Financial and strategic analysis of FMCG industry-- Taking P & G as an example

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Abstract: Procter & Gamble (P&G) is a global leader in the fast-moving consumer goods (FMCG) industry. Since P&G entered the Chinese market, it has experienced rapid development. The purpose of the present paper is to analyze the development process of P&G in China using PEST analysis, SWOT analysis, financial analysis and prospect analysis. The paper will first conduct strategy analysis to evaluate P&G's internal environment and external business environment, and use data analysis to compare economic indicators such as GDP, GDP per capita, consumption expenditure and CPI between China and the United States. Following this, the revenue, cost and profit data of the past five years will be used to analyze P&G's business in China from 2016 to 2020. The analysis also compares P&G to its competitor Unilever based on accounting ratios. Finally, the future financial prospects of P&G will be forecasted and suggestions will be put forward.

1. Background

1.1 Industry Background

FMCG stands for fast-moving consumer goods. It refers to the products sold quickly and at a relatively low cost. Common examples include packaged foods and beverages, over-the-counter drugs, cosmetics, home cleaning and other consumables. From the consumer's point of view, the main characteristics of FMCGs include frequent purchases, little effort to choose the item, low prices, short shelf life, and rapid consumption. From the marketer's point of view, the main characteristics of FMCGs include high sales volume, extensive distribution, low contribution margins, and a high inventory turnover.

1.2 Business Background

The Proctor and Gamble Company is a multinational consumer goods manufacturing company headquartered in Cincinnati, Ohio, United States of America. It was founded on October 31, 1837. The Proctor and Gamble Company is the world's largest producer of household and personal products, with products covering 4 billion people around the world. It is well known for its range of personal health, consumer health, personal care and hygiene products. The company's net earnings in fiscal 2021 are $14,352 million. Its revenue is primarily generated from selling the finished product to customers.

2. Strategy Analysis

2.1 PEST Analysis

2.1.1 Political Environment

China implemented reform and opening-up its market to international businesses in 1978. P&G entered the Chinese market in 1988 at the early stage of the opening of China. From 1978 to 1992, China gradually realized the economic policy reform from a planned economy to a market economy. During this period, China's economy proliferated, which brought great development opportunities for P&G. China's reform and opening-up has adjusted the economic development system and established a special economic zone in Guangdong Province. As one of the primary forms of free

trade zones globally, special economic zones create a good investment environment and encourage foreign investment through preferential measures such as tariff reduction and exemption to promote economic development. In 1988, P&G established the first joint venture in China - Guangzhou Procter & Gamble Co. Ltd. in Guangzhou. During this period, P&G enjoyed the preferential policies brought by Guangzhou's special economic zone, especially the loose tax system environment. China adjusted the tax items, tax rates, and relevant consumption tax policies, including abolishing the consumption tax on skincare and hair care products and reducing it from 30% to 8%, which is a favorable policy condition for P&G. In addition, China's huge population has brought huge consumer demand to P&G.

2.1.2 Economic Environment

In the early stage of reform and opening-up, China developed an economy that allowed "some people to get rich first." It established special economic zones in Guangzhou and the Pearl River Delta. While the reform and opening-up policy has led to the continuous improvement of China's per capita income, it has also led to the widening of the income gap between urban and rural areas. In 1990, the per capita disposable income of residents in China was 903.9 yuan. However, when stratifying by residential area, the per capita disposable income of urban residents was 1510.2 yuan and only 686.3 yuan for rural residents. Accordingly, P&G took the strategy of first settling in Guangzhou and then developing in the surrounding areas, taking the lead in occupying the market.

Table 1. Economic indicators of China

	1988	1989	1990	2018	2019	2020
Annual GDP	$312.35B	$347.77B	$360.86B	$13.90T	$14.28T	$14.72T
GDP Per Capita	$283.5	$310.9	$317.9	$9905.3	$10143.8	$10434.8
Consumption	$194.02B	$223.56B	$229.68B	$7.65T	$8.00T	$8.07T
CPI (2010 = 100)	33.187	39.242	40.44	121.559	125.083	128.109

Table 2. Economic indicators of the United States

	1988	1989	1990	2018	2019	2020
Annual GDP	$5.24T	$5.64T	$5.96T	$20.61T	$21.43T	$20.89T
GDP Per Capita	$21417	$22857	$23889	$63064	$65280	$63414
Consumption	$4.15T	$4.46T	$4.76T	$16.78T	$17.40T	$17.13T
CPI (2010 = 100)	54.233	56.851	59.92	115.157	117.244	118.691

From 1988, when P&G first entered the Chinese market, to nowadays, the GDP and GDP per capita of China and the United States are gradually increasing. GDPs of the United States are larger than China's, but China's GDP from 1988 to 1990 has an obvious upward trend, the per capita living standard has improved rapidly, the overall growth rate is greater than that of the United States, and the gap between two countries is gradually narrowing. In terms of consumption, the consumption expenditure is rising in both China and the United States, but the consumption expenditure of the United States is significantly higher than that of China.

