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Procter & Gamble Brazil (A): 2 ½ Turnarounds

On a wintry day in late August 2005, Juliana Azevedo Schahin, marketing director for Procter & Gamble in São Paulo, chewed gum to calm herself as she looked out from her open desk toward dozens of marketing assistants. She had already gone through several pieces that day as she thought about the recent successes the P&G subsidiary had "tropicalizing," in a typically Brazilian way, two of the company's global products. But now she realized that similar advances might be stalled in laundry care, the subsidiary's largest category, which had struggled since P&G entered it in 1996.

Egyptian-born Tarek Farahat, a Latin America Global Business Unit (GBU) category head in Caracas, had worked closely with Azevedo to create and launch two new, counter-cultural products, Always Básico and Pampers Básica, using a new backward design process, called Obelisk. The Básico products helped turn around P&G's lagging Brazilian business by reaching lower-income consumers. In both cases, the enthusiasm of the teams on the ground helped deliver strong financial results in two of the three major product categories sold in Brazil.

Farahat began the pilot Obelisk project in October 2001, soon after Alan (A.G.) Lafley became CEO and set out to improve the business by leveraging P&G's Purpose, Values, and Principles (PVP) statement. The two Básico projects were accomplished early in Lafley's tenure, after tough and productive debate, and were widely acknowledged successes. On the surface, creating a Básico version of Ace, the mid-tier detergent, to capture Brazil's burgeoning lower-income market seemed like a clear opportunity. Farahat and Azevedo were not involved with laundry, but they suspected that the models they helped develop, inspired by deep knowledge of low-income consumers, could spread to other categories, especially in their home base, and that this was fully aligned with the PVP.

For nearly two years, beginning in 2004, discussions had taken place between the Brazil laundry team and Juan Fernando Posada, the regional general manager of the Fabric and Home Care GBU, on how to move the laundry category forward. The Brazil team built a case for an Ace Básico line extension, but they had difficulty reaching an agreement. Both sides understood that the laundry case was unique. Superficial understanding and simple reapplication of what drove the previous two Básico innovations would not work. Deep investigation of previous Básico success drivers, collection of global learnings, appropriate knowledge of the local consumer, and a plan that leveraged in some way P&G's global technology menu was also needed.

Azevedo and Farahat had been there before, not once but twice with Always Básico and Pampers Básica, but now Farahat was in Caracas in another category and Azevedo was busy building P&G Brazil's small beauty care business. Azevedo knew first-hand that if the team failed to reach an

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Professor Rosabeth Moss Kanter and Research Associate Matthew Bird prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

agreement, the detergent business could disappear along with P&G's commitment to the category in Brazil. Azevedo had the Básico knowledge, the influence network, and high-energy, yet laundry was not her job. The challenge was in the P&G laundry team's hands, and time was running out. The Brazil laundry team reached out to the original Básico change agents, such as Farahat and Azevedo, to learn about the essence of the Básico projects and model in order to rework their proposal for Posada and the regional GBU.

The Procter & Gamble Company

Since its founding in 1837 in Cincinnati, Ohio, Procter & Gamble evolved from an artisan soap and candle manufacturer to become the world's largest consumer packaged goods company. It did so by listening to the consumer, investing in innovative technology, and managing its brands. With over 20 product categories and more than 100 major brands in its portfolio, milestones included the landmark national branding of Ivory soap, the development of new advertising mediums such as the soap opera to market products, its difficult entry into paper products which resulted in the Charmin and Pampers brands, and getting Crest toothpaste's efficacy recognized by the American Dental Association.

In 1980, P&G generated roughly two-thirds of its revenues in the U.S., while functioning in 23 countries mostly in North America and Europe. By 1989, its operations had expanded to 23 additional nations, with revenues nearly doubling to $21.4 billion. Foreign sales grew from $3.5 to 8.5 billion, to account for 40% of P&G's total revenues. "In 1989, when the company asked me to go internationally," remembered Robert (Bob) McDonald, future Vice-Chairman of Global Operations and later COO, "my reaction was, what did I do wrong?" But in the 1990s, the company established operations in over 30 more countries. International postings became a rite of passage for P&G managers. Acquisitions in the 1980s helped fuel growth. P&G began with the purchase of two drink manufacturers. In 1982, it bought Norwich-Eaton, a pharmaceutical company, before consummating its expansion in 1985 through a $1.2 billion deal for Richardson-Vicks, known for its over-the-counter (OTC) healthcare products.[1] The integration of the latter's global operations and 11,000 employees, coupled with the company's international growth, threatened to erode P&G's way of doing things.

To codify 150 years of corporate culture, the company convened dozens of employees to write its Purpose, Values, and Principles (PVP) statement. (see **Exhibit 1**) Use of the PVP to drive global integration proved challenging. McDonald tried to translate the statement into Japanese in 1996. "We discovered that many of the words don't exist," McDonald commented. "The word leadership, it's a foreign word. In Japanese, they just take it and put it in the Katakana and it really doesn't exist in the Japanese language, so how do you take the PVP to a different country and have it viewed not as the American way but rather the P&G way?"

In 1997, then CEO John Pepper, a P&G lifer, initiated the design of Organization 2005, a company restructuring which sought faster innovation in the face of changing geo-politics, shifting buyer-seller relations, new technologies, and increased competition in order to reach $70 billion in global sales by 2005. The transition would begin in 1999, following Pepper's retirement and the appointment of a new CEO, Durk Jager. P&G reorganized along two axes – Global Business Units (GBUs) and Market Development Organizations (MDOs). The GBUs managed business strategy and global brands. The MDOs assumed country-specific responsibilities for local marketing, sales, external relations, and human resources. The idea was to flatten unneeded hierarchy and create a flexible organization that could collaborate and disband as needed in an ever demanding political and economic context. The reorganization helped P&G move faster and become more global, but not without growing pains.

During Jager's short 18-month tenure, the company tried to change too much too fast. In addition, the bursting of the Internet bubble, commodity cost increases and other factors created a challenging external environment. Organization 2005 sought to create more openness and risk-taking, to encourage collaboration and speed, but to some threatened to dismantle what made P&G unique. P&G had been criticized for its insular culture, for only promoting from within, and for excessive bureaucracy. Its people were sometimes called "proctoids" for their organizational conformity, but shared processes and experiences also created loyalty and community. The circulation of "Old World/New World" buttons split the community into camps based on feelings about change.[2] P&G missed earnings targets twice in six months and the stock price fell by half. Blocked information flow, misalignment between the GBUs and MDOs, and deflated employee morale all contributed to the decline. "We confused our people with an all-too-vague call to change our culture. We lost our grip for a time on some of our core values," Pepper said.[3]

In June 2000, the soft-spoken A.G. Lafley, also a P&G lifer, became CEO. After college, brief enrollment in a History doctoral program, and the Navy, he attended Harvard Business School, starting at P&G as a brand assistant in 1977. In 1982 he wanted to leave. "I thought the bureaucracy was so stifling and the change was so slow," he said.[4] Talked into staying, his first round of changes came as an advertising manager in the Packaged Soaps and Detergents division, where he helped launch liquid Tide in the mid-1980s. He became the laundry category head in 1988 and P&G Far East president in 1994. While there, he and other P&G managers sensed the need for change.

The day Lafley was tapped as CEO, the stock price fell. He then traveled the world to talk to critics and sent out a company-wide communiqué – "Ten Things I Believe" – which outlined P&G's strengths and weaknesses. He leveraged the PVP. "We consciously tried to go from closed to open," Lafley said later. "At the old P&G I joined, there was a lot of intramural competition. I wanted to focus the competition on the consumer and the external competitor."[5] In essence, he activated the PVP. He listened to employees and rearranged offices in Cincinnati and Geneva, making the rectangular boardroom table round. He also learned from prior missteps. "I avoided saying P&G people were bad, I enrolled them in change."[6] Investors approved; P&G's stock rose.

P&G's business process began with the PVP and strategic goals. Corporate set strategic objectives, developed a choice portfolio, and provided the principles of decision-making as defined by the PVP. The company then entrusted GBU and MDO leaders to make decisions on how to achieve these goals based on a shared choice menu and decision criteria. Under Lafley, the GBUs and MDOs were better defined as responsible for two distinct functions – First Moment of Truth (FMOT) and Second Moment of Truth (SMOT). The FMOT referred to consumer purchasing experience in stores and includes promotions and merchandising, which the MDO led as part of its local marketing and sales functions. The SMOT was associated with product performance and was handled by the GBU through brand management and product design functions. (see **Exhibit 2** for a P&G glossary)

Under Lafley, innovation became more open and collaborative. P&G sought deeper connections with partners. It encouraged cross-fertilization of brands, initiated joint-ventures, reduced time to market by implementing faster virtual product testing approaches, and innovated for developing markets. The company retooled for growth by focusing on large brands and core categories, high-margin beauty and health businesses, and fast-growing emerging markets such as Brazil.

