Impact of Divestment Decisions on Shareholders' Wealth

*** Jagandeep Singh**

Abstract

In 2000, Procter & Gamble (P&G) had more than 200 brands in its portfolio. The U.S. based fast moving consumer goods (FMCG) company was growing by leaps and bounds. In the decade that followed, P&G continued its expansion spree through organic and inorganic growth. With revenue of $84 billion in 2012, P&G was the largest FMCG company in the world. The dividend payout to the shareholders was a regular feature for more than five decades. The company had numerous popular brands in its portfolio. These wonderful figures, however, masked a bitter truth. The company's innovation funnel had dried up, and consumers were shifting to low priced alternatives. Unilever, P&G's arch- rival, was increasing its stranglehold in the developing world. P&G decided to become a lean and agile organization through divestments. The company cut costs and improved processes to improve productivity. P&G revisited its diversification strategy and decided to focus on its core and profitable brands. The objective of this study was to examine whether P&G's divestment strategy added value for the company's shareholders. The study used the standard event study methodology to examine the impact of six divestment announcements made by P&G between 2014 and 2016 on shareholders' wealth. The findings of the study suggested that shareholders' of P&G benefitted when the company divested its pets food business. The market reaction was negative when P&G divested its immensely popular Duracell brand. However, no significant abnormal returns were witnessed when P&G sold its Zest and Camay brands to Unilever.

Keywords : brand pruning, divestments, event study, P&G, shareholder wealth

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Procter & Gamble (P&G) is one of the leading fast moving consumer goods (FMCG) company in the world. Established in 1837, the U.S. based company has been in operation for almost 18 decades. The strength of the company can be gauged from the fact that it has more than 20 billion dollar brands in its portfolio and markets its products in 180 countries across the globe (P&G, 2017). Always, Ariel, Charmin, Olay, Oral B Pampers, Head & Shoulders, Swiffer, Gillette, Pantene, Tide, and Vicks are some of the immensely popular brands that the company has in its product portfolio (P&G, 2017).

During the first decade of this century, P&G expanded through organic and inorganic growth. P&G's acquisition of Gillette and Duracell in 2005 and Ambi Pur in 2009 are prominent examples of inorganic growth undertaken by the company. P&G however witnessed stagnating sales, escalating costs, and pressure on profitability. The top management at P&G analyzed that its product portfolio had become too big and that the company had diversified into non-core categories. The analysis led to the implementation of the 'Brand Consolidation Strategy' wherein P&G decided to divest its unprofitable and non - core portfolio. As part of this strategy, P&G was to divest more than 100 brands and become a lean and agile organization. During the next couple of years, P&G inked pacts with various organizations to offload some of the brands. The objective was to sell, split or discontinue the under-performing brands which were responsible for the company's flailing growth.

* *Assistant Professor,* University Institute of Applied Management Sciences (U.I.A.M.S), Panjab University, Chandigarh.
E-mail : singhjagandeep@yahoo.co.in

Purpose of the Study

Organizations favor the corporate level strategy of growth. Growth through organic or inorganic route invariably leads to a higher market share or diversification of businesses. Some organizations become so obsessed with growth and become so bloated that it becomes unwieldy to conduct business operations in a profitable manner. P&G is one such organization that realized that it had spread its wings a bit too far and that too in domains that were beyond its core competence. Therefore, the company embarked on a retrenchment strategy and decided to shed its non - core and unprofitable businesses.

The purpose of this study was to gauge whether P&G's divestment strategy added value for the company's shareholders. The study tracked six divestment announcements made by P&G between 2014 and 2016 as a means to attain competitive advantage in the market place. The study aims to understand whether the company has divested only non-performing brands and non-core brands. The scrutiny of brands sold has also revealed that the divestment strategy complemented other endeavors like increase in productivity and cost reduction initiatives undertaken by the company during the same period.

Review of Literature

Divestments are integral to a business as they help to keep the company rejuvenated and in shape. The concept of divestment has been analyzed from different levels and perspectives. Some studies focused on divestments in a particular geographical region, different industries and specific firms (Benito, 2005). The extant literature on divestments is replete with why companies divest. Low profits, losses, unattractive industry, decreased demand for products and enhanced competition have been cited as prominent reasons for companies to divest brand and businesses (Montgomery & Thomas, 1988; Seigfried & Evans, 1994).