According to the data released by the National Bureau of Statistics, China's total value reached 471,564 billion yuan in 2011, an increase of 9.2% over the previous year, surpassing Japan to become the second largest economy in the world. The national economy has begun to pick up after experiencing the impact of the global financial crisis. The growth of the national economy has also promoted the continuous improvement of residents' income. In recent years, the per capita disposable income of Chinese households has increased year by year, and the level of consumption power has also increased. In order to create a more comfortable living environment, people's pursuit of health and fashion is also higher and higher, and the purchase expenditure of daily consumer goods is also increasing. According to the relevant data of the National Bureau of Statistics, since the reform and opening-up, the disposable income and household consumption expenditure of urban residents have increased year by year. People's expenditure on FMCG has increased year by year, and FMCG has broad market prospects.

2.1.3 Socio-cultural Environment

In the 20th century, China advocated a culture of diligence and thrift. Chinese generally have the habit of saving. P&G segmented the market. In terms of product, classification is divided into beauty, personal care, household essentials, food and beverages, etc., and different brands have their positioning. High-end products and ordinary products are both developed.

2.2 SWOT Analysis

2.2.1 Strengths

P&G adopts a multi-brand strategy, which is conducive to market segmentation and takes advantage of a large number of brands. P&G has a variety of products, including Pantene, Rejoice, Head & Shoulders, Safeguard, etc. Pantene is known for nutritional care, while rejoice is known for smooth hair. Each brand has unique concepts and functions to meet the different needs of different consumers. Consumers can choose products according to their own needs. The strategic positioning of various brands helps to enhance product personalization, increase diversity and improve consumer loyalty.

In addition, P&G's unique publicity means and advertising creativity are also advantages. P&G has individual advertising creativity, which is the primary way to explore the market. It attracts consumers through creative advertising to lay a stable customer base. Moreover, P&G conducted a comprehensive market survey and market analysis, identified the market demand through questionnaire surveys and interviews, and then produced products according to the consumer demand, which is an important reason why P&G is successful. Besides, as a Fortune 500 company with a history of 180 years, P&G has a high reputation and a stable customer group, occupies a considerable market share and has been one of the world's biggest advertisers in more than 160 countries.

2.2.2 Weaknesses

One of P&G's weaknesses is the imitable nature of its products. Although P&G has advantages in a short period, the barriers to entry are low, resulting in the emergence of several competitors. Other competitors imitate P&G and innovate on the original basis, which is a process of constant internal friction, leading to the limitation of P&G's innovative brand and no products with unique value. In addition, the high cost of a multi-brand strategy leads to a waste of resources. Advertising, research and development of products and other investment costs are high. As the number of brands increases, the cost increases gradually. Market research also requires a lot of human and material resources. Moreover, similar products lead to internal competition in publicity. All in all, there is cost pressure to hold market share.

Furthermore, the management system has limitations. P&G's values require a high degree of internal unity, which is not conducive to the personalized development of employees. It is contrary to P&G's business philosophy of developing uniqueness. Besides, P&G is keen on campus recruitment and managers are mainly promoted from within the company, which will lead to a lack of great talents in the company.

2.2.3 Opportunities

First of all, the rise of the Internet brought development opportunities to P&G. In recent years, enterprises may publish enterprise information and news online with the rise of new media marketing. P&G's official website, as an example, can enable consumers to understand product information and save publicity costs intuitively. E-commerce such as Amazon, eBay, Shopify, and Taobao plays a role in expanding sales channels. This sales channel is not limited by time and space and can be directly marketed online.

Moreover, the improvement of Chinese people's living standards has led to increased high-end demand, and consumers pursue more personalized products. For instance, when it first entered the Chinese market, Oil of Ulan was mainly positioned in the low-end market. Thereafter, in order to cater to the changes in Chinese consumers' taste, it was renamed OLAY and basically targeted the

higher middle-class people. P&G also launched Bluetooth electric toothbrush Oral-B, and the sales volume of SK-II in China increased by more than 20% in 2021 first quarter. It can be seen that P&G is entering the high-end market and has made exemplary achievements. With its unique brand design concept, P&G seizes the opportunity of high-end products and occupies market share.

