MANAGEMENT COMPETENCE The Missing Input In Antitrust Analysis

- The competition agencies are in the prediction business.
- Management competence is the chief determinant of outcomes, not simply in Industry but in organizations of all kinds.
- Therefore, almost any well-run organization has developed an expertise in assessing the competence of its own management and of potential replacements.
- Major Thesis - If outcomes primarily depend on the competence of management, the FTC and the DOJ must develop and apply a skill in judging the management abilities of the firms in the investigation and of potential entrants.

CASE STUDY: The U.S. Laundry Detergent Industry

- Three Periods:

  1. From 1953 with the introduction of Tide, the first synthetic laundry detergent, until about 2008.
  2. From about 2008 to early 2012
  3. From early 2012 through mid-2013.

- Conclusion: During each of these 3 time periods, changes in the competence of P&G's Management and in its earnings and its laundry detergent market share have moved in tandem.

FIRST TIME PERIOD

Why did the FTC investigate the laundry detergent business from 1973-1980? What happened in subsequent years to about 2008?

- The industry according to BCP'S Paul Chassy.

  A. BCP's tests showed that Tide and other "Big-3" Brands cleaned no better than private labels and fringe manufacturer's brands. Yet due to "Artificial Product Differentiation" caused by huge weights of advertising, Big-Three brands cost about 35% more. Annual Consumer Loss is between $300-$400 million. P&G has dangerous monopoly power and there is a shared monopoly among the Big-3.

  B. BCP's Remedy - Adopt Mandatory on Package Performance Disclosures that grade cleaning ability of major brands relative to an FTC prepared comparison brand.

  C. Facts supporting BCP's position - P&G's retail market share is 55%, Tide alone 28%, combined Big-3's share is 88%.

  D. P&G's Advertising spending

- The industry according to BC’s Mark Rosenthal Memo.

  A. Profits

  B. Market Power is associated with a large horizontal share, but P& G brands have a large profitability edge when market shares are held constant. So P&G’s market power is based on something else “such as business acumen, or a combination of factors such as economies in manufacturing, distribution and advertising and business acumen.

  C. Conclusion: Close the Investigation

SPECIFIC EXAMPLES of P&G's Management Superiority (Business Acumen)

- Personnel Department
- Purchasing Department
- Engineering and Production Depts.+ Purchasing. Cost savings.
- Marketing and Advertising
- Top management, Neil McElroy
    A. Invented brand and category management structure.
    B. P&G Pioneered lengthy test market protocol.
    C. P&G made Tide in 15 regional variants.

- Conclusion
  - Compared to its rivals, P&G had lower production costs. It bought cheaper than its rivals. It sold dearer than they did due to Tide's lower retail gross margin.
  - Thereby, P&G became both a superior horizontal competitor and a superior vertical upstream and downstream competitor, creating market power that erected entry and mobility barriers to protect its margins.
  - P&G consistently judged one of America's best managed firms.

1980-2004 The Momentum Continues

- Year ending 2004 P&G's Market share had grown to 60.4% and Tide's to 39.2%.
- Management made improving its brand's cleaning performance a top priority. It succeeded. Result, Consumer Reports annually gave Tide and other P&G brands its top ratings in the industry.
- Excellent earnings during these years.

AFTER ABOUT 2008

- Decline Until Mid-2012

  Evidence:

  A. Tide Pods.

  B. Major Supply Chain problems.

  C. Costly flaws in market research assumptions.

  D. Suggests Deterioration in P&G's formerly pre-eminent R&D, Manufacturing, Marketing and Purchasing Depts. - and in the top management that supervises them.

  E. Brands overpriced.

F. Company had become top-heavy, bloated, with a convoluted organizational structure, unable to respond quickly.

G. Brain Drain

H. P&G profit declined for 3 straight years.

I. Its laundry detergent market share dropped 2.1% points from 2008-2012.

- Other Events
  - June, July 2012 Enter Bill Ackman
  - Mainly in response to Ackman's Pressure, P&G develops a Restructuring Plan to slash overheads, focus on key geographic markets and product categories and make other reforms.

TURN AROUND
Beginning Mid-2012

- Decline in earnings and in laundry detergent market shares was arrested by year-end 2012.
- Tenuous evidence that 2013 will be a better year for earnings and laundry detergent market shares.
- In a surprise announcement on May 25, 2013 P&G's Board replaced CEO Bob McDonald with his predecessor CEO, A.G. Lafley.