Procter & Gamble Brazil, 1988-2001

P&G's purchase of Richardson-Vicks brought the company to Brazil through licensing contracts to import and market its OTC healthcare products – Vicks, Hipoglós, and Metamucil. In 1988, P&G

established a ground presence with the acquisition of Perfumerias Phebo, a bar soap and personal care manufacturer, and the launches of Pampers diapers and Pert Plus shampoo.[7] Yet by 1992, P&G Brazil was responsible for the single largest yearly country loss in the company.[8]

In 1993, P&G acquired two local feminine hygiene brands – Ela and Livre & Atual. Ela was number three in the Brazilian market, with a 7% revenue and 12% volume share; Livre & Atual's manufacturing facilities helped strengthen P&G's competitive position.[9] With 1300 employees, the Brazil unit broke even for the first time with a portfolio that included feminine care, Pampers, Pert Plus, Phebo soaps/deodorants, and Max Factor cosmetics. It also launched the Pampers Uni line extension, a low-cost diaper. To support its two disposable paper businesses – pads and diapers – P&G invested $100 million in the construction of a new plant in Louveria, São Paulo, which tripled P&G Brazil's manufacturing capacity, enabling it to export 30% of its production.[10]

In 1995, P&G invested more in Brazil than anywhere except the U.S, while turnover approached $400 million.[11] Overall, the company invested heavily into the country since arriving. But P&G Brazil remained in the red as earnings did not follow volume growth, a situation that continued for years. "Our first years here were not of glory," marketing director Juliana Azevedo commented. In 1996, she started at P&G based on the recommendation of a college friend who thought the company's values aligned with Juliana's. "There's a lot of integrity here at P&G that I value," Azevedo said. But continued losses were demoralizing. In 2001, the emphasis was on growing three key categories: feminine care, baby care, and fabric care, and all three were struggling.

Tarek Farahat came to work in Brazil in 1999 as a marketing director for the paper business. Born and raised in Egypt, he went to a campus recruiting event after completing military service, stopped at the P&G booth, and was impressed by the company's thirst for excellence. He began work in 1989 as an assistant brand manager in Saudi Arabia, moving up the organizational ranks in Switzerland, France, and Germany. He learned during his first year in Brazil how difficult the situation was. When new CEO Durk Jager and his global leadership team came to Brazil for a meeting, Farahat observed part of the discussion which included tough questioning to company presidents about whether some P&G brands should stay in Brazil. The ultimate answer, Farahat recalled, was that there was "light at the end of the tunnel," but that he and other managers would need to prove it to corporate – or else.

Country conditions in Brazil were challenging. Federal and state taxes subtracted 50-60% from the shelf price of a P&G good. Compared with other big P&G emerging market operations, such as Egypt, Brazil had to accept lower revenues which in turn required lower costs. Also, despite possessing Latin America's largest economy, Brazil had the region's worst income inequality.[12] (see **Exhibit 3** for data on Brazil) As a mass-market consumer goods company, P&G needed scale – especially in capital intensive categories such as disposable paper, including diapers and hygiene pads, whose set-up production costs were higher than chemically-based laundry or shampoos – but P&G's global brands naturally occupied the mid-to-upper end of the market, which was a small segment in Brazil. Throughout the 1980s and early 1990s, the country suffered from inflation, which forced currency devaluation and eroded consumer purchasing power. In 1994, finance minister Fernando Henrique Cardoso, implemented Plan Real, a stabilization program that renamed the currency from *cruzeiro* to *real*. This kept inflation in check until the Asian financial contagion in the late 1990s when Cardoso, now president, was forced to devalue again in 1999. Economic growth was nil in 1998 and 1999, rebounded to 4.3% in 2000 but fell to 1.3% in 2001.

Throughout the 1990s, P&G applied its global business model in Brazil, yet could not obtain economies of scale: "We had tried to implement all the global models, global technology, and we were not meeting a mean critical mass to justify investment in the start-up virtual cycle," Azevedo explained. "We were facing the ultimate question: Should we stay or not?"

Always First: The Initial Innovation Push

Always, P&G Brazil's feminine hygiene pad brand, generated the smallest revenues among P&G Brazil's three major categories and was the third player in the market behind Kimberly-Clark and Johnson & Johnson. In Brazil, P&G had only one feminine care product which had moved up market through successive innovation/sales cycles. Each upgrade brought a price increase supported by an intense marketing and sales push. The capital intensiveness of paper manufacturing required scale to drive profitability. Sales of Always had suffered since the purchase of Ela and Livre & Atual because economic difficulties spurred consumers to seek a lower-priced product. Successive innovations priced P&G out of the market to a point that it lost scale. Although Always possessed a 30% share in the premium tier, it had less than a 10% share of the total market.

Juliana Azevedo, who was then brand manager, summed up the value equation issue – "our global superior protection was simply not delighting our local consumer." She and her team understood the problem, but had trouble finding a solution: "We made many recommendations – let's cut the price, let's adjust the product. But then your financials will not work, this is the global platform, you're going to ruin the equity, so just adjusting the baseline was not an option." The declining business created tensions between local marketing and sales teams which became apparent in weekly price meetings. Adilson Marqués, who as trade marketer worked closely with both groups, recalled that marketing believed weak results stemmed from out of stocks or low inventory while sales (Customer Business Development or CBD) cited design and affordability.

As GBU category head for the region, based in Caracas, Farahat felt immediate pressure. Latin America as a whole had declining Always sales as a result of the economic crisis, but Brazil was the largest market. Research showed that P&G's superior product played in less than 15% of the total market due to price. Demographically, the population of lower-income women grew faster than the upper-tier segment that bought Always. A creative new approach was needed. They needed to lower price without sacrificing quality, to work backwards from a price point to design product features.

Finding Obelisk in the Kaleidoscope

Farahat's brainstorm came from his Egyptian heritage. When he began to search for a simple and memorable metaphor to explain his reverse engineering idea, he recalled the image of obelisks, which were tall, narrow, monolithic structures that originally marked the entrances to religious temples in Ancient Egypt. The obelisks were carved to perfection from one block of stone, and once complete, workers simply raised them. "The obelisk model struck me," Farahat said. "Know what the end is and then make sure all the elements work well, and once it's ready, erect it." He asked his brother, a tour guide in Egypt, to show him the opposite example – of obelisks that had failed. "The reason they failed is because they didn't examine the stone well. So they carve, carve, carve, and then there was a crack in the middle. That's it, you're gone." He also learned that the work on such large stones, some measuring over 20 meters in height, was coordinated in a team. "Everybody was in the same place when they were building it, so the engineer, the people who craft the script, everybody was there, and everybody was working at the same time towards the same goal."

Farahat sent a note to his organization announcing what he called the Obelisk initiative. Always in Brazil was the first target for Obelisk's backward design. The goal was to reach consumers who wanted a product price below two *reais* (plural for *real* in Portuguese). He appointed his plant and later product supply manager – Julio Nemeth - as project leader. Juliana Azevedo led the commercial front. With typical enthusiasm, Azevedo assembled her core team in São Paulo. She initially gathered a logistics planner, an assistant brand manager, a marketing assistant, and a sales or trade marketing person. Despite internal tensions over her category and the threat that P&G would abandon feminine care in Brazil, her core team maintained a strong spirit, identifying with the challenge. "This was the last bullet," Adilson Marqués, the project's trade marketer, said, "you need to make it happen."

After speaking with Farahat, Azevedo and Nemeth presented the Obelisk criteria – be below two *reais* – to the team for a crisis brainstorm session. All knew of prior attempts (and failures) to fix the category and they understood that the first challenge was to achieve scale. Scale was necessary because paper manufacturing was capital intensive; machines needed to run 24/7. Advertising costs were also high since Brazil was one of the world's most expensive media markets.

The Team's First Idea

The team thought about an exclusive stock-keeping unit (SKU) for the high-frequency store (HFS) channel. Retail trade reflected geography and infrastructure: well developed infrastructure in the country's industrialized South and Southeast and high transportation costs to the underdeveloped Amazonian North, the *sertão* or backland Northeast, and the Central West plains. P&G trade customers consisted of international big box retailers, national retail chains, pharmacy and drug stores, and the HFS channel, which included brokers, distributors, and wholesalers covering small-to-mid-sized retail outlets. (see **Exhibit 4** for P&G's go-to-market structure) P&G reached either directly or indirectly over 364,000 of a total 413,000 stores in Brazil. Most stores were small, family-owned neighborhood outlets with limited space. Up-the-trade (UTT) retailers, such as Wal-Mart, Carrefour, and national groups, were still new, accounting for one-third of total retail. HFS then accounted for two-thirds of P&G's trade and Always, in particular, depended heavily on this channel. If the financials did not allow them to fix everything, they reasoned, at least they could fix the HFS channel and borrow the equity of the rest. The team then identified options for how to reduce the price. Eliminate the wings on the pad? Reduce from 8 to 10 counts per pack?