2.2.4 Threats

The market competition is becoming increasingly fierce, as domestic and foreign market share has decreased and the sales volume has also reduced. Since China joined the World Trade Organization (WTO) in 1999, China's rapid economic growth has made it a competitive market for brands and attracted a lot of investors. P&G's competitors include L'Oreal and Unilever. Many competitors compete with P&G for market share through marketing strategies. In addition, domestic brands are also competitors. Domestic brands have a sense of national identity and low prices, leading to price advantages. For example, China's Diao Pai and Blue Moon snatched the market share from Tide, and Yunnan Baiyao grabbed the high-end market from Crest. In addition, China has stopped blindly pursuing foreign-funded enterprises in recent years, resulting in the decline of P&G's market share.

Besides, the decline in marketing performance led to financial stress. With the increasingly fierce competition, consumer choices have become more diversified, P&G's marketing performance has declined. P&G sold up to 100 brands to cut costs and increase profit margins, thus alleviating P&G's financial pressure. However, this cannot fundamentally reverse the situation. At present, P&G increases its profit margin by reducing costs, but as the consumer group becomes younger, P&G needs to strengthen its brand with marketing strategies. The fundamental threat P&G faces is the decline in marketing performance. In order to change the situation, more marketing strategies targeted at young groups are needed.

3. Financial Analysis

3.1 Solvency Analysis

Table 3. Solvency analysis of P&G during 2016-2020

Index	2020	2019	2018	2017	2016
Current Ratio	0.85	0.75	0.83	0.88	1.10
Quick Ratio	0.68	0.58	0.66	0.72	0.94
Debt to Assets Ratio	0.61	0.59	0.55	0.54	0.54
Debt to Equity Ratio	1.57	1.42	1.24	1.16	1.19

The current ratio is a liquidity ratio that measures a company's ability to pay short-term obligations or those due within one year using current assets. Generally speaking, the higher the ratio, the stronger the liquidity of the enterprise's assets and the stronger the short-term solvency. A good current ratio is above 2, which means that the current assets are twice the current liabilities. Even if half of the current assets cannot be realized in the short term, it can ensure that all current liabilities can be repaid. The average current ratio of P&G in the recent five years is about 0.88 and shows an overall downward trend. P&G's current ratio in 2020 is 0.85, which indicates that it may be difficult for the company to meet its current obligations.

The quick ratio measures a company's capacity to meet its short-term liabilities with its most liquid assets. A ratio of 1:1 is considered to be the standard quick ratio. It indicates that the company has enough assets to liquidate to repay its current liabilities immediately. The average current ratio of P&G in recent five years is about 0.72 and shows an overall slow downward trend. P&G's quick ratio in 2020 is 0.68, lower than 1. In general, a low quick ratio suggests that a company is over-leveraged to maintain or increase sales, paying bills too quickly or collecting receivables too slowly. However, considering the character of the industry, for the commodity retail industry such as P&G, due to a large number of cash sales, there are almost no accounts receivable, so the quick ratio below 1 is also reasonable. It does not mean that the solvency of the enterprise is weak.

The debt to asset ratio is used to measure the ability of a company to use creditors to provide funds for business activities, as well as to reflect the safety degree of loans issued by creditors. The standard debt to asset ratio of a company is 50%. The debt to asset ratio of P&G has been basically stable at about 0.56 in the recent five years and the debt to asset ratio in 2020 is 0.61. It is a reasonable ratio that shows the business is stable and the capital structure of company is rational.

The debt-to-equity ratio indicates the percentage of financing from investors and creditors to evaluate the rationality of capital structure. From the perspective of creditors, the lower the debt-to-equity ratio, the better. For investors or shareholders, the slowly rising debt to equity ratio may bring certain benefits. For example, increasing financial leverage may increase earnings. From the perspective of operators, a high asset liability ratio shows that they have the spirit of adventure and strong risk tolerance. Generally, a good debt-to-equity ratio is around 1 to 1.5. P&G's debt to equity ratio in 2020 is 1.57, which means a company uses $1.57 in debt for every $1 of equity. The usage of creditor financing is slightly higher than that of shareholders' financing.

Table 4. Comparative analysis of P&G and Unilever in 2020

Index	P & G	Unilever
Current Ratio	0.85	0.78
Quick Ratio	0.68	0.57
Debt to Assets Ratio	0.61	0.74
Debt to Equity Ratio	1.57	2.83

The current ratio and quick ratio of P&G and Unilever are similar. P&G is slightly higher than Unilever as a whole, but neither company has reached 2:1 and 1:1 respectively. Since both P&G and Unilever are in FMCG industries, they are reasonable in this industry. In terms of the debt to asset ratio, an appropriate ratio should be between 40% and 60%. Unilever's debt to asset ratio is 0.74, indicating that the leverage is very high. Once the economic environment changes, there is a risk of capital chain rupture. P&G's capital structure is more reasonable and stable than Unilever.

