Lafley ready to remake P&G in 2nd stint as CEO

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CINCINNATI — More than a year after his return as Procter & Gamble's CEO, A.G. Lafley has bet his legacy on a bold plan to exit up to 100 brands to turn around the company.

From 2000 to 2009, Lafley became a legend for reversing a sales slump, buying Gillette and turning P&G into a major beauty player. Now, he's staked his reputation on simplifying the business to boost core sales performance.

Lafley's latest bid to revive P&G growth is a high-stakes move for the company.

If it works, P&G sales will resume steady growth and its stock will rise. If it falls short, P&G will face intense pressure to try even more drastic measures.

"We think the plan to shed brands will quell calls to split the company up, but if results remain lackluster those voices will get louder," Morningstar analyst Erin Lash said.

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P&G's Lafley received $19.5 million after returning as CEO

Lafley will outline his progress and strategy for shareholders at P&G's annual meeting Tuesday.

Wall Street was relieved when Lafley returned in May 2013. His back-to-basics approach was welcome reassurance after four uneven years under Bob McDonald. But in August, Lafley was not satisfied with P&G's tepid 1 percent sales growth and 3 percent organic growth (sales, excluding foreign exchange, mergers and acquisitions).

Lafley said organic sales would have climbed 4 percent — within the 4 percent to 6 percent range Lafley targeted between 2000 and 2009 — but two unidentified businesses missed their goals.

Since returning, Lafley has hardly been a caretaker waiting for sales to revive. He slashed thousands of jobs, ordered a review of factory operations for consolidation and sold off the pet care business.

"We could have and should have done better," he told analysts in an August conference call.

A.G. Lafley, center, has built plenty of goodwill with shareholders and analysts, but bold results are needed to maintain that standing. In 2006, he talked with PepsiCo CEO Steven S. Reinemund before receiving the CEO of the Year award from Chief Executive magazine. (Photo: AP)

Lafley then declared he would sandblast more than half of P&G's brands to lose laggards holding the rest of the company back. To realize this, Lafley will sell off brands doing a combined $8 billion in revenue.

Wall Street cheered, sending P&G stock up more than 8 percent in the last six weeks. Analysts also believe the move means Lafley will stay on for another 18 to 36 months to see a number of the divestitures through to completion — and to begin to see P&G's results improve.

"It indicates he's staying here to fulfill a good part of the strategy," said Terry Kelly, principal and investment adviser at Bartlett & Co.

There are risks that come with Lafley's plan. The biggest is that the process will bog down and distract attention from core businesses — slowing sales further.

"They've got to keep executing on the core brands," said Jeff Krumpelman, a senior portfolio manager at Riverpoint Capital Management.

But Lafley is moving ahead.

A.G. Lafley’s, second from right, bold moves during his last tenure as CEO of Procter & Gamble was buying Gillette. In 2005, he and James Kitts, Gillette CEO, answer questions. (Photo: Richard Drew, AP)

P&G shares jumped when Lafley returned after four years under McDonald, whom analysts felt didn't move fast enough to cure the company's performance. But without dramatic results or bold action, Lafley risks losing that goodwill.

In the last two years, rivals have used similar tactics to focus their operations. For example, Unilever sold off household names such as Ragu pasta sauce, Bertolli pasta and Wish-Bone salad dressing, and Nestle sold off Jenny Craig foods and Juicy Juice beverages.

Further, P&G could see a $5 billion to $10 billion injection from the sale of brands to reinvest back into the company's marketing and product innovation, analysts say.

Since August, Lafley has cut two small ventures: Puma perfume and a Chinese battery operation. More are expected in the coming months. The company is not disclosing which brands it's shopping, but analysts speculate Duracell batteries, Braun small appliances, Ivory soap are among the labels that could be cut.

The anticipated brand sale marks Lafley's second P&G makeover as CEO and can contribute to his legacy. Worth more than $100 million in P&G stock and options, Lafley's interests are firmly aligned with shareholders — yet he doesn't need to be motivated by financial gain.

A.G. Lafley, left, and John Pepper, Procter & Gamble CEO from 1995 to 1999. (Photo: The Cincinnati Enquirer)

Lafley first led the company in 2000 after he was tapped to replace Durk Jager, another embattled CEO. Lafley reversed a sales slump by emphasizing big core brands that created the most momentum.

Lafley also embarked on a string of acquisitions that transformed P&G into a worldwide beauty and razor player — at the same time a series of divestitures got the company mostly out of the slow-growing food business. Also on Lafley's watch, Head & Shoulders, Olay and Wella joined Pantene as $1 billion beauty brands.

By the end of his first tenure, Lafley had doubled the company's sales and garnered shareholders a 119 percent return on their investment.

But P&G's choppy performance since his departure left the lingering question: Had Lafley turned P&G into too unwieldy a company to grow fast enough? Stalling performance by two of P&G's biggest beauty brands — Pantene and Olay — further marred the move into that sector under Lafley.

"Beauty hasn't been a great business for P&G lately. They have a lot of great products, but consumers have a lot of choices and P&G hasn't taken it to that next level where consumers only want their products," said Lori Hudson, a portfolio manager with Downtown-based Bahl & Gaynor.

In the last year, Lafley has reminded analysts why P&G got into the sector: lower costs, higher margins and a fragmented market with plenty of room to grow. His second act as CEO gives him the opportunity to prove he was right about beauty.