Schmidt (1987) stated that divestitures are done to stimulate growth when a portion of the business becomes unprofitable. Financial performance of divested firms was reported to be unfavourable vis-a-vis industry performance (Duhaime & Grant, 1984). Clark and Wrigley (1997) found a close association between the quantum of sunk costs of an organization and divestment decisions. Boddewyn (1983) specifically examined divestment decisions in domestic and international markets and found that domestic divestment decisions were more tactical than strategic in nature. Valuable assets are generally not divested. These assets may be of tangible or intangible. Conglomerates and diversified companies are more likely to divest businesses (Wright & Thompson, 1987).

Research Methodology

The present study used the standard event study methodology to gauge whether abnormal stock returns accrued to the P&G's shareholders when the company announced the sale/divestment of its brands. Event study methodology has been extensively used by researchers in different contexts. The methodology has been applied to assess the impact of mergers and acquisitions (Anand & Singh, 2008 ; Jucunda & Sophia, 2014 ; Verma, Maji, & Nair, 2013) ; diversification (Nayyar, 1995) ; joint ventures (Koh & Venkataraman, 1991) ; celebrity endorsement announcements (Jaikumar & Sahay, 2015 ; Singh, 2017) ; corporate brand name changes (Kalaignanam & Bahadir, 2013) ; and executive appointments (Boyd, Chandy, & Cunha, 2010) on share prices.

For the purpose of this study, the press releases issued by P&G were scrutinized. The company has made six divestment announcements from 2014 through 2016. These announcements have been enumerated in Table 1. The details of each of these announcements have also been given in the ensuing section. The window period for the study was been taken from - 40 days of the date of announcement to +40 days. This period (- 40 to Day Zero to

Table 1. Details of Brands Divested by P&G from 2014-2016

Date of Announcement	Division/Brand(s) Divested	Acquirer Company
April 9, 2014	Pet Food Business	Mars Inc.
September 23, 2014	Pet Food Business	Spectrum Brands Holdings Inc.
November 13, 2014	Duracell	Berkshire Hathaway Inc.
December 22, 2014	Zest and Camay	Unilever
July 9, 2015	43 Brands	Coty Inc.
February 22, 2016	Escudo Soap	Kimberly-Clark de Mexico

Table 2. Divestment Announcements : Clean Period & Window Period Dates

Event Date	Clean Period Dates	Window Period Dates
April 9, 2014	September 18, 2013 to February 10, 2014 and June 9, 2014 to October 28, 2014	February 11, 2014 to June 6, 2014
September 23, 2014	March 5, 2014 to July 25, 2014 and November 19, 2014 to April 15, 2015	July 28, 2014 to November 18, 2014
November 13, 2014	April 28, 2014 to September 17, 2014 and January 14, 2015 to June 8, 2015	September 18, 2014 to January 13, 2015
December 22, 2014	June 4, 2014 to October 23, 2014 and February 23, 2015 to July 15, 2015	October 24, 2014 to February 20, 2015
July 9, 2015	December 16, 2014 to May 11, 2015 and September 4, 2015 to January 28, 2016	May 12, 2015 to September 3, 2015
February 22, 2016	July 31, 2015 to December 21, 2015 and April 20, 2016 to September 9, 2016	December 22, 2015 to April 19, 2016

+40) constitutes the event window for all the aforesaid announcements made by P&G. The clean period data was taken as 100 days before and 100 days after the window period. The details of window period and clean period are given in Table 2. The date of the press release was taken as the announcement date/event date.

Divestment Announcements

(1) April 9, 2014 - Pets Food Business to Mars Inc. : P&G announced that it would offload 80% of its Pet Foods business to Mars Inc. The latter bought rights to brand like Eukanuba, IAMS and Natura in North America, Latin America, and other select countries. P&G sold these brands for $2.9 billion (Wahba, 2014). The deal marked the first step of P&G's strategy to exit non-core businesses and become a lean and nimble organization.

(2) September 23, 2014 - Pets Food Business to Spectrum Holdings Inc. : P&G announced the sale of its European pet food business to Spectrum Holdings Inc. The deal marked the exit of P&G from the non-core pet food business (Coleman-Lochner, 2014). Prior to this announcement, a lion's share of the pet food business had been sold to Mars Inc. The present deal included markets in Europe which hitherto were being catered to by P&G.