Unilever's debt to equity ratio is much larger than P&G's. Unilever's debt to equity ratio in 2020 is 2.83, which means that the debt outstanding is 2.83 times larger than the equity. For lenders and investors, a ratio of 2.0 or higher means riskier investments because businesses may not generate enough funds to repay their debts. High debt to equity ratio reflects a high-risk, high-reward financial structure. Unilever is highly leveraged, and it is likely to invest large amounts of money in assets and operations. However, Unilever's higher operating expenses in the product innovation business also mean vital innovation and high returns on capital.

3.2 Profitability Analysis

Table 5. Profitability analysis of P&G during 2016-2020

	2020	2019	2018	2017	2016
Gross Profit Margin	50.32%	48.63%	48.73%	49.99%	49.60%
Net Profit Margin on Sales	18.5%	5.9%	14.8%	15.7%	15.4%
Return on Equity (ROE)	28.00%	8.26%	18.64%	27.77%	18.33%

The gross profit margin is the ratio of gross profit to net sales. The gross profit margin index reflects the profitability of the main business. The higher the index, the lower the sales cost and the higher the sales profit to obtain the same sales revenue. P&G's gross profit margin has been stable at about 50% in the recent five years, which is regarded as a good gross profit margin. This means that P&G still has half of its revenue after paying production-related costs.

Net profit margin on sales is the percentage of net income in sales revenue. This indicator reflects the income level of sales revenue. Generally speaking, the larger the index, the stronger the profitability of enterprise sales. If a business can maintain a good and continuously growing net profit margin, it proves that the financial situation of the business is better. Good profit margins vary from industry to industry, but a profit margin of 20% is generally considered high and a profit margin of 5% is low. In the past five years, the highest value was 18.5%, the lowest value was 5.9%, and the

median value was 15.4%, which remained at a high level except in 2019. However, in recent years, P&G's profitability has decreased compared with its previous glory, its ability to obtain cash through operating activities has deteriorated, and the restructuring plan that has lasted for many years requires high cash to pay relevant expenses. As a result, the restructuring expenses of the enterprise continued to increase by about US$800 million in fiscal 2019, signifying that the future cash outflow of the enterprise will continue to grow. Such an operation mode may bring greater financial risks to P&G and increase the debt repayment pressure of the enterprise, so P&G solvency may decline further.

Return on equity (ROE) is the percentage rate obtained by dividing net income by total equity. Return on equity is an important financial index to measure the efficiency of shareholders' capital use. The higher the index, the higher the return brought by the investment. The proper use of financial leverage by a company can improve the use efficiency of funds. On the one hand, too many borrowed funds will increase the financial risk of enterprises, but it can enhance the profit. On the other hand, too few borrowed funds will reduce the efficiency of using funds. An ROE of 15-20% is generally considered good. The average ROE of P&G in the past five years was 20%, which was deemed ideal, indicating that the management has a strong ability to generate income from available equity.

Table 6. Profitability analysis of P&G and Unilever in 2020

Index	P & G	Unilever
Gross Profit Margin	50.32%	43.45%
Net Profit Margin on Sales	18.5%	11.0%
Return on Equity (ROE)	28.00%	39.22%

The gross profit margin and net profit margin of P&G are not considerably different from Unilever's. P&G is modestly higher than Unilever as a whole. Both companies are within a reasonable range. Return on equity reflects the allocation of shareholders' capital by the company's management. The higher the ROE ratio, the higher the use efficiency of equity capital and the stronger the profitability. The appropriate use of financial leverage can improve the efficiency of capital use. Still, a high ROE ratio may result from high financial leverage, which is dangerous to the company's solvency. Both Unilever and P&G have a high ROE, both above 20%, and Unilever has a higher ROE ratio than P&G. However, considering the high commodity turnover rate, low price, short shelf life and large sales volume of the FMCG industry, the ROE of Unilever and P&G are within a reasonable range.

4. Prospect Analysis

4.1 Forecast P&G's future financial prospects based on financial analysis and suggestions

4.1.1 Poor Liquidity

P&G's current liabilities exceed its working capital and adopts the "zero working capital management" mode. In other words, under the condition of ensuring that basic needs of enterprises for current assets are met, the enterprises' investment in current assets is minimized, and a large number of short-term liabilities are used to finance current assets. The remarkable feature of this fund management model is that it helps to make the enterprise at a higher profit level, but at the same time increases the risk borne by the enterprises, which is the high profit and high-risk model.