But Farahat continued to stretch Nemeth, Azevedo, and the team, responding: "I don't think that is good enough, I think that you need to get the costs a little bit lower, you need to improve the product a little bit more, especially its equity. I need 'More with Less'." Eventually, they hit upon the Básico idea. In Portuguese, "básico" does not mean basic as in cheaper or poorer; it means basic as in essential. "It was a strong insight," Marqués commented. From a design perspective, the product would take the best and most essential aspect of the high-end Always brand without diluting brand equity. The product would not be cheap; it would be superior. It would not perform worse; it would delight the mid-to-low tier consumer by delivering just the right value. It was an Armani (an high-end Italian designer dress) for an H&M price (a discount retail clothing chain), as Azevedo explained: "When Básico emerged as an idea for a more affordable value for this consumer, we still had the premium line up, which was the heart of our portfolio. The line extension needed to be different but still part of the bigger Always family. How do you make a package that is less expensive but not make it look cheap because my brand is not cheap? So then we said let's get back to the consumer. We decided to connect with fashion." Básico could be communicated through wardrobe images: the basic black dress or basic jeans and white t-shirt, an image attractive to young women. The color orange captured this concept, and it was the fashion color of the season.

Básico Buy-in and P&G Decision-making Criteria

Now there was a vision; the challenge was to get the right people behind it. Farahat, known as a believer in great ideas, provided support from Caracas. But Azevedo had to enlist supporters and execute in Brazil in order to make the idea materialize. "The clock was really against us," she recalled. Farahat waited to notify Cincinnati while the team honed the Básico concept, product, and cost. He said, "Cincinnati doesn't yet know about it because the idea was so different. If we tell them the idea without the concept and initial results, it's not going to have the desired support, because it's not common. We had to give the idea a chance to succeed." Instead, he chose to "send vibes" and plant seeds, hoping to elicit curiosity. His tactic was to "let people know unofficially that there is something brewing. They will not stop it. But if you go and ask, raise your hand, can I please work on a very different idea while my business is struggling, you know what people tell you, no don't, fix what you have," he explained. "This is the reality of leading change. You have to plan your steps wisely and gain credibility in every step. People rush during stressful times, and in the process they risk making shallow proposals. The tougher it gets, the wiser and more calculating you need to be."

Farahat sent periodic notes to his boss, the global category head, saying such things as "we have a cost issue, and we have a volume slowdown. We're working on a different SKU that can solve the problem. I'll keep you posted." Farahat did not mention Básico until the concept had developed far enough and the organization was primed. Only with consumer data in hand could he reach out for agreement. Then he arranged a conference call. "I said I think that I have a plan to make money and get the business up, we're ready to go ahead with it, and we can do it from within," he explained. "My direct boss was the president of fem(inine) care back then. He worried that the risk might be too high. There was too much of a change, he wasn't ready to take another risk on a troubled business. His boss said I think it is a damn good idea. Then my boss said, you've got to reassure me on the following, you're not going to take global resources to do it (because he had problems in other places), you're not going to scrap materials. He gave me a long list of things. I said fine, that's doable, no problem."

Farahat knew that P&G's knowledge and principle-based decision-making processes would be the key to enabling such a different idea to come to life. "We are principle and criteria based," Farahat said. "P&G processes are robust with gates and checks to maximize returns on investments and to ensure we maximize the value to consumers. We make knowledge-based decisions to minimize risks. If you have a well-supported recommendation, the chances are it will happen." More than competing perspectives, consumer data were the key element for the team to get the final go-ahead.

In São Paulo, Azevedo had to mend a tense working relationship with the HFS sales group. Then the HFS head unexpectedly left the company, creating a clean slate. Azevedo seized the opportunity to bring both groups together. "Let's stop pointing fingers, we've got to make this work, we are winners, you are winners," she said. The meeting was a breakthrough; they agreed to work together to build the project. Azevedo's team also sought collaboration with suppliers, the plant manager, an advertising agency, and trade customers. "We were a small team," she explained, "but we reached out for so much more than what we had." Her strategy was to get buy in by "contaminating" the partners with the idea, the passion, as she put it, to get the powerful support of true believers. "The agency truly was my brand team," she said. "They really were the ones who helped me design the concept and qualify with the consumer." Customers offered early input. "Despite the short time, we selected really what was going to make a big difference, and engaging the customer was something that we said, you know what, we've got to do, no matter if it is in an expedite mode." In addition to regional R&D, the suppliers and the plant manager - Nemeth - offered technical solutions.

"Each area had its own specialty, but we worked outside of that, flowing into other areas that weren't our expertise to make it happen," Azevedo explained. "You present to the customer and he'd say finally you guys come up with something that is really breakthrough. That also gave us the confidence that we had something big, and all the objections we were hearing were truly theoretical." Once up and running, the operating team was small but well-connected to the extended family. It consisted of the core office team, the plant manager, regional R&D, and an agency. Azevedo's team members "were the generators of data, consumer understanding, and passion and Tarek was a big fighter upwards, I had no marketing director," she recalled. Farahat visited twice a month from Caracas, signaling that the project was more significant than merely fixing Brazil.

Time pressure was intense. "We could not run the full qualification studies that normally a typical P&G approach would demand. So we relied on the added value of the brands, minimal critical research, and a lot of consumer in-touch understanding," Azevedo said. "One thing that still surprises me is that the scenario was so dark. I was the manager and with my right hand I was writing copy for Always Básico, and with my left hand I was writing back-up scenarios."

"It was a great team," Marqués said. "It was a fantastic team," Azevedo enthused. The Básico concept ignited passion. "We got excited because of the consumer, the customer input, and we made this positive energy and this confidence." Belief in the concept, Azevedo claimed, held them together and nurtured their collaborative work, and Azevedo always had chocolates for the team. Still, the passionate team soon ran into obstacles on a number of fronts.

P&G's knowledge-based decision-making processes turned these questionings into key project contributions. "P&G has an open culture of trust. This gives the freedom to operate. We have open communications and what guides us is the PVPs, not one person's point-of-view, irrespective of his or her level in the organization," Farahat explained. "This allows passionate, tough conversations on issues with no fear. We are truth seekers, with no ego or personalities involved. We encourage high-conflict, high-respect debates to seek and reach for the truth and to be the best. This is one of the biggest strengths of P&G." For P&G, healthy confrontation was productive. Bob McDonald emphasized the same point. "P&G is a democracy of ideas, and 99.9% of the time if all managers have the same data, they all make the same decisions due to the strength of our values."

Despite the initial go-ahead, corporate heads remained apprehensive about the concept and the name. "The básico word, that one had a lot of heated discussions with Cincinnati," Azevedo remembered. "In English basic means another thing." In translation, the word lost the strong Portuguese connotation of essential, suggesting cheap instead. "It took a lot of personal face-to face-conversations and consumer data to take people from the first reaction – a cheap Always!"

Farahat defended the project to brand guardians who feared the destruction of brand equity. "Number one, are you diluting the image? Second one, are you diluting the brand, the performance?" Farahat reported. "They were valid concerns, and we incorporated the important ones. It is important to keep an open mind when proposing dramatic change." Farahat advocated knowledge-based decision-making. He argued that reaching a larger market could improve brand image, and the product would be superior for a consumer segment. Azevedo agreed: "What helped us was knowledge. Nobody knew our consumers and our customers better than us, so that empowered us."

Product Design The team worked closely with partners to develop ways to cut costs yet maintain value: "From a technical point of view we had the plant manager, Nemeth and his team, and suppliers with us, and then the regional R&D was also fully behind us. We borrowed the technology for this product from something that we had in our technology pool," Azevedo said. "I had launched it before so I knew it." To cut time to market, they bypassed much standard research protocol.

Some members in the team expressed immediate concerns about the use of an old technology. The debate centered on the definition of "superior" as used in the first line of the company's PVP: "We will provide branded products and services of superior quality and value that improve the lives of the world's consumers." Some at P&G defined superior as the best product in market, not the best product for a particular segment. However, the vast majority of the Brazilian market did not see superior that way. "We were designing for the consumers here which thought the product isn't worth those elaborated things that are on it," Azevedo explained. Consumer understanding told them that the old platform delivered the protection consumers needed. "It wasn't Cincinnati saying you guys need to design a superior product," Azevedo said. "We were all aligned on who the consumer we were designing for was and what she valued as better protection. We knew how to win with a superior product, so I don't want to come up with a crappy product that saved me 50 cents and then the consumers don't see the value."

