Globalization of Colgate-Palmolive from 1806 to the Present

Section I: Introduction

The faces of smiling ethnic children greet you when you open Colgate-Palmolive Company’s website. Colgate-Palmolive, originally just Colgate, is a transnational oral and dental health corporation. Its history began in the Dutch Street of New York in 1806 when entrepreneur William Colgate started a starch, soap, and candle business. In 1873, Colgate introduced toothpaste to America; a new commodity that would fuel its future capitalistic ventures. By the 1920s, Colgate had merged with Palmolive increasing its operations around the world marketing brands such as Irish Spring, Softsoap, Speed Stick, and Ajax, among others. It was then that Colgate shifted into a market-based coordination of commodity chains also known as horizontal integration, forever changing it into a transnational corporation. Since then, Colgate-Palmolive has grown into one of the world’s largest oral and hygienic health distributors with sales to more than 200 countries and regions (Tkaczyk, 2010).

The main sources I used in researching this TNC were what the company displayed publicly. As such, I was able to find annual reports dating all the way back to the early 1900s. I used these to demonstrate where Colgate globalized throughout the 20th century. To research how and why Colgate grew globally, I found sources on the detailed history of Colgate, which included an era-by-era acquisition history as well as the political effects from that time as a major incentive for globalization. Many of these sources included articles by business newspapers reflecting on the financial change in the company. My intention in researching Colgate-Palmolive was to describe the social repercussions a corporation has through its
globalization and whether those effects are always bad. The pattern studied indicates that adoption of neo-liberalism eventually ends in a corporation becoming corrupt and inconsiderate of how they affect the world economy. This paper strives to analyze that theory.

The paper focuses on the effects of Colgate-Palmolive’s globalization due to neo-liberal forces of free market once used in the 19th century not completely adopted by the corporation itself, lessening the impact it has had on the world. It begins with a discourse on the timeline of Colgate-Palmolive’s globalization in the world between 1910 and the present, and where exactly their operations lie. Then, it focuses on the recurring reasons why Colgate-Palmolive chose to become a global contender; some being the pressure of competition with other oral health producers such as P&G and the 1970s environmental movement. Next, the paper will discuss the measure and steps Colgate-Palmolive has taken to become more global and the repercussions to those policy changes. Some include the way Colgate-Palmolive has altered its marketing strategy to focus on minorities and its constant drive to build more factories. Ultimately, this paper strives to analyze the common business trends of Colgate-Palmolive as subjected to American neoliberal standards.

Section II: Where and when did Colgate-Palmolive globalize?

This section seeks to describe geographically and historically the globalization of Colgate. It begins by demonstrating Colgate-Palmolive’s present global presence and then goes back and establishes the history of its expansion.

Colgate-Palmolive has a literal presence in the world; 1.28 billion households use Colgate products (“Giving the world reasons to Smile, 9”). According to Colgate-Palmolive’s (n.d.) 2011 annual report, the percentage of global sales goes as follows; 18% in North America,
28% in Latin America, 21% in Europe and South Pacific, 20% in Greater Asia and Africa, and 13% of sales from Hill’s Pet Nutrition (“Colgate-Palmolive Co.”). Colgate has over 60 manufacturing plants worldwide and over 34,900 employees. By creating a map of Colgate subsidiaries and its supply chain, the overall pattern of growth seen is over Central Europe and Latin America. Since the 20th century, Colgate-Palmolive’s largest manufacturing plants are housed in NY, Mexico, and Canada providing for the 18% of its total sales from North and Central America. The next map is a representation of the global expansion of Colgate-Palmolive since its creation in 1806:


Back in the early 1800s, when Colgate began its operations, raw materials were made by the same producers of the commodities sold or at least traded within the same region products were made. Since then, Colgate has expanded its supply chain globally. As shown on the map, the black lines represent sources of raw materials. According to Bloomberg, Colgate gets its
flavors for toothpaste and fragrances for deodorants and soaps from a company called Symrise AG based in Holzminden, Germany (“Bloomberg Businessweek,” 2012). The cost upon Colgate in using this product is 0.40% (“Bloomberg,” 2012). As to its packaging materials, Colgate has found a few transnational companies to meet its needs. One company from Finland, Huhtamaki OYJ, produces flexible packaging solutions used for pet food and hygiene products (“Bloomberg Businessweek,” 2012). The cost to Colgate in the use of this company is 0.50% (“Bloomberg,” 2012). The others, which include Nampak Ltd from South Africa and Rexam plc from the UK, also produce package material used by Colgate (“Bloomberg Businessweek,” 2012). The combined cost of these two companies upon Colgate is 0.44% (“Bloomberg,” 2012). Colgate-Palmolive has also expanded its service sector to use global companies for media and marketing, which are also included in the map.

