Merger and Acquisition Case Analysis
--P&G Acquired Gillette

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Abstract: In 2005, P&G successfully acquired Gillette for $57 billion. According to the incident, this article will from the type of mergers and acquisitions, mergers and acquisitions motivation, acquisition and merger and acquisition process after the completion of the challenges and solutions, analysis of procter & gamble company merger and acquisition of Gillette merger cases.

Keywords: Proctor-Gamble, the Gillette Company, mergers and acquisitions.

1. Company Profile
1.1 P&G
Founded in 1837, P&G is one of the world's largest consumer goods companies. It has factories and branches in more than 80 countries and regions around the world, with nearly 110,000 employees, operating more than 300 brands and selling products in more than 160 countries and regions.

1.2 Gillette Company
Founded in 1901 and headquartered in Boston, Massachusetts, Gillette sells a range of consumer products, with a focus on men's shaving. It has manufacturing facilities in 31 regions in 14 countries and employs more than 30,000 people.

2. Merger Type
2.1 Horizontal Merger and Acquisition
P&G and Gillette are also in related markets. P&G's strength is in women's care products, while Gillette's strength is in men's care products, but both companies are in the same industry. Therefore, it can be seen that P&G's merger with Gillette is a horizontal merger.
2.2 Share Exchange M&A
P&G's acquisition of Gillette is mainly carried out in the form of stock exchange, in which 0.975 ordinary shares of P&G are exchanged for 1 ordinary share of Gillette.

3. Motivation Analysis of P&G's Acquisition of Gillette
3.1 Macroeconomic Background
Since 2004, the world economy has experienced a strong recovery and prosperity, which has laid a solid economic foundation and market environment for the development of merger and acquisition activities. Coupled with the continued rise in stock prices, which raised the market value of the companies themselves, American companies woke up from hibernation and set off a surge of mergers and acquisitions. It is this economic environment that is driving P&G and Gillette's merger.

3.2 Gain Advantages of Economies of Scale
The overall benefit of P&G after the merger of Gillette will exceed the sum of the benefits of P&G and Gillette before the merger, bringing about the improvement of the production and operation efficiency of the enterprise, which is the effect of 1+1> and 2. After the merger, P&G and Gillette can supplement each other, share the management expenses together, reduce the management expenses of unit products, concentrate human, material and financial resources, and devote to the development of new technologies and new products, so as to increase the scale benefits of P&G after the merger [1].

3.3 Form Brand Complementarity
P&G's acquisition of Gillette can also be partly a matter of brand complementarity. Comparison can be found through the merger and acquisition both sides product structure, procter & gamble company product category have shampoo hair care products, skin care beauty products and so on eight major categories, more than 300 brands, and Gillette is one of the world's largest manufacturer of razor blades and nine other consumer products at the same time, more than 100 brands. Through the comparison of their product structures, it can be found that although both P&G and Gillette have wide product coverage, their brands do not overlap in a large range[2]. It is a brand new strategic thinking for jie company to apply the brand complementary strategy to provide new benefits to customers and at the same time enable the company to win greater market competitive advantages.

3.4 Improve Management Efficiency
After the merger, the chairman of Gillette became the vice chairman of procter &
gamble and laid off the senior management, which could optimize the personnel structure, unify the leadership, improve the decision-making efficiency and better seize the opportunity. At the same time, both P&G and Gillette belong to the commodity industry. After the merger, they have the same consumer group, which is convenient for production, sales and management, thus improving management efficiency.

3.5 Reduce the Barriers to Entering the Razor Industry and Realize the Diversification Strategy
A merger of P&G and Gillette would make it much less difficult for each company to enter the other's market. P&G can take advantage of Gillette's resources, manpower and target market to smoothly enter the razor industry, reduce operational risks, and achieve market expansion and diversification.

3.6 The Merger Brings Benefits to Shareholders and Management of Both Parties
The interest orientation of shareholders will play a great role in the process of merger and acquisition. After the merger of P&G and Gillette, the shareholders of both sides will be the biggest beneficiaries. They can not only benefit from the rising stock price, but also get high compensation through the merger. It is this interest that drives the decision-makers of both sides to promote the merger.