Striking the right balance between the lowest costs and the right superior technology was a constant challenge during the tight three months of product design, especially given the economic difficulties the category faced. Básico benefited from the vast technology pool a global company like P&G offered, which enabled the team to fast-track the project.

The conceptual distinction between best-in-market versus best-in-segment played itself out in the debate with regional R&D over whether the product should include improved wings. The premium Always brand had upgraded to a larger, flexible wing which provided increased protection. "Should we keep it or should we not keep it in the Básico version? Will it get too similar to the premium line-up? And there were people that said no let's go for cost, let's cut this wing, and I said no guys that's not the principle. Always is about superiority. The wing was an integral part of that. We didn't damage the principal of the brand, we are a company that sells superior products that build equity." The team argued to maintain it and had support from senior leaders in Cincinnati, such us Alvaro Restrepo, Global R&D head for Feminine Care, who emphasized the importance of upgrading the premium line-up as well. "It was healthy to have people not under the local market pressure giving their perspectives," Azevedo said. "It forced us to imagine alternative scenarios about what could go wrong, despite all the customer and consumer excitement." Eroding the premium Always line-up was an important concern highlighted by Cincinnati. This was incorporated into the project through a planned premium Always enhancement four months after the Básico launch. This upgrade would nurture the superior protection equity the mid-tier borrowed from, while providing room for mid-tier improvements.

Product Packaging Product packaging had to communicate the Básico vision while cutting costs. The plan was to make the outer packaging transparent and the inner individual wrappings orange. "It was both functional and emotional," Azevedo explained. "So it was a whole conceptual design." However, Always had never used transparent packaging, nor had it ever used orange ink. The outer wrapping was the easier of the two problems to solve. The packaging was considered a breakthrough: lower cost because it used less ink and with a very innovative design."

Getting the go-ahead on the inner wrapping proved trickier. Despite the advantages identified in the vision, P&G had no individual wrappers in orange anywhere in the world so the ink was not qualified. Yet the color was too integral to the Básico concept to change. Azevedo and Nemeth asked suppliers for a solution. Cincinnati, however, was not convinced. Farahat understood that the color was an integral part of the Básico equity. While Farahat was in Cincinnati, there was a conference call to clarify the solution. Azevedo and Nemeth explained that the individual wrap was made of three layers of plastic. The ink would be applied in the middle layer. Nemeth and his team helped drive further local qualifications until they got approval.

Product Launch Adilson Marqués helped organize the product launch. This included customer fundamental analysis and the development of a detailed trade plan. The expectation was high. "Until the start of shipments, we still had a sick business, a declining business so the pressure to deliver the business was very intense. You are in the middle of the crisis and you are putting all of your hope in one specific launch," he said. Furthermore, they had to launch with limited resources.

Three months prior to shipments, Marqués sought customer comments on the trade plan. This was unusual within the HFS channel. "In the U.S., people were engaging the Wal-Marts of the world, but here we got to engage the storeowner of the HFS," Azevedo said. Marqués continued, "When we finalized the plan we got back to the customer and said you gave us this idea. We are implementing thanks to you. You are co-owner of the plan." This motivated customers and the sales team.

The trade plan included FMOT merchandising innovations with packaging breakthroughs. The team developed an orange block for visibility of the item in HFS and UTT stores. They reviewed every detail of the launch with Hermann Schwarz, the Brazil MDO General Manager, knowing that they had to get it right. The innovative use of display blocks of a provocative color built high awareness despite low advertising budgets. In-store visuals featured the drawing of a young woman in jeans and a white t-shirt. These display items were particularly striking considering that many of the stores were family-owned neighborhood outlets with one to three checkouts. To take advantage of available space, they placed display blocks at the store entrance, spilling onto the public sidewalk. Advertising ran for only four weeks in select regions. Its announcement copy lasted only 15 seconds. It talked about the black dress and focused on protection. "The essential protection," Azevedo elaborated. "You have that black dress that is with you, here comes the first pad that is an essential pad, with a superior absorption claim."

The team mounted a cannibalization defense strategy to protect the premium tier, addressing a previously mentioned concern. Marqués explained: "You need to be strong in the visibility of the new item but you need to protect your current line-up. The idea was load, assure that consumers had the product in-house, assure that the trade would not drop the inventory of our current product line-up in the store, and build the new item on top of that." They marketed premium promotional packs one month prior to shipments and during the first month of launch. To load trade, they announced a contest for the indirect sales force with a pre-requisite for entry being that the volume and distributional objectives of the Always high-tier be met. If cannibalization occurred, they planned for a second wave of promotional packs.

Boldly, the team launched Always Básico at Brazil's largest trade fair, something they had not done before. Close collaboration with some customers had already created buzz. Azevedo explained how they then created intrigue: "We did it in a locked room so the day before it was a mystery. We painted the room orange. At the dinner opening of the fair, we had teasers. I went there, did a speech, but we didn't reveal. We said go to the event, this is your special invitation, only you guys in. Then they were lining up to get in." A limited number of customers and sales representatives attended at designated times, with Marqués repeating the show throughout the afternoon. "He made 200 presentations in one day and I'm not exaggerating" Azevedo said. "He ran out of voice." It worked. "Customers said, finally you heard me," she continued. "When the CBD came, they said, here comes Always, oh I know it, I'll take the order, I helped design it."

The night that production began, the core office team and the regional R&D person, who flew in from Caracas, went to the factory in Louveria, located outside of São Paulo. The plant needed to adapt the lines to make the old technology work. "We were all waiting on the line for the product to come. Everybody was holding hands," Azevedo said, "helping and cheering and praying that everything would work well." When the first product came off the line, "it was a big celebration," she laughed. The first week of the launch Azevedo's team went to the field to push sales and distribution. They sent weekly letters to the customer team full of praise and "good energy" but always pushing for execution excellence. Cannibalization of the premium product was less than expected. "It actually improved our equity," Azevedo proclaimed.

Succeeding too well? Farahat immediately sought data to support Básico's success. "I wanted as quickly as possible to get physical facts," he said, "because with a physical fact you give confidence." Facts would bolster the Básico team. "It is very difficult for an organization that has not seen success to imagine it. You've got to help them imagine it, you have to empower them, make sure that they see it, they feel it," Farahat stated. He got that fact. "Month one was so big, and then we got a share reading a few weeks later and the share reading was high. Consumers voted for our brand."

Quickly, demand exceeded expectations. "Very soon we were under allocation, there was not enough product," Azevedo recalled. The situation lasted for six months. "Maybe a little bit more research would have been better." They exceeded their original volume projections in month one. "We were so oppressed by the bad situation," Azevedo confessed, "we didn't allow ourselves to think about how high it could be." The team's attitude remained cautiously optimistic. "It's good but let's see," Azevedo remembered. Farahat pushed them. "I used to come here and I said, we used to ship 150k cases, guys, imagine we're going to ship 400k cases, this is going to be huge." Production ramped up but still struggled to meet demand.

Celebration of small wins got the team through the year. Success was clear; the Básico team had saved the product category in Brazil. After a year, it was profitable and on a positive curve. News traveled throughout P&G. "Always Básico became an international story," Paulo Koelle, a Brazilian at corporate headquarters recalled. "When I was in Cincinnati, people asked about Básico. They knew I was Brazilian, so people in other businesses asked for information on Básico?" By 2005, the brand became the category leader with a 26% share, beating Kimberly-Clark and Johnson & Johnson.

Tropicalizing Pampers: The Second Básico Project

When Tarek Farahat became the regional GBU head of baby care, he found the category in a similar situation as feminine care. Baby care had also been hit hard by ongoing economic crises in Latin America, especially in Brazil, Argentina, and Venezuela, except this time Farahat had evidence of the success an Obelisk-backed Básico model could bring. But the stakes were also higher. "The business was declining across Latin America, because of the economic crisis." Farahat explained. "Pampers was a much larger business than Always."

Farahat immediately began Obelisk projects to address small but crucial cost aspects of the Latin America baby care business. "We started doing Obelisk in a few countries and basically same concept, same methodology, project leaders, all that stuff, and the first month of the implementation our business was up 40%. We finished the first year up 29%." But Farahat also wanted to prove that the Always Básico success was not a unique event. He turned his attention to Pampers in Brazil where he once worked as its marketing director.