The history of Colgate-Palmolive expansion began in early 1900s when Colgate increased its operation in Europe, Asia, Latin America, and Africa (“Colgate-Palmolive Co,” 2006). In 1913, Colgate opened its first subsidiary in Canada (Schusteff et al., 2005). True to the era’s supply-side economics and balance between production and consumption, Colgate prospered in the rapid deregulation of the pre-Depression years. By the end of the 1920s, Colgate had expanded into Australia, France, the UK, and Mexico (Schusteff et al., 2005). After the Great Depression, economic policy took a global turn, and a networked organizational model was implemented. In 1937, Colgate moved into India, now one of the largest subsidiaries and, by the end of the 1940s, had expanded into South America. In 1985, Colgate entered into a joint venture with a Hong Kong-based subsidiary called Hawley and Hazed, thus increasing its strength in the Asian market (“Colgate-Palmolive Company History,” 2012). Within a century, Colgate-Palmolive had joined companies like Ford, IBM, and others in a national neoliberal race
for the best market. Roughly 80% of its employees are found outside of the US, out of the 34,000 or so it employs (Tkaczyk, 2010). How it managed to grow into a transnational corporation so quickly is an effect of the post-Fordist, or networked, policy adopted at that time.

Section III: Why has Colgate-Palmolive globalized?

This section describes the reasons that Colgate globalized. Some include the change in American economic policy in the 20th century and increasing competition with other companies like P&G. It also discusses different political policies of the 1970s and how it affected the globalization of Colgate as well as its overall reason for globalizing.

With changing global political and economic principles in many countries, Colgate-Palmolive (and many other corporations) had little choice but to flow with the tide. In the early 20th century, Colgate was a model of the Fordist system of vertical integration, or in layman terms assembly-line economics, as its manufacturing and distribution were done within the borders of the United States. Yet with the introduction of competitive companies such as Unilever, P&G, and Crest, Colgate found its market greatly diminished. In 1960, the American Dental Association recognized that toothpaste was a good preventive of tooth decay (“P&G,” 2006, 11). Instantly, toothpaste sales skyrocketed in the US, and Colgate was competing largely with P&G and “losing the battle” (“Colgate-Palmolive Company History,” 2012). In an attempt to solve this problem, Colgate turned to the rice industry in the 1970s, but the economic investment went sour when the price of rice declined, and instead of aiding Colgate, the venture instead hurt its cash flow (“Colgate-Palmolive Company History,” 2012). In addition, environmental concern over the use of certain enzymes and phosphates in detergent decreased
sales greatly as people sought greener detergents while Colgate still manufactured its old products.

Colgate needed a way to make sure its profits did not decrease. It had to find a better market. Expense in media support was not helping as “increased advertising expenditure for a limited number of major brands produced only temporary gains in market share while slowly killing off other products” (“Colgate-Palmolive Company History,” 2012). A new plan was set in place in the 1980s that involved finding the best way to market products internationally. Colgate had found out that the American market was not supplying its shareholder value as much as it used to. In addition, environmental regulation in the 1970s hindered Colgate’s production capacity, which hurt its sales.

In 1970, President Nixon and Congress established the EPA or Environmental Protection Agency. According to the EPA’s Toxic Substance Control Act, the program can ban production of commodities made with hazardous materials, and any manufacturing of new chemical substances must be reported (“US EPA,” 2012). Before the EPA was enacted, Colgate products used much of these environmentally hazardous chemicals. In response to demand for greener products, Colgate developed a new venture, which included marketing other companies’ products and acquisitions to get an advantage over its competitors. It also joined the environmental movement and began to advertise its green achievements. In a recent example, the 2011 Annual report states that Colgate plans to reduce the amount of water consumed during product manufacturing by 40% compared to 2005 (“Giving the World Reasons to Smile,” 2011, 6). To maintain an earth-friendly reputation, every year now Colgate releases an annual sustainability report to demonstrate the successes in its long-term strategy on sustainability and statistics about the company’s environmental friendliness.
Colgate had to globalize because world forces dictated that it must do so to survive as a company. The emerging world market captured Colgate’s attention when competition within the American shore hurt Colgate’s sales. In the 1970s, the environmental movement meant that Colgate manufacturing of detergents like Ajax had to undergo major chemical change to meet EPA standards. In other words, unlike many other transnational corporations that globalized to find more efficient methods of production, Colgate globalized primarily for reasons of market access. The next section explains the method that Colgate took to step into a new world market and the impact it has had on cultures.

Section IV: How did Colgate-Palmolive globalize?

This section explains the steps in the context of Colgate-Palmolive history that Colgate undertook to globalize and the effects those decisions had on the company and the world. It begins with a description of the main method for market access Colgate used including outsourcing, a history of its major mergers and acquisitions, and the financial impact on the company. It then discusses the social transformation made by Colgate for greater market access.