4. The Merger Process Between P&G and Gillette
On January 27, 2005, the board of directors of P&G and Gillette reached an agreement and signed the merger contract. Under the deal, P&G paid about $57 billion for 100% of Gillette's business, which includes Gillette's various branded products and processing, technology and facilities. Upon completion of the merger, James Kilts, chairman, chief executive officer and President of Gillette, will join P&G's board of directors as vice chairman of the company, overseeing Gillette operations.
The specific way of operation is to exchange for 0.975 ordinary shares of P&G for 1 ordinary share of Gillette. On January 27, 2005, P&G closed at $55.32 in New York, which was equivalent to pricing Gillette shares at $53.94 per share. On that day, Gillette shares closed at $45.85, up 18%. P&G also plans to buy back about $18 billion to $22 billion of shares over the next 12 to 18 months to reduce the dilution effect of the deal. In that sense, the financial impact of the deal on P&G is equivalent to a 60 per cent share swap and 40 per cent cash. Based on their 2004 turnover, P&G would overtake Unilever as the world's biggest consumer goods company.
The combined workforce will total 140,000, with senior management cutting 4%, or about 6,000, but it will remain large in Gillette's headquarters in Boston. At the same time, the related departments were integrated, and the layoffs and integration saved
the combined company $14-16 billion in operating costs per year.

5. Challenges of P&G After Its Acquisition of Gillette

5.1 Brand Dilution After Merger
Procter & gamble a strong brand after the acquisition of Gillette that, from a specific woman commodity market set foot on the man shaving business direction, make p&g brand connotation of more rich, get rid of daily chemical product manufacturers a single image, brand extension in procter & gamble is profitable to at the same time, also poses a challenge, procter & gamble could lead to a series of questions facing brand dilution.
Because of the differences between p&g and Gillette in product brand, image interests, function price and other aspects, these two distinct brands will bring complementary competition, which will lead to the brand dilution of p&g's original products. Specifically, the core value of p&g brand declines and the personalized characteristics weaken. Consumers no longer have a clear and clear understanding of p&g brand as before, and trust in p&g brand will also decline accordingly.

5.2 Great Capital Pressure
Generally speaking, it is impossible for an enterprise to complete a large enterprise merger and acquisition by self-capital. Many enterprises complete the merger and acquisition by borrowing and leveraged buyout, which will undoubtedly place heavy financial burden on the enterprise.
P&G bought Gillette for 100% at a cost of about $57 billion, which is undoubtedly a huge investment for p&g. The stock exchange after the merger will also cause the share price of p&g to fall under the effect of dilution effect, which increases the financial pressure of p&g to some extent. Due to p&g and Gillette respectively focuses on different niche, p&g need in the brand publicity, personnel reset after the merger, choice of distribution, etc to increase investment cost, capital of disperse and transfer to p&g not reasonable allocation of funds investment direction scientifically, not only not good Gillette products, can also affect the p&g centralized management of original products, could not have appeared both p&g and Gillette.

5.3 Friction Caused by Cultural Differences
The culture of an enterprise is embodied in its value system, belief, criterion, ideal and other forms, which can motivate people and make it an inexhaustible source of value for efficiency and benefit. P&G culture emphasizes social responsibility, while Gillette's innovation culture focuses on becoming the most competitive enterprise with domestic technological innovation. After the merger, management will encounter thorny
challenges due to such cultural differences. Specifically, if the cultural compatibility between p&g and Gillette is poor, it may increase the pressure of the original members of Gillette, resulting in negative work, loss of responsibility, confusion and despair, leading to the loss of excellent talents and the decline in work efficiency of the remaining employees. The estrangement between employees of both sides due to the differences between corporate cultures weakens p&g's teamwork ability and centripetal force, thus destroying the original harmonious situation of p&g.

5.4 Difficult Problems of Personnel Integration
In corporate mergers and acquisitions, personnel integration is usually one of the key factors for the success of mergers and acquisitions, procter & gamble and Gillette are no exception. After the merger, p&g consolidated the related departments and laid off 4% of the company's senior staff. P&G may cause unreasonable and unscientific layoffs due to various misunderstandings in the process of layoffs, for example, lack of systematic evaluation and comprehensive retention plans for other managers and technicians. According to unscientific layoff standards or the subjective will of senior staff, leading to the layoff of excellent staff, the remaining staff also feel cold, staff loyalty to p&g declined, the decline in work efficiency. In addition, personnel changes also need a period of time, p&g will also face poor management, job vacancies, organizational dysfunction and other headaches for senior staff.

