

Colgate Palmolive Case Study

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Introduction

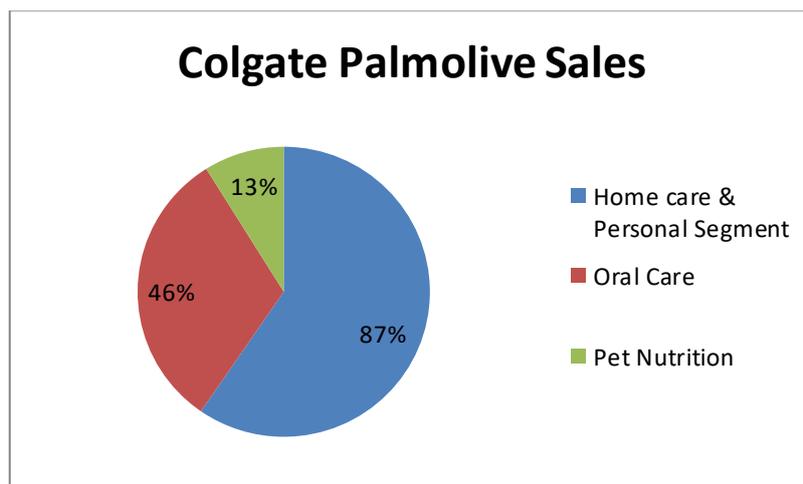
The company was formed out of a collaboration between two companies, one of which was a soap, starch and candle selling company started by William Colgate in 1806 and the other was a soap factory that was opened by B.J. Johnson in 1864 and was named Palmolive Company. The Colgate Palmolive company has been operating for long in Latin America with over 75 years of experience in the market and in Asia, the company has been established for over 50 years.

Colgate Palmolive is a Multinational company based in America which has household, personal and healthcare products that are produced and distributed by the company. It is one of the top most FMCG companies with 50% of market share in the household and personal products (Hoover's Inc., 2015). Some of its operations are in Latin America, Greater Asia, Europe and North America.



Figure 1: Colgate-Palmolive Product Segments (Cardenal, 2015)

The home care and personal segment of the company are operated from Australia, Brazil, China, Colombia, France, Italy, Mexico, Poland, South Africa, Thailand, Venezuela, and Vietnam. Majority of sales of the company come from this segment making 87% of its sales. Oral care products make the next biggest segment with 46% contribution to the total sales. Pet nutrition segment which contributes to 13% of total sales of Colgate Palmolive and this segment is majorly operated from the Czech Republic (COLGATE-PALMOLIVE COMPANY, 2014).



Some major brands of the company that are sold all over the world are Colgate toothpastes, Palmolive soap, Sorriso, Mennen, Speed Stick, Protex, Softsoap, Irish Spring, Elmex, Kolynos, Fabuloso, Tom's of Maine, Ajax, Axion, Soupline, Sanex, Suavitel, Hill's Science Diet and Hill's Prescription Diet.

Company Size and Corporate Objectives

The company has sales channels for its products in around 200 countries in the world and operations in 70 countries with 38,000 employees. The company In 2011, the worldwide net sales of the company was US\$16.7 billion (The SAP Enterprise, 2011). By 2014, the revenues grew to \$17.42 billion with \$2.24 billion profits (Forbes, 2014).

The company is listed on stock exchange, NASDAQ with CL\$69.63 of the value as on 14th April 2015. Analysts have forecasted that the company would gain a significant growth in its profits to earnings ratio which would increase to 21.20 by 2016 as calculated by Zacks Investment Research (Zacks Investment Research, 2015).

Corporate Objectives of Colgate Palmolive are:

- To make the company best place to work by creating an inclusive internal environment that encourages creativity and participation of employees for which the company respect the diversity due to differences in cultures and welcomes individual contributions from all.
- To drive growth of the markets. This is done by strengthening supplier relationships such that the company can exceed the expectations of stakeholders through a strong collaboration for which the company has a Supplier Diversity program in place.
- To develop a capability to fund growth of the company. In past 100 years, company has shown a positive trends towards growth both in terms of sales and profit leaving the company with enough of funds to drive growth (Nesheim, 2011).

Strategic Group and Main Competitors

Its key competitors include The Clorox company, Proctor & Gamble, Unilever Ltd., Kimberly-Clark and Church & Dwight Co., Inc.