The Brazilian disposable diaper market was underdeveloped when P&G launched Pampers there in 1988. As with feminine pads, the capital intensive nature of diaper manufacturing drove up price, making the product unaffordable for a large swath of the population. Both P&G and Johnson & Johnson, its main competitor with a 70% market share, competed with a comparably priced $1 diaper, nearly identical to those sold in the United States. In 1993, P&G Brazil launched Pampers Uni, a stripped-down 30 cent diaper designed to achieve scale by attracting consumers concerned only with absorption and protection from leakage before promoting trade-up. "That multiplied the market size," Paulo Koelle, the product's future brand manager and eventual marketing director, stated. P&G Brazil's share climbed from 13% to 45% to become the market leader.[13]

P&G lost total market share over the next few years, despite high-tier growth. Pampers Uni upgrades coupled with premium tier cost reductions created room for a new lower tier diaper. Mid-sized domestic and small-scale informal players moved in with a cheaper, lower quality product that sold at less than half the price. The lower-tier diaper sector eventually grew to over 60% of the total market. This shift snuck up on P&G as it focused on high-tier growth. "We corrected fundamentals," Koelle remembered. "We launched the value packs in the market, so we had from 1998 to 2000 an extremely good run." Tarek Farahat had arrived in 1999 and led the value pack launch, his first initiative after sitting in on the global meeting with Durk Jager. Farahat's experience in other countries taught him that the Pampers pack size and price did not fit shopping habits in Brazil. After changing pack counts, adjusting prices, and launching the value packs, the business tripled in a matter of weeks. "This was a big celebration," Farahat said, "We went to stores to watch consumers shopping, and we used to do high-fives, Paulo and I and the team. It was just so wonderful to see people buying Pampers." But in 2002, a year of economic crisis, high-tier growth slowed. Like Always, Pampers was the highest rated brand in the Brazilian market, but was not affordable. P&G lost its market lead as its share fell to 19% with depressed margins. Many in Brazil worried about the category's future.

A lower-priced line extension seemed like a logical move to the Brazil MDO. "Everybody was seeing the opportunity, but from the company the answer we usually got when we were saying we need a cheaper product is that P&G can not make it. We can't compete at that price tier," Koelle explained. "In 1996 we tried to compete at a lower price with Confort Seca, and it failed due to poor performance." The company was not able to reapply the Pampers Uni model of 1993. The success of the recently launched Always Básico gave them hope that a line extension could work again in diapers. Like Always, Pampers had similar cost issues and struggled to achieve a critical mass, but possessed robust brand equity, even better than Always.

Once again, Obelisk reverse engineering drove the project. Product supply and R&D held design responsibilities, with a team relocating for a time to São Paulo, while Juliana Azevedo oversaw delivery, having recently moved over to baby care. Due to organizational readjustment, her duties now focused on delivery or FMOT execution, while the GBU handled design or SMOT functions. To collect insights for product packaging and launch, Azevedo lived for a week in a low-income home with two babies. For security reasons, she did not sleep in the house, but she would spend the whole day there, sometimes waking up and arriving at five in the morning to join breakfast, other times staying until dinner, helping change the babies, bathe the babies, take them to the doctors. Her learnings fed into product design as well as local marketing and sales.

Farahat easily aligned the regional GBU category he headed with the Brazil MDO he knew so well. "I was confident the MDO organization would be supportive. Hermann Schwarz launched Always Básico very successfully. He would support Pampers Básica too." The challenge was getting buy-in with the Pampers global GBU in Cincinnati. As with Always, they worried that a line extension would dilute the brand and its image. Since the Pampers brand equity was stronger than Always, a line extension also presented a greater risk of loss. But this time, the team had evidence for their argument that a line extension relevant for the consumer, even at a lower price, enhances equity instead of jeopardizing it. The team began to look at the issue in a different way. Prior to Pampers Básica, local marketing and sales teams focused on overall rating, a consumer ranking of best quality products, to assess perceived brand strength. However, this did not capture whether the consumer thought the product was the best value, as opposed to best quality. Farahat and his team went beyond overall rating and used a proprietary research technique to determine at what price point consumers sought certain value. The Pampers project used this new perspective to design and deliver the line extension.

Farahat's team, led by R&D director Jean Ibrahim, sought to re-engineer a product with value for a market segment, not just to reach a price point. "Jean is a maverick, who turned consumer insights into great ideas," Farahat said. The product may not have had a built-in anti-rash cream or fasteners like Pampers Noturna in the premium tier, but it retained an anti-leak barrier and could have low-cost visual signs, such as drawings on the diaper, to provide a better look. "You need to give them something they will be proud to use," explained André Felicíssimo, the project's trade marketer, "not something they would feel is the maximum I can get, since I can not afford another one." Instead of keeping the tier-two Pampers FresConfort (formerly Uni) and launching a third brand, they split FresConfort into two new products, renaming the middle-tier and calling the third tier Básica. "You need to make something new for your existing line," Felicíssimo explained, "otherwise the consumers will migrate quickly to the cheapest version."

Azevedo and her team led the product launch. "When we went to Pampers, we were more structured coming in," she said. "Pampers launched Pampers Básica regionally to avoid the capacity issues. I'm not going to be able to spend on capacity for manufacture, but also I'm not going to put myself, as in Always, where I underestimated volume." They focused on the HFS sales channel in São Paulo and in select states, leaving out the large low-income markets in the Northeast because of high freight costs. They advertised the new price point on TV and in stores. At first, packages were small because the team assumed that the target market lacked the cash flow to buy value packs; and many stores, due to their small size, had limited stock-keeping space. Aisles were already narrow as products were commonly stacked to the ceiling. Deep consumer understanding indicated that caretakers valued long-lasting absorption most, so they put pictorial claims of a wrung towel on the package, claiming the diaper would last 8 to 10 hours. Finally, they shelved the product separately from the other tiers and decided to not offer special in-store displays.

The product was launched in January 2003. At first volume did not meet targets. "We needed to understand very quickly what was going wrong. Our credibility was at risk since the company did exactly what we wanted," Felicíssimo said. They quickly realized that they needed better in-store merchandising such as displays, and more support, such as upgrades, for the upper tier. After these corrections, Pampers Básica took off. "We were completely running flat out of capacity at the plant," Farahat said. "Our out of stocks level was an embarrassing 15% for several months. We just could not catch up with the demand." They expanded geographies, entered new sales channels, and launched value packs. Noturna margins improved through upgrades and price increases. This success opened the way for one of P&G Brazil's most popular promotional packs, which grouped Noturna with Pampers Básica, stemming from Juliana Azevedo's observations of low income households: "In the low-income houses, the baby is sleeping in the same bed as the couple. So if there is a leakage, it's a leakage on the parents. They will save money making sure that during the day they will use just enough product, but at night, it's the moment that they are resting to go to work the next day. In a one-bathroom house, they don't want pee all around, so they buy the best brand," she said.

The Fruits of Success: From Local to Global Influence

Once the Brazilian business was turning around and Farahat had hard facts to prove the Pampers success, he sought support from A.G. Lafley on the Obelisk business model. "For me this was the bigger idea, I believe the model has tremendous potential for P&G," he admitted. "Once the CEO of the company embraces the model then it will get legitimacy and credibility." Farahat had written the business model so it could travel and discussed it with Lafley. "He wrote a note to his reports, the presidents of the company, supporting the model" Farahat recalled. Lafley asked Farahat to present the model to Wall Street analysts. "One of them told me well what is the catch, this sounds like it is too good to be true," Farahat remembered. "I said there is no catch, there are the numbers."

Básico knowledge diffused outside of Brazil through P&G's system of "international broadening assignments." Brazil sent its people out while other P&G employees came in for training. André Felicíssimo moved to Caracas to work as the Market Sales and Planning head for the baby care GBU. "The two Básicos, Always and Pampers, were the two biggest initiatives of Latin America in the last seven or eight years. We expanded the concept of Pampers Básica all over the region," Felicíssimo said. "When I was in Caracas working for Latin American baby care, we went from competing in approximately 30% to 70% of the market." Memories were hazy, but Felicíssimo and Koelle also suspected that a phrase in the PVP was changed to emphasize superior value as well as quality.

Juliana Azevedo was invited to participate in a global project out of Cincinnati. The Básico initiatives inspired Leonora Polonsky, from P&G's Global Marketing Knowledge and Innovation Group, to study what she called the Value Sweet Spot: when the company should use a line extension or a new brand to reach a larger portion of the market. Polonsky asked Azevedo to validate the questionnaire. Azevedo and members of her team, including Adilson Marqués, traveled to Cincinnati to present Básico at Flashpoint, an internal Procter & Gamble knowledge-sharing fair. (see **Exhibit 5** and **6**) They distributed printed materials and offered trainings. Azevedo wrote several white papers.

