a. Value Chain Analysis of Procter and Gamble case study

Value Chain Analysis describes the activities that take place in a business and relates them to an analysis of the competitive strength of the business. Value Chain Analysis is one way of identifying which activities are best undertaken by a business and which are best outsourced. It suggests that the activities of a business could be grouped under two headings: primary activities and supporting activities.

1. **Primary Activities** - those that are directly concerned with creating and delivering a product (e.g. component assembly).

   **Sourcing and Procurement (sourcing, supply planning, materials procurement)**
   Relating this model to P&G’s case study, it could be implied that P&G’s raw materials are sourced and/or procured from all over the world, wherever it would be cost-effective. It is thus no surprise that for a number of years it had focused on ways to improve supply chain efficiency and costs. It now has a powerful industrial network linking electronically to major suppliers and customers. This is to the extent that it changed companies when efforts to reduce inventory levels only produced marginal improvements. This led to the introduction of agent-based modelling.

   **Operations (assembly, branch operations)**
   P&G’s operations had four business units: health and beauty, babies, snacks and beverages, and fabric and home care. It offered more than 300 products including major brands like Tide. It has been aggressively using product lifecycle management software since 2000 for new product development. The company uses MatrixOne software for mechanising and automating the knowledge components, and flow components, within the bringing-a-product-to-market phases. In addition, the company is planning to expand its use of agent-based modelling to actually run important aspects of its operations so that end-to-end replenishment cycle for products could be shortened drastically.

   **Outbound Logistics (warehousing, shipping, fulfilment)**
   P&G’s largest customer was Wal-Mart that had a reputation for requiring suppliers to coordinate their supply chain processes with its powerful just-in-time continuous inventory replenishment system. A database is used to hold information about work processes vital for creating, reviewing, approving, and distributing products. This enabled the company to lower its costs on item such as pigments and chemicals, and to reduce development time.

   **Sales and Customer Service (sales, order processing, customer support)**
   According to the case study, Wal-Mart was P&G’s largest customer, accounting for nearly 20 percent of its sales and could be responsible for one-third of P&G global sales by 2010. Wal-Mart capitalised on this position to force P&G to sell wares to them at the cheapest prices possible. With the coming of a new CEO in 2000, the company began to find new ways of selling its major brands in more flexible, innovative and cost-conscious ways. This was apparently because they were not meeting sales targets, and had to rely on price increase to do so.
2. **Support Activities**, which whilst they are not directly involved in production, may increase effectiveness or efficiency (e.g. human resource management). It is rare for a business to undertake all primary and support activities.

**Financial Management (financing, planning, investor relations)**
The company’s introduction of agent-based modelling saved them $300 million annually on an investment less than 1 percent of that amount. This is because it was able to perform “what-if” analyses on inventory levels, in-store stockouts, and transportation costs to find out alternate rules to existing ones being analysed, such as ordering and shipping frequencies or product allocation in distribution centres. It was discovered that trucks should be often dispatched before fully loaded. Although transportation costs would be higher using partially loaded trucks because of both driver time and fuel to deliver fewer goods, the simulation showed that retail store stockouts would occur less often, thus reducing the amount of lost sales which would make up for the higher distribution costs.

**Research and Development (product design, testing, process design, material research)**
P&G came to be seen as unimaginative, even stodgy. It seemed weak in developing new products, and had developed just one product in 15 years. This gave the chance for traditional competitors and makers of generic versions of their branded products to grab market share. It established an Intranet called InnovationNet, which was used to bring people together who are working on similar problems in order to generate synergy for new product ideas and product development. Using the same intranet, P&G allows outsiders like research scientists and entrepreneurs to search for new, innovative products worldwide. Further, it uses a very small information technology group called Virtual Learning @ Procter and Gamble to develop the concepts, designs, and packaging for potential new products.

**Facilities Management (physical plant, IT services, office equipment)**
The case study shows the introduction of several information technology services and systems for the various departments of the company.

1. MatrixOne; used to manage and integrate other IT systems and work processes.
2. InnovationNet, and intranet which is used to provide access to published information such as documents, reports, charts and videos.
3. zTelligence; to conduct market research and online surveys
4. Marketing resource management software to enable marketers “focus on creative results-oriented marketing”

**Human Resource Management (recruiting, training, compensation)**
P&G began to use information systems to support how learning occurred within the company. It created an intranet through which new employees could network with experts, learn from projects and receive answers to pertinent questions. This system encouraged experts to share their knowledge with ‘newbies’ through an implicit compensation or reward system. Further, human resource was provided with tools they needed to enhance their trade. For example, marketing personnel were given
a platform where they could access data, marketing principles and tools in order to make sound judgement about a situation.