The Clorox Company: This Company competes with Colgate-Palmolive directly in the household products market. Many of the products of two companies overlap yet there are significant difference between the products offered by two companies. In 2014, its revenues were \$5.6 million, had 8200 employees and some of its major Brands include Formula 409, Pine-Sol, Tilex, Soft Scrub and S.O.S

Proctor & Gamble: This is one of the major competitors of the company in household and personal care segments and it has \$24 billion brands in the market. 5 year average ROE of the company was 18.8% from 2005 to 2011. In 2014, its revenues were \$81 million, had 118,000 employees and its major brands include Tide, Ariel and Downy.

Kimberly-Clark: Colgate-Palmolive and Kimberly Clark have come up with an initiative along with HealthyChildren.org and Dr. Levine to start a drive for encouraging healthy habits in Kids (Kimberly Clark, 2012). In 2014, its revenues were \$20.8 million, had 57000 employees and some of its major Brands include Huggies, Pull-Ups, Little Swimmers, GoodNites, Kotex, Lightdays, Depend, and Poise.

Colgate-Palmolive has its brand Colgate on the Forbes World's Most Valuable Brands List with its toothpaste line having global market share of 44.7%.

It has presence in 7 continents including North America is oldest and most mature geographic region. Europe and South Pacific segment is another mature market but is slow growing. Latin America is largest geographical region for the company in terms of sales. The company has entered and is now focusing on emerging markets such as Brazil, Russia, India and China where the market is still not mature.

Economic Environment

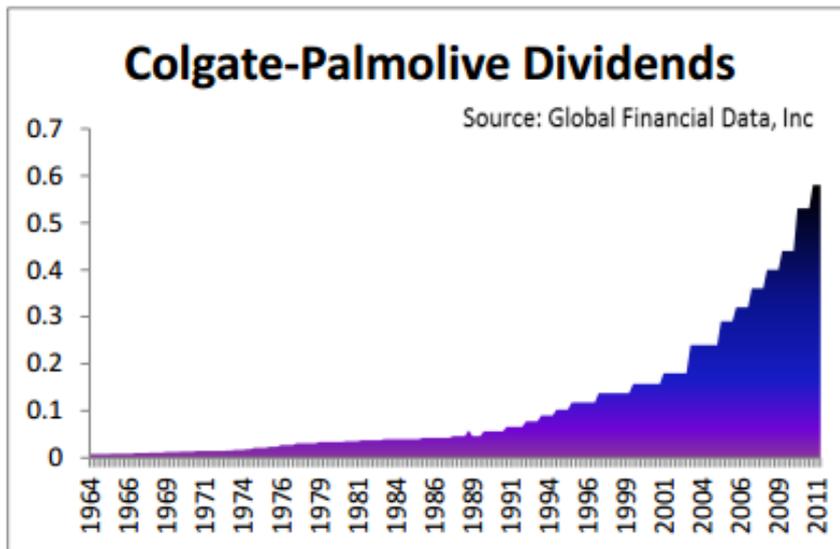
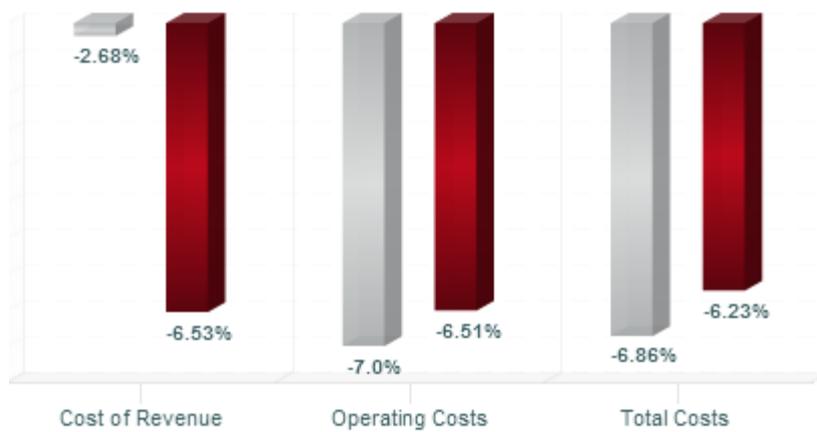


Figure 2: Dividends (Nesheim, 2011)

The company has been paying increasing dividends every year with impressive growth despite facing recessions, since its inception especially in the consumer products with power brands like Colgate toothpaste, Palmolive Dish Detergent, Ajax Cleaning Supplies, Irish Spring Soap and science diet pet food. These products have 44.7% of the global market.