Básico was a model for how P&G sought to use the PVP and global strategy to permit local adaptation empowered by knowledge-based decision-making criteria. Vice Chairman Bob McDonald said: "We've created a menu of best practice capabilities on the demand creation side as well as on the supply side. Rather than dogmatically implementing that around the world, each region has taken these menus and adapted them to their geography. And then within that geography, each country has taken these menus and adapted them within their country. Dogma is the enemy of our business."

The Third Frontier: Dealing with Detergent Decline

In the mid-1990s, Brazil remained one of the largest global laundry markets P&G had yet to enter. Meanwhile, global rival Unilever had operated there since the 1950s and dominated. In 1996, P&G bought three laundry detergent brands and two factories from Bombril, a domestic household goods manufacturer. In 1997, P&G Brazil's sales had reached over $600 million, but earnings suffered due to increased competition and associated marketing costs.[14] By the end of 1998, P&G divested the majority of its Phebo bar soap assets, including its plants, which helped pay for a planned three-year investment in household care products, especially laundry.

A full-scale laundry war began in April 1999 with P&G's national launch of Ariel, the high-tier equivalent of the Tide brand. Unilever then controlled nearly 80% of the market, with its leading brand – Omo –garnering a 50 share alone. P&G mounted a massive advertising campaign in TV, radio, print, and outdoor media. Unilever countered with its own campaign, the relaunching of other products, and price cuts, a particularly aggressive move in light of a recent currency devaluation. By August, P&G had made inroads, rising to a combined 15% share while stealing 5 points from Unilever. But prices dropped as much as 15% while the currency plummeted over 50% against the dollar. In March 2000, P&G's global earnings fell for the first time in 9 years, with price wars in Latin America as one contributing factor. By October, AC-Nielson reported that the Brazilian powdered soap market had actually shrunk by 5% over the previous 12 months.[15] While volume sales of P&G's laundry detergents grew, the company continued to lose money. P&G and Unilever lost the ability to invest and the market saw an unusual truce – a "peaceful coexistence," the press said – but it took several years to restore the category's margins.

Between 2000 and 2003, price increases and a strengthening currency opened a space for local players. One competitor from São Paulo leveraged their bar soap business and began to achieve critical mass and even reached a 10% share in parts of the Southeast, Brazil's biggest market. Unilever already had a three-tier portfolio with Omo, the premium tier, Brilhante, priced 20% below, and Campeiro, a low-tier brand; they repositioned the lower tier by changing the formula, lowering the price, rebranding it as the global brand Surf, and developing a new marketing plan, growing it from a 2 to 12 share.

Like Unilever, P&G Brazil possessed premium-tier (Ariel), mid-tier (Ace), and lower-tier (Pop) products. But P&G's investment stagnated. "Ariel in the upper tier was trying to compete against Omo, but we were not growing," explained Paulo Koelle, who was then in Cincinnati working on global strategy for laundry. Rodrigo Finotti, the Ace brand manager, remembered the situation well: "With the local player growing in the low tier, with Unilever starting to grow in the low tier, with Omo triumphant in the upper tier, Ace, which was our biggest brand, started to suffer." Month after month Ace missed its sales objectives and lost market share. Laundry used the Obelisk methodology to address its cost structure and had improved its position. "But we were not yet competitive like Unilever was," Finotti said.

The laundry team's senior members had developed family-like friendships, sealed by long hours and after-work drinks. Their experience and camaraderie helped see them through tough situations. Thus, it was only natural to look within the Brazil MDO for lessons. "With the huge success that we had here behind Básico, we came up with the idea – We are losing Ace to the low tier brands. We don't have a low tier brand," Finotti reasoned. "Let's do a line extension the way Pampers and feminine care did." In 2004, they presented a proposal to Hermann Schwarz, Brazil MDO general manager, and later Juan Fernando Posada, regional GBU general manager for the category, asking for an Ace Básico line extension. Since detergents had a larger portfolio, an alternative option – with lower risk of cannibalization and brand equity erosion – was investment in Pop, P&G's existing tier three product. But this choice was not viable; the product had no brand equity and low market share.

The team bolstered its Básico argument by citing a successful line extension of Tide in China. Since detergent production was at base a chemical manufacturing process, innovation cycles occurred more quickly than in other categories such as disposable papers. This motivated P&G to have well developed knowledge share mechanisms in this category. Marketing directors met at global meetings; internal websites provided forums for publishing and discussing cases and applications; and weekly newsletters were sent via email. Through these channels, Finotti and his team learned about China's line extensions of Tide that were 30% cheaper than the mother brand.

But no agreement was reached. The Ace situation in Brazil was different than Tide China. A local player with a low-tier product ate share from the premium Tide brand, but in Brazil Unilever controlled over 70% of the market, with Omo alone possessing a 50% share. China needed a tier three to compete; in Brazil tier one Omo was the leader and a tier three could not compete against it. The examples of Always and Pampers were also different. Even with a line extension, P&G would not compete in a new segment. Pop was already a tier three brand with no equity. Since there was not yet a formula that would differentiate a new Ace Básico, replacing Pop with the Ace Básico name would destroy brand equity. Downgrading the platform would risk plunging the category even deeper in the red. Also, in the Pampers and Always Básico cases the line extension came from the premium brand to a mid-tier. In Ace, the proposal was to line extend the mid-tier brand. Finally, there was evidence in Europe and US that investing in the premium tier could drive success. At that point, the decision was made to focus on the mother brand while the Brazil team continued to search for a unique mid-tier proposal.

By 2005, sales continued to drop; Ace slipped to fourth and then fifth in market share. Some people continued to believe Básico was the only hope, but had no agreement to try it. Eventually after market share continued to fall, the regional and local teams agreed to launch an Ace Básico in the Northeast. The launch would be limited and risks were low since P&G's laundry share in the region had dipped below 10%. At least the pilot would provide the team with learnings.

R&D also could see possibilities to make the new line extension work based on experiences with low-price segments in other markets. In Peru, for example, a local player had begun to take market share from P&G's premium detergent brand; its formula included soap flakes which felt soothing to people that used the detergent to hand wash clothes. In Brazil, household penetration of washing machines remained relatively low with 40% in urban and 10% in rural areas. (see **Exhibit 7**)

P&G's usual initiative launch process was called SIMPL and would take up to two years to study the possibilities, identify a project, develop a concept, then invest and work with customers to execute. GBU handled the conceptual and design component until it reached a launch plan agreement with the MDO. The MDO then defined the launch plan and handed it over to sales. But for Brazil time was running out. "The customers were starting to just give up," Finotti reported. "We were starting to lose distribution." While working on Ace Básico for the Northeast, the sales organization received word that some national distributors had begun delisting the Ace brand.

What Next?

While sharing her Básico knowledge, Azevedo could see that regional and local teams faced an enormous challenge. She did not have the answer, only experience in two different categories. Though similar, the laundry category was distinct from the other two Básico cases, and so were the solutions. The Always and Pampers line extensions, for example, came from the premium tier, while the Brazil team proposed to borrow equity from a mid-tier product to create a tier three detergent. Any action would require alignment between the Brazil MDO, the regional GBU, and global colleagues in Cincinnati. Did the Básico and China cases apply? Both sides had their principle-based arguments, grounded in empirical data. Rodrigo Finotti expressed the mutual frustration:

> We were suffering month in, month out. Part of the team believed that doing Básico for Ace was right, others supported investing in the mother brand, which was working in most markets. Taking the risk could collapse the brand, dilute the margins, dilute everything. So we were in a dilemma in every review, every end of month when we did not reach the objectives.

On that wintry São Paulo day in August 2005, Juliana Azevedo observed and understood the dilemma the laundry category team found itself in. She had been there before, but was just as perplexed as her laundry colleagues about how to move the subsidiary's largest but last struggling category forward. Now Juan Fernando Posada in Caracas and Hermann Schwarz and the Brazil laundry team faced a similar challenge. Azevedo had shared her Básico knowledge and experience with her laundry colleagues in Brazil. Was there any other support she could give? The local laundry team believed in the concept of an Ace Básico, and all parties wanted what was best for the company. What could be done to get agreement?

Exhibit 1 Procter & Gamble Purpose, Values, and Principles (PVP) statement (2005)

our PURPOSE

We will provide branded products and service of superior quality and value that improve the lives of the world's consumers. As a result, consumers will reward us with leadership sales, profit and value creation, allowing our people, our shareholders, and the communities in which we live and work to prosper.

our Values

P&G is its people and the values by which we live. We attract and recruit the finest people in the world. We build our organization from within, promoting and rewarding people without regard to any difference unrelated to performance. We act on the conviction that the men and women of Procter & Gamble will always be our most important asset.

Leadership
- We are all leaders in our area of responsibility, with a deep commitment to deliver leadership results.
- We have a clear vision of where we are going.
- We focus our resources to achieve leadership objectives and strategies.
- We develop the capability to deliver our strategies and eliminate organizational barriers.