5.5 Contradictions Between Sales Channels
P&G and Gillette have obvious differences in sales channels. P&G now USES the modern channel model, which is directly controlled by dealers and directly controlled by enterprises. Gillette, on the other hand, made its fortune through the traditional hardware wholesale channels, which carried out large quantities of products and won by volume. After the acquisition of Gillette, p&g is unlikely to withdraw in a short period of time all the hardware wholesale channels that Gillette had relied on for nearly a decade. It will take a long time for p&g dealers to adapt to Gillette's original model. In addition, the product nature of p&g and Gillette is different, so both sides have great differences in dealer selection. P&G focuses on the strength of its dealers in capital, inventory, logistics and other aspects, and pays attention to the pedigree of dealers, emphasizing franchise; Gillette, on the other hand, emphasizes the business ability of dealers to push Gillette products into stores in a "one-two punch" with other brands they represent. In the running-in period, p&g due to pay more attention to their ancestry team will use its original distributor instead of Gillette dealer, procter & gamble dealers cannot have a good command of Gillette sales model, for the functions and characteristics of the Gillette products are new, can lead to Gillette end market
price, terminal chaos, cannot achieve the expected sales target.

5.6 Counterattacks From Competitors
The merger of p&g and Gillette, a global "power marriage", could give p&g a greater say and increase its monopoly. But it will also make other peer enterprises feel pressure, in order to their own survival, these enterprises or speed up the pace of the alliance, jointly resist the pressure brought to them by p&g, to fight for survival space. P&G will have more competitors in the future and the intensity of competition will increase accordingly.

6. Solutions
6.1 Brand Integration
After the acquisition of the Gillette brand, p&g needs to consider how to properly operate these brands to ensure that the newly acquired brand image is not diluted, but also to integrate them into the p&g organism, so as to enrich the brand connotation of p&g.
On the one hand, p&g should adopt a centralized strategy to strengthen its competitive products and intensify the research and development of new products. Moreover, brand communication, brand segmentation and customer loyalty building should be strengthened to prevent the threat of brand dilution to p&g. On the other hand, p&g can boldly try to combine its female care products and daily toiletries with Gillette's male care products into a set, which can not only meet the needs of consumer groups, bring convenience to customers, but also promote product sales. The effective combination of Gillette and p&g products will enable Gillette products to better integrate with the p&g organism to achieve a win-win situation, thus creating greater value.

6.2 Cultural Integration
Each enterprise has its own unique culture. After the acquisition of Gillette, p&g also needs to consider the cultural differences between the two. In this regard, p&g should develop an effective cultural integration plan, respect Gillette's business behavior, and treat the managers of Gillette with caution. It can learn from the successful HP and Johnson & Johnson to develop a transition policy. Establish a coordination group to coordinate the conflict between the functions and cultures of the two companies, and gradually realize the integration of their business philosophy, management style and cultural pursuit.
6.3 Integration of Human Resources
In the merger and acquisition of enterprises, if the human resources integration is poor and the problems of senior executives and employees of both sides cannot be properly handled, some advantages after the merger and acquisition will disappear in the fierce market competition, which is unfavorable to both sides. After the acquisition of Gillette, P&G should fully communicate with the original staff of Gillette, understand the needs and ideas of employees, and formulate feasible measures to stabilize and motivate talents. In the process of personnel reorganization, P&G should formulate a scientific human resource selection plan, so as to retain outstanding talents while cutting out redundant staff. Only in this way can P&G maintain its original talent advantages.

6.4 Integration of Sales Channels
P&G clearly recognized the differences between it and Gillette in sales channels, so it could not blindly implement the one-size-fits-all policy, reject all the original channels of Gillette, or replace all the original dealers of Gillette, which was obviously unscientific. In the process of integrated management of sales channels and dealers in Gillette, P&G should combine the reality, comply with the needs of market development, properly retain the original sales staff and dealers in Gillette, train the dealers' ability and knowledge of operating Gillette, and pass the running in period of the two.

7. The Conclusion
After the acquisition of Gillette, P&G is faced with various challenges while expanding its scale, strengthening its strength, improving its efficiency and gaining development opportunities. The key to whether P&G can achieve the expected commercial value after the acquisition lies in whether the integration after the merger is successful. Only by formulating a rigorous and feasible integration plan and making reasonable adjustments and management in business strategy, corporate culture, human resources and finance, can P&G successfully complete the integration after the merger and pass the run-in period of the two enterprises. In a word, only after P&G has properly handled these problems can P&G and Gillette complement each other and achieve win-win results after the merger.

References