The company has also successfully reduced its costs and expenses over the years. In 2014, it managed 7% reduction in operating costs. The cumulative yearly returns of the company from 1985 to 2011 was 3759% which was way higher than the average S&P 50 returns of 876%. The average ROE of the company was 95.90% during the same time.

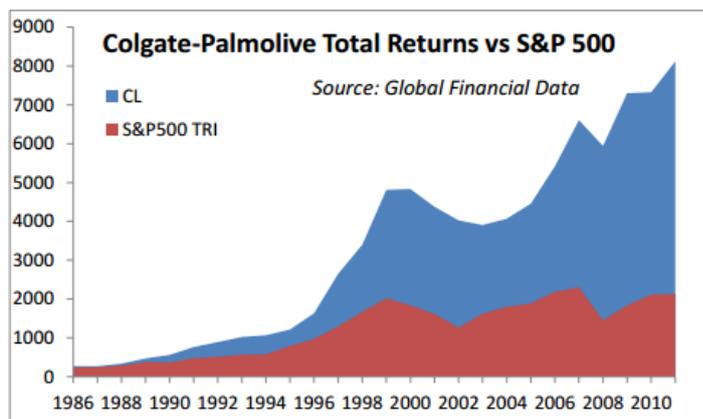


Figure 3: Comparison of returns with S&P 500 (Nesheim, 2011)

Industry Environment

FMCG industry in which Colgate Palmolive operates sells goods that are low cost and get consumed fast. The target market is huge. Gramener visualization server shows that the total revenue that was generated by the FMCG sector in the world totals \$288 billion with UK itself contributing highest with \$87.9 billion. The industry environment can be explored using Porter's five forces that include:

Supplier bargaining power: Cost of switching suppliers in FMCG can be high and thus, they have power but it is not very significant as options are there.

Buyer bargaining power: Buyers can be direct consumers who are very segregated and thus, have low bargaining power but when considering retailers who are direct customers, they have significant bargaining power over pricing.

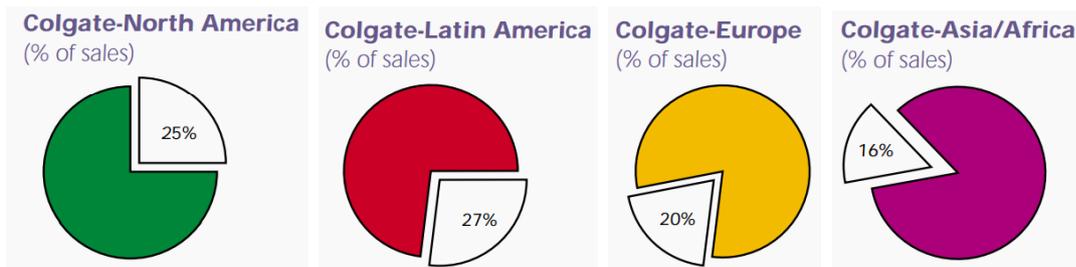
Threat from Substitutes: It is fairly high as there can be many substitutes that are cheaper and unbranded but the company counters them by coming up with lower priced packages made out of own products.

Threat from new entrants: As it is a capital intensive business, it is not easy to enter and thus, new entrant's threat is very low.

Competitive rivalry: The Company has some strong rivals like P&G, Clorox and Kimberly Clark. These companies are fairly competitive and thus, have good bargaining power.

Internationalization

75% of the Colgate Palmolive sales come from international sales of its products. It has a strong hold on the markets in developing countries like Asian countries such as India and China and African countries. The company has 20% of its sales coming from Europe and 16% from Asia and Africa.



(Colgate-Palmolive Company, 2000)

Conclusions

This paper was written to discuss the business case of Colgate -Palmolive Company and it explored the company's products, business growth prospects, competition, business environment, economic environment and the FMCG industry in which the company operates. Some key findings of the study were

- It was found that the company is a strong brand with significant performance over 100 years successfully staying ahead in the competition.
- The company has sustained itself with profits even during the time of recession and have paid increasing dividends to its stakeholders every year for 100 years of its operations.
- Its flagship brand is Colgate with its toothpaste line having global market share of 44.7%.
- North America is the oldest and most mature geographic segment for the company in 7 continents. The company is now expanding into developing markets as they are less mature.

