Dust-up over 'slow and insular' culture at P&G

Consumer goods group promises change but time is short after hedge fund Trian launches campaign for seat on board

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Discontent has been brewing among some of Procter & Gamble's shareholders for a while. At the consumer goods giant's 2015 annual meeting, one investor, Karen Meyer, went as far as declaring that "leadership drove the P&G bus into the ditch".

The question for David Taylor, who took over as chief executive a month after that fiery encounter, is how much time shareholders will give him to make good on his promise to get the company on the right track.

Mr Taylor, a P&G employee for 35 years, has told investors that management can jolt stagnant sales growth and change its culture without breaking up the company. Monday's incursion by activist investor Nelson Peltz sets the clock running.

Mr Peltz, whose hedge fund Trian bought a $3.5bn stake in P&G in February, was told by the company that it would consider giving him a board seat if performance did not improve in the next year, according to people briefed on the discussions. But Mr Peltz put himself up for nomination to the board, saying the company needs a "motivated" outsider to shake things up – not next year, now.

P&G is the largest company ever to face a proxy battle, and it has come out swinging. It has hired a host of blue-chip advisers — Goldman Sachs, Morgan Stanley, Lazard and Centerview Partners – to defend the board, according to people familiar with the matter.

Under Mr Taylor's lead, the 180-year-old company has acknowledged it needs to change. Upon taking over in November 2015, Mr Taylor promised to "raise the bar", shedding more than half its brands and pledging to cut $10bn in annual costs by 2021.

P&G has been criticised for a history of promoting almost solely from within; employees used to be known as "Proctoids" for their adherence to a rigid culture. Mr Taylor also told the FT last year he planned a "big intervention [on] the cultural and organisational side", pledging to make the company more responsive to change by giving local managers more autonomy and to hire outsiders.

Criticism that the $225bn company had become too large and slow grew under Mr Taylor's predecessor, AG Lafley. P&G's comparable organic sales growth – a key industry metric – has hovered around 2 per cent, underperforming peers. The company's investors have also missed out on stock market gains; P&G shares have risen only 3 per cent in the past year compared to a 13 per cent gain in the S&P 500 index.

Trian argues that P&G's returns for shareholders during the past 10 years have been less than half for those of its peers, due to "excessive cost and bureaucracy" and "a slow-moving and insular culture".

The maker of Tide detergent and Gillette razors argues investors should prefer long-term patience over quarterly earnings boosts. "Nelson is focused on one lever: what money drops down from cost-cutting," said one person close to management. "We don't think that's right. One reason P&G underperformed under [Mr Lafley] was making short term commitments at the expense of the long term."

The company has been aggressively reducing costs since 2012, and narrowing focus. In 2015 P&G sold off its failing beauty products business to Coty, and has slimmed from 16 categories to 10. But these initiatives have failed to drive profit growth, as Mr Peltz points out.

P&G earned $13.4bn in 2016, lower than the $13.8bn five years earlier.

"It's still too 'inside baseball'," says an executive of a large consumer goods company, noting decisions are still centralised in the company's Ohio headquarters. "Everything stays inside Cincinnati. How do you know what to sell in China from Cincinnati?"

P&G has been slow to adapt to huge shifts in the way people shop and what they want to buy. Against a backdrop of increasingly frugal consumers, the company has lost market share to nimbler upstarts such as Dollar Shave Club and ecommerce companies like Amazon.

"They're competing against [Amazon], who is faster to market and willing to experiment," says Bryan Roberts, director at TCC Global Retailer. "If you're P&G or Unilever, it will take over a year to launch a new brand. Amazon can do it in 60 to 90 days."

P&G in April added to its board Amy Chang, a former Google executive who, at 40, is decades younger than other members. Mr Taylor said her "knowledge of digital industry trends" would be a "tremendous benefit".

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While the company's shares and sales growth have trailed peers, its operating margin of 22 per cent still leads the industry, as P&G's defenders will point out in the coming battle. The company is able to charge premium prices for household brands like Tide.

Morningstar analysts applauded moves to increase spending on research and development and marketing, through which P&G is pushing innovation and better packaging.

"We've long held these investments would take time to yield improvement," the analysts said.

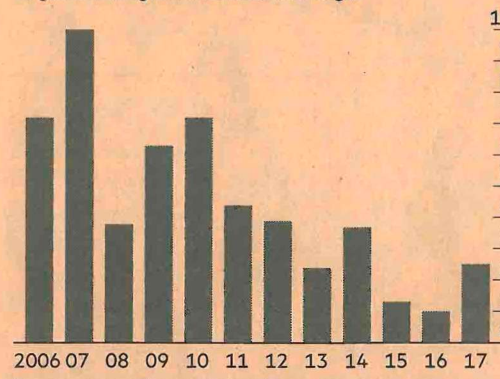
And Nik Modi from RBC also argued that the company is on the right track. "P&G already has an activist," he said. "David Taylor."

Clean break

Procter & Gamble has promised to shed more than half its brands and cut $10bn in costs by 2021 — AP/Diane Bondareff

P&G sales have slowed

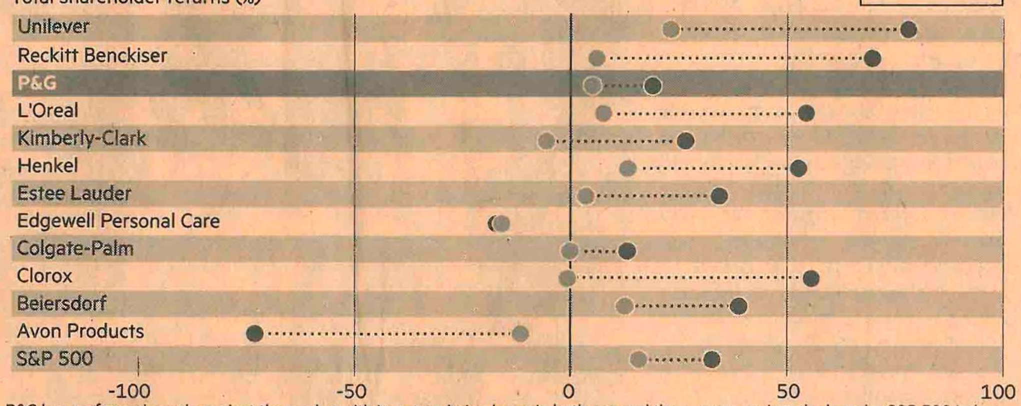
Organic sales growth (annual % change)



Sources: company; Thomson Reuters Datastream

Consumer goods groups' stock performance

Total shareholder returns (%)



P&G has performed poorly against the market with its return being lower in both one and three-years against the broader S&P 500 index

$3.5bn Stake in P&G bought by Nelson Peltz's hedge fund Trian

$13.4bn Earned by P&G in 2016, compared with $13.8bn five years earlier