Ownership
- We accept personal accountability to meet the business needs, improve our systems and help others improve their effectiveness.
- We all act like owners, treating the Company's assets as our own and behaving with the Company's long-term success in mind.

Integrity
- We always try to do the right thing.
- We are honest and straightforward with each other.
- We operate within the letter and spirit of the law.
- We uphold the values and principles of P&G in every action and decision.
- We are data-based and intellectually honest in advocating proposals, including recognizing risks.

Passion for Winning
- We are determined to be the best at doing what matters most.
- We have a healthy dissatisfaction with the status quo.
- We have a compelling desire to improve and to win in the marketplace.

Trust
- We respect our P&G colleagues, customers and consumers, and treat them as we want to be treated.
- We have confidence in each other's capabilities and intentions.
- We believe that people work best when there is a foundation of trust.

our Principles

These are the Principles and supporting behaviors which flow from our Purpose and Values:

We show respect for all individuals
- We believe that all individuals can and want to contribute to their fullest potential.
- We value differences.
- We inspire and enable people to achieve high expectations, standards and challenging goals.
- We are honest with people about their performance.

The interests of the Company and the individual are inseparable
- We believe that doing what is right for the business with integrity will lead to mutual success for both the Company and the individual. Our quest for mutual success ties us together.
- We encourage stock ownership and ownership behavior.

We are strategically focused in our work
- We operate against clearly articulated and aligned objectives and strategies.
- We only do work and only ask for work that adds value to the business.
- We simplify, standardize and streamline our current work whenever possible.

Innovation is the cornerstone of our success
- We place great value on big, new consumer innovations.
- We challenge convention and reinvent the way we do business to better win in the marketplace.

We are externally focused
- We develop superior understanding of consumers and their needs.
- We create and deliver products, packaging and concepts that build winning brand equities.
- We develop close, mutually productive relationships with our customers and our suppliers.
- We are good corporate citizens.

We value personal mastery
- We believe it is the responsibility of all individuals to continually develop themselves and others.
- We encourage and expect outstanding technical mastery and executional excellence.

We seek to be the best
- We strive to be the best in all areas of strategic importance to the Company.
- We benchmark our performance rigorously versus the very best internally and externally.
- We learn from both our successes and our failures.

Mutual interdependency is a way of life
- We work together with confidence and trust across business units, functions, categories and geographies.
- We take pride in results from reapplying others' ideas.
- We build superior relationships with all parties who contribute to fulfilling our Corporate Purpose, including our customers, suppliers, universities, and governments.

Source: Adapted from P&G company document

Exhibit 2 Selected Glossary of Procter & Gamble Acronyms

Concepts

CBA	Current Best Approach
CIB	Consumer Is Boss
FMOT	First Moment of Truth
PVP	Purpose, Values and Principles
SMOT	Second Moment of Truth
XFS	Cross Functional Solutions
ZTO	Zero Touch Orders

GBUs and Products

AP /DO	Antiperspirants and Deodorants
B&FC	Baby & Family Care (GBU)
BC	Beauty Care (GBU)
C&F	Cosmetics & Fragrances
FC	Feminine Care (GBU)
F&HC	Fabric & Home Care
HC	Health Care (GBU)
PHC	Personal Health Care
S&B	Snacks & Beverages (GBU)
TTF	Tissue, Towel, Facial

Function and Processes

CBD	Customer Business Development (Sales)
CDSN	Consumer Driven Supply Network
CMK	Customer & Market Knowledge
ER	Employee Relations; External Relations
F&A	Finance & Accounting
GBU	Global Business Unit
GL	Global Learning
MDO	Marketing Development Organization
MS&P	Market Sales & Planning
O-2005	Organization 2005
PD	Product Development
PR	Products Research; Public Relations
PS	Product Supply
R&D	Research & Development

Positions

ABM	Assistant Brand Manager
AD	Associate Director
AM	Account Manager
BM	Brand Manager
CE	Chief Executive
GM	General Manager
MD	Marketing Director

Regions

AAI	Australia /ASEAN /India
AP /J	Asia-Pacific /Japan
CEEMEA	Central & Eastern Europe, Middle East, Africa
GC	Greater China
NA	North America
LA	Latin America
NEA	Northeast Asia
WE	Western Europe

People, Groups, and Places

AG	Alan G. Lafley, President and CE
BRTC	Beckett Ridge Technical Center
CCBC	Cincinnati Customer Business Center
CETL	Corporate Engineering Technology Labs (Cincinnati)
ETC	European Technical Center (Belgium)
GH	Governors Hill (Cincinnati)
GLC	Global Leadership Council (P&G top leadership)
HCRC	Health Care Research Center (Cincinnati)
JHQ	Japan Headquarters
KTC	Kobe Technical Center
MVI	Miami Valley Innovation Center (Cincinnati)
WHBC	Winton Hills Business Center (Cincinnati

Source: Adapted from P&G company document, www.uk.pg.com/downloads/PGAcronyms06.pdf, accessed January 10, 2008.

Exhibit 3 Selected Brazilian Demographic, Social, and Economic Indicators

Demographics	1980	1990	2000	2005
Population Total (Millions)	118.6	146.6	171.3	184.2
By Age (%)				
0-14 years	38.2%	34.7%	29.6%	27.8%
15-64 years	57.7%	60.4%	64.5%	66.0%
Over 65 years	4.0%	4.8%	5.8%	6.1%
By Home				
Urban	67.6%	75.0%	81.3%	84.2%
Rural	32.4%	24.4%	18.7%	15.8%

	2000	2001	2002	2003
Life expectancy	70.4	70.7	71.0	71.3
Birth Rate (per 1,000 inhabitants)	20.0	19.9	19.7	19.5
Death Rate (per 1,000 inhabitants)	6.7	6.7	6.7	6.7
Infant Mortality Rate (per 1,000 live births)	12.9	12.4	11.8	11.6

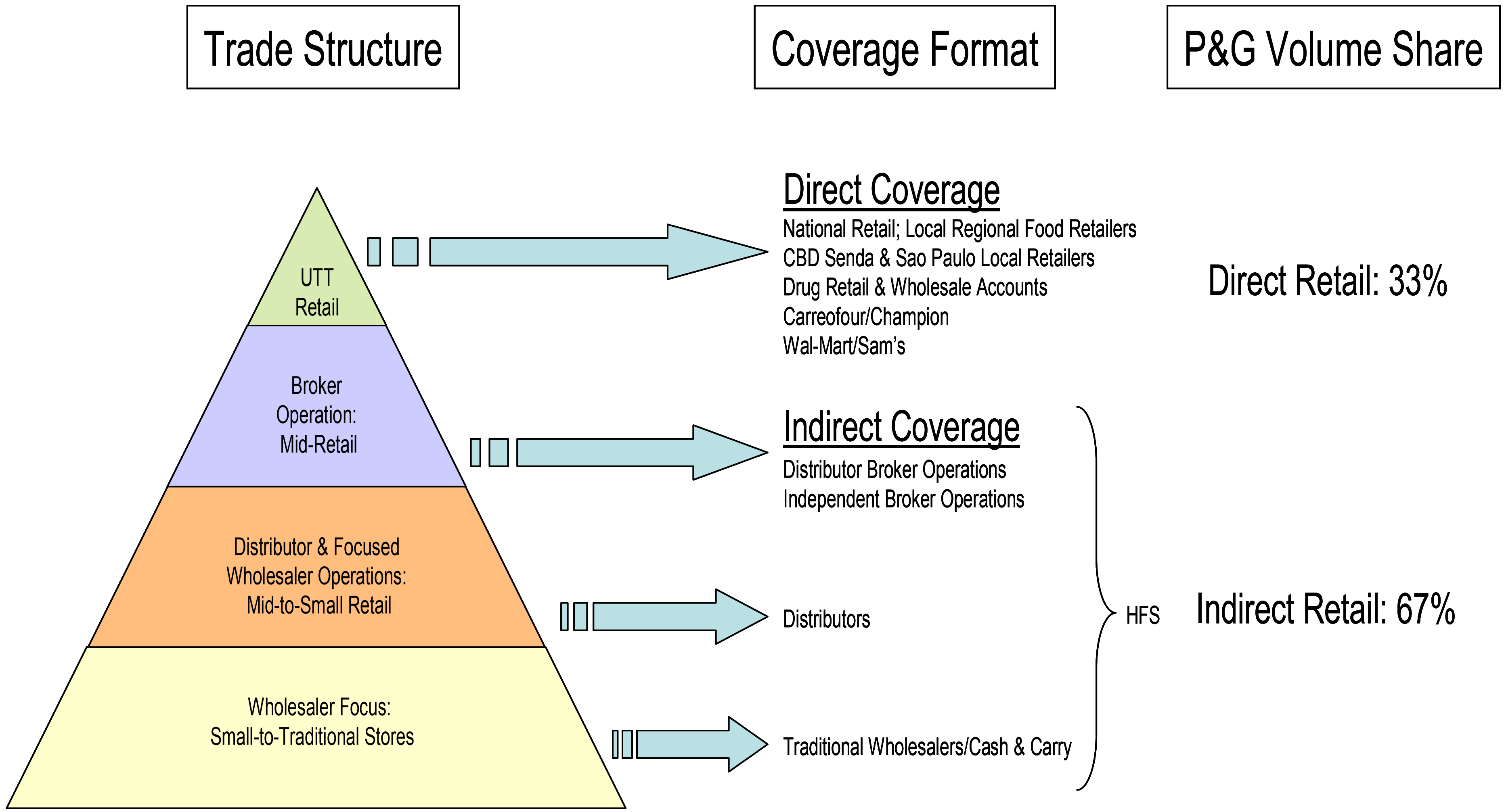
Macroeconomic Indicators	1999	2000	2001	2002	2003	2004	2005
GDP (% real change per annum)	0.2%	4.3%	1.3%	2.7%	1.2%	5.7%	2.9%
GDP (US$bn at PPP)	1196.8	1269.3	1327.7	1377.0	1405.0	1507.1	1601.6
GDP Per Capita (US$)	7092	7411	7640	7810	7850	8300	8700
Consumer Prices (% change pa; end-period)	8.9%	6.0%	7.7%	12.5%	9.3%	7.6%	5.7%
Recorded Unemployment Rate	14.1%	13.3%	11.3%	11.7%	12.3%	11.5%	9.8%