A major step towards globalization for Colgate was through Foreign Direct Investments (FDIs) or the speculation of production in a country by a company usually based in another country. In recent years, Colgate has been in the process of expanding its facilities in India and is building new factories in Sanand in Gujarat (“MoneyControl,” 2012). Colgate has also recently added dry food facilities in Kansas and the Czech republic as well as new toothbrush plants in China and Vietnam where apparently “over one billion toothbrushes are produced per year” (“2009 Annual Report,” 2012). Many of these new facilities are also subsidiaries acting both as producer and distributor. In the South African subsidiary Colgate-
Palmolive (Proprietary) Ltd, a large soap and detergent manufacturer, the main focus is marketing towards lower African nations (“EBSCO,” Colgate-Palmolive, 2012). This is indicative of a return to an in-house type of horizontal commodity chain where significant savings are ensured. For example, $2 million was saved from purchases of tallow, a key ingredient in soap, by developing the ability within factories to produce tallow for its own use instead of from an outside supplier (“Colgate-Palmolive Co,” 2006). Yet, as a consequence of FDIs, many original American factories have paid the price. In Clarksville, Indiana, the 1847 Colgate plant that used to employ 1,500 people from the region was shut down in 2007 (Lammers, 2009). Critically, this seems to indicate that Colgate is offshoring to find cheaper labor. However, what must be discerned is that although Colgate is outsourcing, it is not offshoring on purpose, in other words, specifically targeting areas where it knows it will find cheap labor in bulk. Instead, according to CEO Ian Cooks, “by focusing on a number of specific areas such as pricing excellence and simplification, and exploring new areas, we will continue to grow funds to invest in our new products and the marketing activities behind them” (“Colgate-Palmolive Co.,” 2006). With the majority of the world’s population unfortunately being in the South, it only makes sense to expand to these “new areas” for market access. Yet this is not the only way it has expanded.

Not only is Colgate-Palmolive increasing its profit via FDI’s in emerging economies, but also its mergers (many nationally) have played a large role in its new global image. The first merger made was in 1928 when it joined Palmolive-Peet Company. After the Great Depression, Colgate acquired many smaller consumer products adding Ajax cleanser and Fab detergent to its list of commodities (Schusteff, 2005). In 1972, Colgate acquired Kendall & Company, a manufacturer of hospital supplies, after a period of financial burden caused by the
environmental movement hoping that it would help (Schusteff, 2005). The merger did not last long, however, and in 1976 Colgate bought Hills Pet Nutrition, which to date makes up 13% of its sales (“Colgate-Palmolive Co.,” 2006). Looking for transnational expansion, Colgate acquired Hawley and Hazed, a Hong Kong-based company, in 1986 (“Colgate-Palmolive Co.,” 2006). Within the 1990s, Colgate continued this pattern of acquisition working constantly on a new development plan. In the recent years, another large acquisition was made in 2006 with the purchase of the organic hygiene product company, Tom’s of Maine (Reidy, 2006). The next table demonstrates the financial effect major mergers and acquisitions had on the company:

<table>
<thead>
<tr>
<th>Mergers and acquisitions</th>
<th>Effect on company profits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Palmolive (1928)</td>
<td>$100 million sales</td>
</tr>
<tr>
<td>Hills Pet Nutrition (1976)</td>
<td>14.6% agr</td>
</tr>
<tr>
<td>Hawley and Hazed (1986)</td>
<td>39.2% gm increase</td>
</tr>
<tr>
<td>Mennen Company (1992)</td>
<td>48.4% gm increase</td>
</tr>
<tr>
<td>Key</td>
<td>Agr-annual growth rate, gm- gross margins</td>
</tr>
</tbody>
</table>

Source: Daniella Riani, 2012 Note: With the merger of Colgate to Palmolive in 1928, sales increased by $100 million until the 1930s. Then, when Colgate bought Hills Pet Nutrition in 1976, the annual growth rate increased by 14.6%. Gross margin is the difference between revenue and costs. In this case, Colgate’s GM increased by 39.2% in the 1980s and then in the 1990s by 9.2% with the acquisition of Mennen Company in 1992.

The Tom’s of Maine purchase was made in the hope that Colgate could satisfy the increasing demand for healthier, more environmentally friendly products from its consumers. In effect, this new influence by its buyer-driven commodity chain led to changes in the demographics to which it marketed.

This is what Colgate-Palmolive CEO, Ian Cooks, had to say about Colgate’s new marketing strategy in the 2011 Annual Report:

We are finding that consumers are now more demanding of what they value in brand choice beyond price and are affected by a growing array of new influencers. Engaging to Build Our Brands means increased engagement with our consumers, customers, the
profession and other influencers with powerful integrated marketing campaigns that take full advantage of digital and social media. We are also focusing on identifying deeper, more meaningful insights in order to establish stronger connections with all of our constituencies and create a deeper level of commitment to our brands.