Colgate-Palmolive presents a strong case for study as the company was able to sustain a strong and profitable brand over a long time span of over 100 years.

References

Amsaveni, R., & Gomathi, S. (2013). Fundamental Analysis of Selected FMCG Companies in India. *Asia-Pacific Finance and Accounting Review* , 37–55.

This journal article was taken as it discussed the FMCG companies which helped researcher understand the market that Colgate-Palmolive is present in.

Cardenal, A. (2015). *3 Dividend Aristocrats With Powerful Brands*. Procter & Gamble.

In this research, Cardenal discussed major brands in FMCG and compared them along the lines of their financial performances. Researcher used this study to get the figures on profits, dividends and overall growth of major companies

Colgate-Palmolive Company. (2000). *Colgate's Global Success*. Colgate-Palmolive Company.

This research discussed in detail about the company, its objectives and its internalization. Thus, researcher took the details of various markets it operates in globally through this research.

COLGATE-PALMOLIVE COMPANY. (2014). *COLGATE-PALMOLIVE COMPANY*. Retrieved from Vault:
<http://www.vault.com/company-profiles/personal-care/colgate-palmolive-company/company-overview.aspx>

This article helped research understand different products and segments of Colgate -Palmolive as well as their performance as compared to other brands in the same space. Researcher used the insights to understand various segments of the company.

Forbes. (2014, May). *Colgate-Palmolive*. Retrieved from Forbes:
<http://www.forbes.com/companies/colgate-palmolive/>

This article from Forbes had details of all major players in the FMCG business and their details were taken by the researcher to identify major competitors that not only were in FMCG but were of similar size as Colgate-Palmolive.

Gremener. (2014). *FMCG WORLD MARKET SHARE ANALYSIS*. Retrieved from Gremener:
<https://gramener.com/posters/FMCG-Market-Share.pdf>

Gremener study details the market share analysis of the FMGC sector and thus, was used to get the details of the performance of all major FMCG brand. This was particularly helpful in performing direct comparison between these companies and Colgate-Palmolive.

Hoover's Inc. (2015, April 15). *COLGATE-PALMOLIVE COMPANY Competition*. Retrieved from Hoovers: http://www.hoovers.com/company-information/cs/competition.COLGATE-PALMOLIVE_COMPANY.f033ced43b10cea5.html

This study from Hoover's was also used for understanding different competitors, their market shares and financial performances.

Jacques, L. (2012). *Church & Dwight Qualitative Analysis*. Kenneth Woods .

This study contained an overview of Church & Dwight which is one of the major competitors of Colgate-Palmolive and thus, the study was used for making a direct comparison between the companies to understand differences in the strategies and their performance.

Kimberly Clark. (2012, July 11). *Kimberly-Clark and Colgate-Palmolive Company Team Up with HealthyChildren.Org to Set Kids Up for Success for the 2012-2013 School Year*. *Kimberly Clark*.

This study from Kimberly Clark suggested that FMCG not only compete but they also collaborate in some ways if their brands can support each other in the market. Such an initiative was also taken by Colgate-Palmolive along with Kimberly Clark and thus, it was discussed using the information given in this study.

Nesheim, B. (2011). *Investing for Income: Colgate-Palmolive*. Global Financial Data.

In this study, Nesheim discussed the company in detail specific to the financial and organization performance of the company and thus, was used by research to gain insights into understanding the organizational and financial performance of the company.

The SAP Enterprise. (2011, December). *New Solutions to Help Businesses Sell More Through Every Touch Point*. Retrieved from SAP: <http://www.sap.com/customer-testimonials/consumer/colgate-palmolive.html>

This research gave information about the consumers of the Colgate -Palmolive such as demographics, market presence and sales in the consumer segments. This article was used by the researcher to understand the consumers of the company

Zacks Investment Research. (2015, April 15). *Forecast P/E Growth Rates*. Retrieved from Nasdaq: <http://www.nasdaq.com/symbol/cl/pe-growth-rates>

This study was also used to gain insights into the financial performance of all major FMCG players such that a direct comparison could be carried out.