Wealth Distribution (as % of wealth)	1992	1996	1998	1999
50% poorest	14.0%	13.0%	13.5%	14.0%
1% richest	13.1%	13.5%	13.7%	13.1%

Human Development Index	1980	1990	2000	2005
HDI	0.68	0.71	0.77	80.0

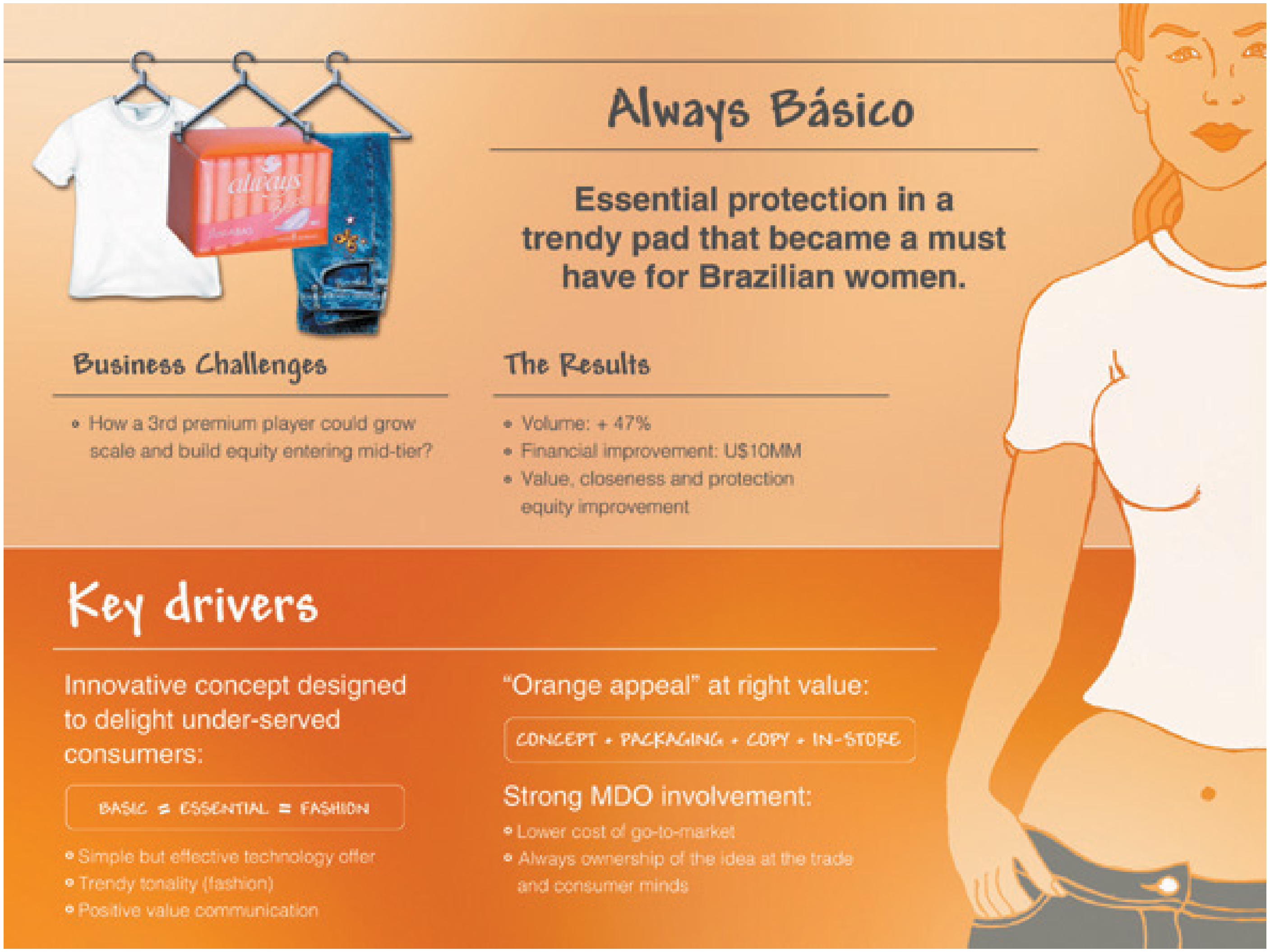
Source: Adapted from Economist Intelligence Unit (EIU) Data Services: Country Data, available at www.eiu.com; United Nations Human Development Reports available at http://hdr.undp.org; and Rosabeth Moss Kanter and Ricardo Reisen de Pinho, "ABN AMRO REAL: Banking on Sustainability," HBS No. 9-305-100 (Boston: Harvard Business School Publishing, 200), p. 15.

Exhibit 4 Procter & Gamble Brazil Go-to-Market Overview



Source: Adapted from P&G Company document

Exhibit 5 Always Básico Poster Presentation



Source: P&G Company document

Exhibit 6 Pampers Básica and Always Básico Poster Presentation

Source: P&G company document

Exhibit 7 Laundry Market in Brazil

Household Penetration of Washing Machines	**2001**	**2002**	**2003**	**2004**	**2005**
Urban (% penetration)	39.6	39.9	39.7	40.2	40.3
Rural (% penetration)	10.5	10.3	10.2	10.3	10.6
Total (% penetration)	35.3	35.6	35.6	36.2	36.4
Value of Laundry Care Sales by Subsector (R$ million)					
Laundry detergents	3,148	3,681	4,176	4,485	4,724
Fabric softeners	688	753	831	887	980
Carpet cleaners	5	4	4	4	4
Laundry aids	132	130	144	152	186
Laundry care (Total)	3,972	4,568	5,155	5,528	5,894
Sales of Laundry Detergents by Type (R$ million)					
Powder detergents	2,001	2,442	2,783	3,082	3,318
Liquid detergents	21	21	23	--	--
Bar detergents	1,020	1,099	1,230	1,249	1,245
Other detergents	106	110	140	155	161
Laundry detergents (Total)	3,148	3,681	4,176	4,485	4,724
Laundry Care Company Shares (% retail value)					
Unilever Brasil	--	50.3	49.7	51.3	49.2
Quimica Amparo	--	4.0	4.1	5.3	7.1
Procter & Gamble do Brasil	--	8.7	8.4	8.6	7.5
Friboi	--	3.6	3.7	3.9	3.7
Bombril	--	2.6	2.1	2.2	3.0
Reckitt Benckiser (Brasil)	--	1.4	1.6	1.7	2.3

Forecast Sales of Laundry Care by Subsector (R$ million)	**2006**	**2007**	**2008**	**2009**	**2010**
Laundry detergents	4,851	5,043	5,258	5,489	5,733
Fabric softeners	1,048	1,102	1,171	1,248	1,331
Carpet cleaners	4	4	4	4	4
Laundry aids	217	240	273	308	346
Laundry care (Total)	6,120	6,389	6,705	7,049	7,415

Source: Euromonitor International: Country Sector Briefing, "Laundry Care – Brazil," September 2007

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