These “meaningful insights” described by CEO, Ian Cook, have appeared in the way that Colgate now targets a different demographic. Specifically, Colgate-Palmolive’s new target consumers are Black and Hispanic men and women between the ages of 18 and 34 with a college education and a couple of children (Firestein, 2010, 4). To make this transition work, Colgate changed its advertisement strategy dramatically, largely due to competition from other companies, to incorporate minorities. One of the ways that Colgate made this possible was through what is known as “glocalization,” the corporate process of adapting a product to fit a particular culture, for global trade expansion (Sparke, 2013). An example of this was its distribution of Sorriso toothpaste, which has the same chemical makeup as its regular brand, in Latin America with the acquisition of Kolynos Oral Care in the 1990s (“The History of Colgate Company,” 2012). The next pictures visually demonstrate the marketing shift of Colgate-Palmolive towards a global market within the scope of a century:

Source: Jenn Thorson, 2009. Google images. Left: 1950s propaganda. Right: 21st-century propaganda. Note: In the early 1900s, pictures of ethnic minorities in any type of ad were uncommon due to racial prejudice of the times as opposed to today when minorities have come to dominate the advertisement industry.
Recently, Colgate advertisements have shown the faces of smiling underprivileged kids. To go along with those pictures, Colgate prides itself in the many service programs it provides. According to the 2009 Annual Report, the “Bright Smiles, Bright Future” oral hygiene campaign has so far reached over 500 children in 80 countries. This image of global aid is another marketing strategy used by Colgate that also influences its globalization in a world society that champions civil rights. By targeting children, Colgate has made itself likeable and well known. Its world image is no longer one of production and distribution alone but of a corporation that cares and understands the common man. Nowadays, the “common man” has an ever-increasing desire to network virtually, and Colgate has used that to its advantage. The Colgate website offers a social networking site called “Colgate Smile” where oral hygiene enthusiasts can post pictures of their smiles and comment on their use of Colgate products (“Colgate World of Care,” 2012). Somehow, Colgate has had a large impact on people, since many do in fact post their pictures and comment on their use of Colgate products. Surveys have been carried out before on people’s choice of toothpaste brands. For example, one conducted by Consumer Search in 2008 showed that of the top four toothpaste brands people liked, Colgate Total was number one (consumerssearch, n.d.). To verify these findings personally I randomly asked a group of my peers the objective question “What brand of toothpaste do you use?” Never mentioning Colgate, five out of 10 responders said that they used regular Colgate, Colgate Total, or Colgate Fresh.

The new marketing strategy goal of Colgate-Palmolive is indicative of a corporation racing against the capitalistic demand for rapid profit. All these examples are implications of the increasing neoliberal outlook that Colgate is taking because of the increasing world belief in a free market that supposedly produces efficiency and effectiveness. To reach a
wider market and at the same time maximize its savings and increase profit, Colgate has become a buyer-driven commodity chain that uses the world to create its revenue through FDIs and perceptions of modern society.

Section V: Conclusion

The influence of Colgate-Palmolive expands transnational boundaries. However, its iron grip is not completely mandated by neo-liberalistic strategies yet. It is important to understand this because political neo-liberalism is like a sticky net that, once caught in, becomes very difficult to escape from. It is a myth that neo-liberalism is inevitable, but the inevitability of falling into a neo-liberal trap is true. Increasingly, corporations find themselves looking towards the free market to ensure they succeed. Yet, while many globalize to find cheaper sources that end in exploitation of workers, others like Colgate-Palmolive still believe in the old mantra that profit is obtained via a larger social market. This paper was intended to review the idea that neo-liberalization will inevitably end in offshoring and sweatshop work. By understanding how and why corporations have globalized a pattern can be deduced of the reasons behind economic disparity; a pattern that the world can learn from so as not to fall in the trap once more.

No reports of civil rights abuses or ambiguous profiteering have ruined Colgate-Palmolive’s reputation. The EPA considers Colgate its Partner of the Year in 2011 (“Colgate-Palmolive Co.,” 2012). Yet Colgate is a prime example of a globalizing company influenced by world marketing changes. Its main commercial logo is a globe with a smiley face painted in toothpaste indicative of the popular idea of the “flat world” described by Milton Freidman. What is distinctive however, is that although neo-liberalism that leads to globalization is a hindrance to a country’s economy rather than a help, globalization itself is beneficial. However, the pattern
seen is that as corporations globalize they fall subject to international cooperation on trade which is highly neo-liberalistic. Based on my findings and my understanding of neo-liberalism I can conclude that Colgate-Palmolive is unlike many American corporations and instead of doing harm is an example of a corporation that has yet to be trapped by the “golden straightjacket” of neo-liberalism.

References