(3) November 13, 2014 - Duracell to Berkshire Hathaway Inc. : P&G offloaded the Duracell battery business to Berkshire Hathaway Inc. through a complex transaction that did not entail any cash dealing. The companies executed a split transaction, wherein Berkshire Chairman Warren Buffett relinquished shares worth $4.7 billion in P&G in exchange of the Duracell business (Stempel & Kumar, 2014). The deal was pegged as a master stroke by most analysts especially for Warren Buffet. If the business baron had sold his P&G stake, he would have incurred a huge tax liability. Moreover, the acquisition of Duracell, a mature brand that produced consistent cash flows, was a good fit in Berkshire Hathaway's portfolio. The deal made business sense for P&G as it was a step forward for the company to shed its non core brands. It is pertinent to mention that Duracell had a quarter of the market share of batteries globally and was a billion dollar brand for the FMCG major. However, the brand fell in the non-core bucket in AG Lafley's scheme of things. P&G also announced that it had terminated a joint venture battery business based in China with the objective of discontinuing the battery business completely.

(4) December 22, 2014 - Zest and Camay to Unilever : Zest and Camay were categorized as slow-growing brands by P&G. The deal with Unilever entailed global sale of Camay. As a part of the deal, the Zest brand was sold outside of the Caribbean and North America. Zest and Camay had a combined turnover of $225 million in the 2013 fiscal year (Kell, 2014). The sale to Unilever also included P&G's soap manufacturing facility in Mexico.

(5) July 9, 2015 - 43 Beauty Brands to Coty Inc. : In what was the single-largest divestiture ever by P&G, the FMCG major announced the sale of as many as 43 brands, including Covergirl and Max Factor to Coty (Wahba, 2015). The deal, which included sale of cosmetics and fine fragrance brands, meant that P&G would exit the struggling beauty business. The deal was pegged at $12.5 billion (Wendlandt & Cavale, 2015). For P&G, it was a significant step forward to achieve its objective of pruning its product line and reduce the number of brands in its portfolio to less than 100.

(6) February 22, 2016 - Escudo Soap to Kimberly-Clark de Mexico : P&G announced that it would divest its antibacterial soap brand Escudo as part of its ongoing strategy to focus only on core brands (Beckerman, 2016). The prominent soap brand was launched more than 5 decades and was sold to Kimberly-Clark de Mexico.

Findings

The study finds that statistically significant cumulative abnormal returns accrued to P&G during the (-1, +1) window, (-2, +2) event window and (-5, +5) event window during most brand divestment announcements. The notable exceptions were the divestment of Zest, Camay, and Escudo soap brands wherein the returns were not statistically significant. The summary statistics and CAR during different event windows are reported in Table 3 and Table 4, respectively.

The findings reveal that P&G earned substantially positive and statistically significant cumulative abnormal returns when it divested its non-core portfolio or underperforming portfolio. The markets however reacted unfavorably when consistently performing brand (Duracell) that was categorized as non-core was offloaded by the company. The negative returns in case of Duracell divestment was witnessed close to the announcement date. Over the larger event windows, P&G witnessed positive returns during the Duracell announcement also.

Table 3. Divestment Announcements : Summary Statistics

Descriptive	Announcement Date					
Statistics	April 9, 2014	September 23, 2014	November 13, 2014	December 22, 2014	July 9, 2015	February 22, 2016
Intercept (α)	.0004	-.0003	-.0007	.0003	.0003	.0006
Slope (β)	.4823	.6300	.7551	.6223	.6992	.6564
R Square	.2706	.3341	.3646	.3295	.4769	.4659
Standard Error	.0073	.0062	.0061	.0062	.0071	.0072

Table 4. CAR-Divestment Announcements by P&G

Event Window	Cumulative Abnormal Returns (%)					
	Pets Food Business to Mars Inc.	Pets Food Business to Spectrum Brands Holdings Inc.	Duracell to Berkshire Hathaway	Zest and Camay to Unilever	43 Beauty Brands to Coty Inc.	Escudo Soap to Kimberly-Clark de Mexico
(-1,+1)	0.82	1.59**	-1.35**	0.62	-1.19	-0.31
(-2,+2)	2.14***	2.06***	-1.38**	0.49	1.11	-1.20
(-5,+5)	1.56**	1.36**	-0.58	0.32	3.33***	-3.91

