recent moves by retailers to squeeze out underperforming products and brands are in most cases helping P&G's brands and in many cases led by P&G. "We're working with top 10 retailers around the world to rationalize their assortment," Mr. Lafley said. "We have countless examples of where we've run pilot tests with major customers where we take 20%, 30%, even 40% of the assortment out, and the consumer perceives there's more choice. The consumer can find her brand and product faster. [Retailers] end up with product and category growth, and we end up with share and sales growth, and of course it's a lot more profitable."