4.1.2 High Cost

P&G industry has a large labor cost of raw materials, coupled with the high marketing cost caused by the multi-brand strategy. Therefore, the cost-saving plan should be put on the schedule, and certain jobs should be eliminated to save labor costs. To reduce operational and labor costs, P&G offered an early retirement plan to all employees in October 2017, regarded as a way of downsizing to reduce turnover costs.

4.1.3 Imbalance between Revenue and Profit

P&G's revenue and profit growth are not in sync. The impact of local brands leads to weak net profit growth. In addition, the cost is too high. Although the revenue is high, the revenue and profit are unbalanced. P&G chose to reduce the scale of its brand portfolio as the driving force of profit growth, but it could not provide the company with a new profit growth point. Instead, it faced more competitive pressure and could not fundamentally solve this problem. P&G should adjust the financing structure, radically solve the problem of capital liquidity, change the capital structure, combine short-term financing with long-term financing, and be more prudent and reasonable in using funds.

The restructuring plan P&G proposed in 2017, a massive sale of resources, will boost net profits in the short term but not in the long term. P&G needs to keep cost-cutting on the agenda but slowly shed brands over a period of years rather than selling outright. Moreover, in order to reduce enterprise risks, a group composed of finance and sales can be set up to analyze and compare costs and expected revenue with the network model and put forward suggestions.

4.2 Forecast P&G's future financial prospects based on strategic analysis and suggestions

4.2.1 The Rise of the Internet

P&G is currently facing the problem of stagnant revenue. The launch cycle of new products in China is long and the products are aging. P&G's digital marketing is mainly aimed at TV and billboard advertising, which has lost the Internet opportunity. Moreover, P&G has hysteresis in the Chinese market. However, once P&G's overall market share in China reached 47%, at present, with the rise of local domestic products and P&G's lack of understanding of the Chinese market, P&G has missed its market share. For instance, Downy Scented Booster Beads was first listed in the United States in 1960 and so has a history of more than 60 years. Whereas P&G regarded China as a primary market and thought it should not be introduced in China too early. Downy did not officially enter the Chinese market until 2017. The lag has led to many products not favored by young people. The lack of innovation and insufficient understanding of the Chinese market has led to P&G's market share decline.

P&G should transform Internet marketing and reduce investment in TV advertising. P&G spends hundreds of millions of dollars on advertising every year, which does not bring much market share. As the TV terminal is gradually ignored, P&G should reduce TV investment, increase Internet investment, turn to digital media and new media, and improve sensitivity to the consumer market.

4.2.2 Products Slimming and Shrinking

P&G's multi-brand strategy leads to unbalanced brand development, increased business complexity, cumbersome operation, increased cost and decreased profitability. In recent years, to accelerate product innovation, P&G slimmed down product lineup, as well as eliminated and consolidated over 100 non-core brands to accelerate product innovation. In addition, it should be combined with digitization and use digital marketing strategies such as short video platform and Weibo, a video website advertising to improve brand exposure.

5. Conclusion

P&G entered China in the early stage of Chinese economic reform and experienced rapid development. However, with the growth of China's consumer demand, low prices are no longer the pursuit of consumers. On the contrary, consumers pay more attention to uniqueness and innovation. P&G should seize the opportunity of the Internet and enhance its understanding of different markets so as to enhance competitiveness. This has brought some enlightenment to Chinese enterprises. First, pay attention to market research. In different regions, companies should adjust strategies according to local culture, behavioral differences and national culture. The development of developed countries is relatively slow, but China is a developing country and its development speed is very fast. P&G's

understanding of China cannot keep up with China's development. Therefore, research is also needed in the listing stage to evaluate advertising effect and customer satisfaction through paper questionnaires or online surveys. Second, focus on product research and development. Products are the driving force for the development of the company, and product R & D is the core competitiveness of the enterprise. P&G's product R & D capability is at the forefront of the world, and there are many R & D centers in various marketing regions. The third is brand building. P&G subdivides the market and develops the market in all aspects through multi-brand strategy. Moreover, P&G has demonstrated its uniqueness in advertising, implanted brand concept, attracted consumers with brand culture and increased consumer stickiness, which is worth learning by Chinese companies. The last is channel management. The promotion path in the traditional retail era is from wholesalers to retailers to consumers. P&G adopts DTC strategy (direct to consumer) in the Internet age, meaning wholesalers directly face consumers. P&G also introduces dealer models to improve its promotion ability and have more sales channels.

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