*** Significant at 1%, ** Significant at 5%

Discussion

Cincinnati based P&G earned substantial, positive and statistically significant CAR when it announced the divestment of its pet food business to Mars Inc. The company recorded CAR of 2.14 % (*t* - statistic 2.92) and CAR of 1.56 % (*t* - statistic 2.12) in the (-2, +2) and (-5, +5) window respectively. P&G's complete exit from pet food business generated substantial, positive, and statistically significant returns for the company's shareholders. The company recorded CAR of 1.59 % (*t* - statistic 2.55), CAR of 2.06 % (*t* - statistic 3.03) and CAR of 1.36 % (*t* - statistic 2.18) in the (-1, +1), (-2, +2), and (-5, +5) event window respectively. It can be inferred that the markets rewarded the initiation of the brand consolidation strategy of P&G. The investors felt that by divesting non-core brands, P&G would be able to respond to consumer trends with agility in its core businesses and would thus, add more value for shareholders.

P&G registered statistically negative returns when the Duracell, Berkshire Hathaway deal was announced. The company recorded negative CAR of 1.35 % (*t* - statistic -2.201) in the (-1, +1) event window. Likewise, negative CAR of 1.38 % (*t* - statistic -2.259) was also recorded in the (-2, +2) event window. The negative and statistically significant returns suggest that Duracell was indeed a valuable brand for the company even though it was categorized as non-core under the brand consolidation program.

The December 22, 2014 announcement whereby P&G divulged the sale of Zest and Camay to Unilever did not yield substantial or statistically significant CAR. P&G registered CAR of 0.62 % (*t* - statistic 1.010) in the (-1, +1) event window, 0.49 % (*t* - statistic 0.090) in the (-2, +2) event window and 0.32 % (*t* - statistic 0.519) in the (-5, +5) event window. It can be inferred that the markets did not consider the sale of these brands as a very important milestone in the company's quest to become a leaner organization.

On July 9, 2015, P&G announced that a significant chunk of its struggling beauty business was being sold to Coty Inc. The announcement yielded substantial, positive, and statistically significant returns of 3.33 % (*t* - statistic 4.66) in the (-5, +5) event window. The announcement of Escudo Soap brand being sold to Kimberly-Clark de Mexico did not yield substantial or statistically significant returns for P&G shareholders. P&G's decision to divest select brands is in line with the argument put forth by Wright and Thompson (1987) stating that companies having a diversified portfolio tend to shed assets that are no longer perceived as valuable.

It can be stated that P&G benefitted tremendously by divesting its non - core portfolio. The divestments led to an increase in shareholders wealth besides lending considerable cost savings for the company. The overall brand consolidation program of the company has been successful. The company recently announced that it will retain about 65 brands spread across 10 different product categories to further its objective of retaining its core portfolio only (Coolidge, 2017).

Research Implications

The study has important implications. The study findings reveal that shareholders accord different degrees of importance to various brands in a company's portfolio. A company's corporate level strategy underpins the strategy that operates at other levels of management. It also highlights that in the real world, a company can achieve the same objective by following two different strategies; growth and divestments that apparently fall on the opposite ends of a continuum. The study can be used as a management case study to highlight that after a company grows a bit too much, the size may act as a stumbling block for future growth. The importance of sticking to the 'core' as against unrelated diversification is highlighted. The study suggests that brand consolidation may not simply be an exercise to manage scale. It can be an endeavor to manage the top-line and bottom-line.

Limitations of the Study and Directions for Future Research

The study has considered six divestment announcements made by P&G. These announcements were made between 2014 and 2016. The sample of the study is thus, limited to one organization operating in the FMCG industry. Future research can focus on all the divestment announcements made by P&G during the brand restructuring program. The scope of research could also be enhanced by considering impact of acquisition decisions made by the company during the same period. A comparison with similar strategic decisions made by Unilever, P&G's biggest arch-rival, would also provide valuable insights on divestment decisions and stock market reactions.

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About the Author

Jagandeep Singh is working as an Assistant Professor at University Institute of Applied Management Sciences (U.I.A.M.S), Panjab University, Chandigarh. He has more than 17 years of industry and teaching experience. His research interests include Marketing, Strategy, and Finance.