**Marketing and Advertising (market research, promotion, advertising)**
The company employed the use of knowledge systems to manage marketing. It also uses a very small information technology group called Virtual Learning @ Procter and Gamble to develop the marketing for potential new products. Further, it works with marketing company called Cre8 to put together virtual presentations that demonstrate new concepts to rapidly prototype new features for current products, and even test how consumers react to alternative shelf-space designs. Using information technology in marketing had been ignored in the past because they saw it as complex. P&G’s various brands, product lines, customers, and even different marketing groups each used their own independent software for some functions, including email and marketing campaign management. Currently, using zTelligence, P&G does much of its market research and surveying online.

1. **(b) Analysis of Procter and Gamble’s Business Strategy using the Competitive Forces Model**

Numerous economic studies have affirmed that different industries can sustain different levels of profitability; part of this difference is explained by industry structure. Therefore to have a standard of measuring a firm’s competitive urge, Michael Porter provided a the Competitive Forces or Five Forces framework that models an industry as being influenced by five forces. The strategic business manager seeking to develop an edge over rival firms can use this model to better understand the industry context in which the firm operates. The model (as could be deduced from its name) has five parameters called forces.

The first force in this model is **Entry of competitors**. The force describes how easy or difficult it is for new entrants to start competing, and which barriers do exist. P&G have established themselves over the past 166 years as an industry giant in consumer goods. Further, they have more than 300 products. This makes them well-positioned to ward off competition. They could even afford to buy out new start-ups into the industry. Therefore the barriers which exist for such start-ups is how the market their products to beat prices and quality of an industry giant like P&G which does $40 billion in sales, and is investing in marketing resource development software on a continuous basis.

**Threat of substitutes** in the model refers to how easy a product or service can be substituted, especially if they are cheaper. It could be seen from the case that P&G faced some threat from their traditional competitors such as Kimberly Clark and Colgate Palmolive which had comparable branded products. Obviously, they were gradually taking away some market share. To add to P&G’s woes, makers of generic versions of soap, laundry detergent and toilet paper were selling their products for much less than their established brands. With the existence of cheaper local substitutes, the ‘masses’ were likely to patronise those ahead of the branded ones.

**Power of buyers**: In addition to the above, it is clear from the case that Wal-Mart had a very important position in the life of P&G. Wal-Mart had a very important position in the life of P&G. Wal-Mart accounted for nearly 20 percent of P&G’s sales ($40bn) and could be responsible for one-third of global sales by 2011. This is
a whooping sum which could keep increasing if the relationship is harnessed and further explained. However, P&G’s earnings are threatened because they have to beat down the prices at which they sell to Wal-Mart. They have not yet discovered any alternative to Wal-Mart and so they have to succumb to their pressure and yield to their demands. On the other hand, they could use this positively especially as Wal-Mart shops are easily accessible (even online) and would thus sell faster which will mean more production – more sales and sustainable profits over time, instead of big profits that could be short-lived.

*Bargaining power of suppliers* in the model is explained by the strength of the position of sellers; whether many potential suppliers exist or there is a monopoly because there are few potential suppliers. P&G according to the case seems to be a manufacturing company of consumer goods. They do their own research and development into new products. With over 300 products, and a new CEO who embarked on a plan to sell its major brands in a flexible, innovative and cost-conscious ways, it is likely they would look for alternative sources of raw materials. This is supported on the basis that P&G has many global brands.

*Rivalry among the existing players* considers whether there is a strong competition between the existing players in the industry. It also seeks to answer the question “is one player very dominant or all equal in strength and size”. It may go without saying that, there are several companies which have brands comparable to that of P&G however the latter’s are very well marketed and managed, hence popularly established with consumers. With their wide distribution and earnings, it is does easier to beat players by slightly reducing prices and/or creating product bundles which would give buyers real value for their purchases.

3. **What is the role of knowledge management in supporting P&G’s business strategy? Explain how knowledge management systems help P&G execute its business strategy.**

P&G uses the codification method in managing learning and knowledge. This could be seen from its use of AskMe Enterprise knowledge network software in addition to an intranet which is used to bring people together who are working on similar problems in order to general synergy for new product ideas and product development. AskMe allowed the addition of qualified experts to the pool of information resources on the intranet. The system, based on the amount of involvement of particular workers in certain subjects, creates a directory of subject-matter experts who can be called on to give advice or to solve a problem. These experts are rewarded to provide such answers which could be referred to when a similar situation arises.

This removes the need for personal one-on-one training, but rather encourages new employees to learn on their own and become experts themselves later on in their careers. Rewards for answering questions would also encourage experts to share knowledge, ensuring that knowledge is shared, making the company grow. Furthermore, the marketing department lacked adequate information for a marketing campaign. This was solved by using a single software system that covers all of P&G’s marketing to support all activities from strategic planning to research, and events.