

Report of the Month

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February 2009

Procter & Gamble

Cincinnati, Ohio, U.S.A.



Report Facts

Company name: The Procter & Gamble Company

Fiscal year end: June 30, 2008

Report title: *Designed to Innovate*

Chairman and CEO: Alan G. Lafley

Number of books: One

Report length: 82 pages

Auditors: PricewaterhouseCoopers LLP

Design: VSA Partners, Inc.

E-mail: shareholders.im@pg.com

Report Rating: ★★★(★)

(Rating scale below)

Profile-Mission (Excerpts, as from the report)

P&G's business is focused on providing branded consumer goods products... sold in... 180 countries. Since the beginning of the decade, P&G has more than doubled the number of brands in its portfolio that generate over a billion dollars in annual sales—from 10 to 24. P&G's top 44 brands account for more than 85% of sales... Brands include: Pantene, Gillette, Ariel, Wella, Pampers, Always, Olay, Head & Shoulders...

(Annual Report excerpts) (Italics are own company's words)

Key Figures

Net sales: \$ 83,503 million

Operating income: \$ 17,083 million

Net earnings: \$ 12,075 million

Net earnings per share: \$ 3.64 (diluted)

Dividend per share: \$ 1.45

Equity: \$ 69,494 million

Long-term debt: \$ 23,581 million

(Source: 2008 figures sourced from the annual report)

Some Competitors

- Unilever
- Johnson & Johnson
- Henkel
- Energizer
- Colgate-Palmolive
- L'Oréal
- 3M
- SCA
- Clorox

Report Rating: ★★★(★)

Triple A

- > A cover that invites to open the book. Inside, the theme is effectively (yet a bit conventionally) sustained in a strongly branded exercise (also applied in the *Sustainability Report*).
- > Highly strategically driven CEO letter to shareholders, focusing on growth objectives, and on *Delivering a Steady Stream of Innovation*, but not overlooking performance achievement, thanks to a matter-of-fact *Report Card* stressing *Organic Sales Growth* and *Free Cash Flow Productivity*.
- > Communicative illustration (see Selected Pages below) to display the *relentless focus on productivity improvements and cost savings*.

Double A

- > Informative and well-structured *Management's Discussion and Analysis*.
- > Short report, easy to read through.

Simple A

- > Key, historical, quarterly and segment figures are OK -see e.g. *Net Sales Change Drivers* on p 45)- but lack in details and medium-term ratios.
- > Yet lagging behind best global practices (there are more facts than figures and measures), the sustainability report is more substantial (longer than the "core" report itself) and substantiated than in the past and goes a bit further than the banal narrative or cosmetics.

Some Bs

- > What is the Chairman's first name? If this was the only shortcoming as regards governance. In line with last years' U.S. practice, those matters are left off the widely spread annual report.
- > Risk factors and their management certainly not up to what such a large and diversified group should provide.
- > Twelve notes to statements, uneven in content and unbalanced in additional information. For more, go to the indigestible Form 10-K.

Cautionary Statement Triple and other A ratings have nothing to do with and were not approved by official ratings agencies!

Rating Scale

★★★★★: First-rate ★★★★★(★): Excellent ★★★★★: Very good ★★★(★): Sound ★★: Average

★(★): Uneven ★★: Common ★(★): Substandard ★: Poor (★): Uncompetitive

The rating is based on ReportWatch internal desk research and does not take into account the independent Rating Panel's judgment. It may therefore differ from ratings (to be) published in the **Annual Report on Annual Reports**.

*How does the company report in key areas? What are the main report pluses and minuses?
The **Report Scan** gives an overview of strengths and weaknesses, and scores each item.*

Contact e.com@reportwatch.net



Maintaining consistent investment in innovation and marketing requires a relentless focus on productivity improvements and cost savings.

Innovation, Productivity & Growth

Innovation, productivity and growth is a virtuous cycle at P&G. In our industry, innovation and productivity are the key drivers of profitable organic sales growth. Innovation creates superior

consumer value, differentiates brands, and prevents the commoditization of categories. Productivity fuels investment in innovation and brand-building, acting as an engine of both top- and bottom-line growth.



Historical Productivity Improvement

P&G's organizational productivity has increased both significantly and consistently over the years. Since 1980, it has jumped more than threefold, growing at a

compound average rate of nearly 5% a year—more than twice the broad-based U.S. productivity rate. Net savings per employee are up more than eight-fold, growing at an average of nearly 6% per year.

SALES PER EMPLOYEE
2007 Compared to 2000 (Constant \$)



NET SAVINGS PER EMPLOYEE
2007 Compared to 2000 (Constant \$)



Productivity & Savings Projects

We are constantly improving productivity in all areas of the business and all elements of cost.

Net Sales

- Cost of Products Sold

- Raw & Packaging Materials
- Manufacturing Expenses
- Finished Product Logistics

- Selling, General & Administrative Costs

- Marketing
- Sales
- Research
- Administration

Operating Profit

- Interest Expense
- Other Income Expense

Pretax Profit

- Taxes

Net Earnings

MATERIALS PRODUCTIVITY

PG&G researchers are continually searching for new formulations and designs that lower cost, improve performance and increase value for consumers. For instance, new formulations of laundry detergents significantly reduced our use of packaging material, leading to cost savings, more consumer convenience and less waste for the environment.



MANUFACTURING PRODUCTIVITY

We are building more local, multi-category manufacturing plants closer to the consumer, enabling local materials sourcing, lower distribution costs, and lower import duties. This also helps PG&G build strong international relationships and deepen our understanding of local consumer needs.



DISTRIBUTION PRODUCTIVITY

We are generating cost savings in shipping and warehousing while improving service levels to customers by optimizing the Company's finished-product supply chain, including cutting the number of distribution centers in half.



MARKETING PRODUCTIVITY

All of PG&G's major global brands have changed their mix of marketing tools to reach target consumers more cost-effectively. In Feminine Care, for instance, Always and Tampax have reduced TV advertising budgets in favor of higher-return magazine ads and our "BeignGirl.com" website.



GO-TO-MARKET PRODUCTIVITY

PG&G is reducing go-to-market costs with streamlined organization designs in developing markets, smaller local organizations, and faster decision-making. We are implementing these designs in the Latin America, Central and Eastern Europe and ASEAN markets.



R&D PRODUCTIVITY

PG&G has reduced R&D costs as a percentage of sales, increased the value of the innovation pipeline and led the industry in innovation delivered to market by leveraging a global network of external innovation partners.



ORGANIZATIONAL PRODUCTIVITY

PG&G is driving down overhead costs as a percentage of sales by reducing senior management positions, cutting the number of managers on international assignments, moving toward a corporate shared services structure, and reducing staffing duplication among global, regional and local organizations.



