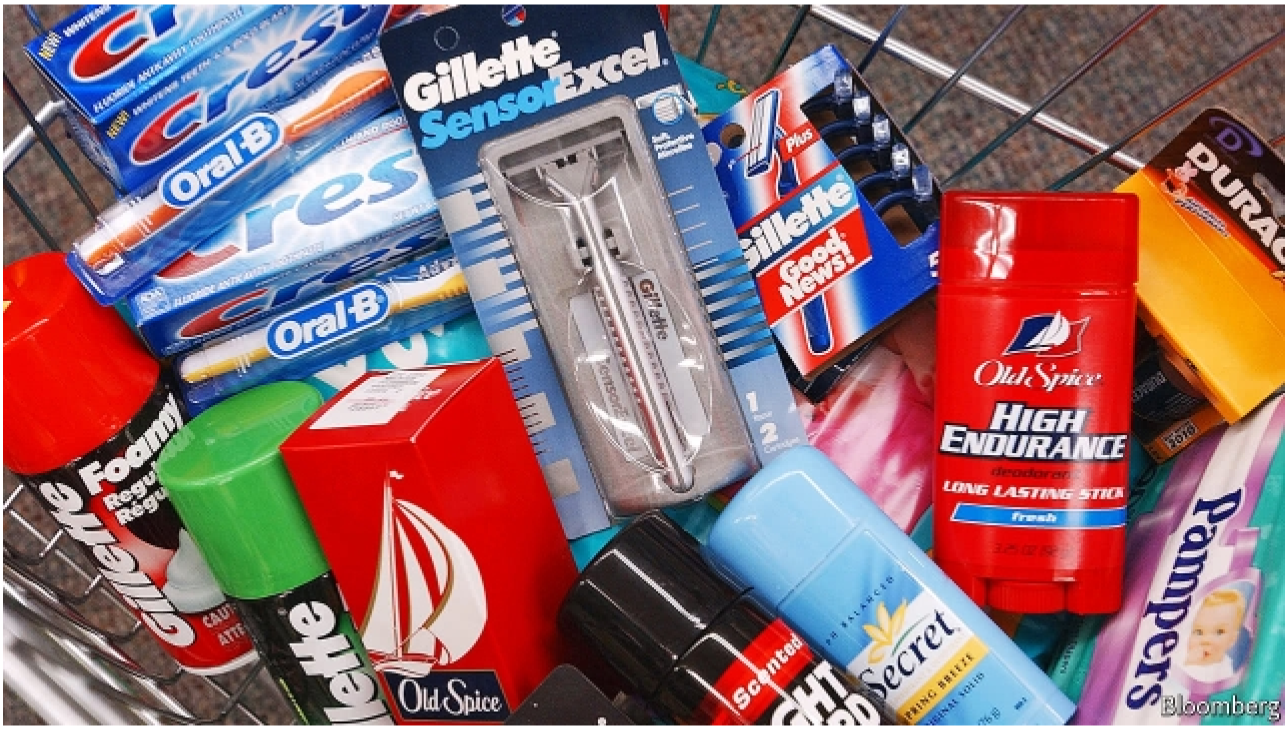
The gamble

An epic but inconsequential proxy vote at Procter & Gamble

Nelson Peltz fails to get on the consumer goods giant's board



Print edition | Business   Oct 12th 2017 | NEW YORK

SHAREHOLDER meetings in Ohio are not usually the stuff of high drama, but a recent gathering was a nail-biter. Nelson Peltz of Trian Fund Management, an activist hedge fund, sought a seat on the board of Procter & Gamble (P&G), the world's largest consumer-goods company, in a proxy vote on October 10th. It was the biggest such battle ever. In the weeks leading up to P&G's shareholder meeting, the fight resembled a political contest, complete with carefully crafted videos, lengthy white papers, mass mailings and tens of thousands of phone calls urging shareholders to vote blue (P&G) or white (Trian).

As *The Economist* went to press, P&G said it had won and Mr Peltz was contesting the tally. “Everybody but [P&G’s] current employees voted for us,” he said after P&G declared victory. “Maybe that’s why they keep so much overhead.” So the brawl is not over. Yet the outcome may not matter much. Mr Peltz will push P&G for change regardless of whether he wins a board seat, and it is unclear that he will have much effect, be he on the board or off.

It is not that Mr Peltz lacks heft. He has taken on consumer firms including Heinz and Wendy’s in the past. Martin Lipton, a lawyer who has long defended companies from such activists, has noted his “impressive record of success with consumer products companies”. Even when Trian technically loses a fight, it often wins. It lost a proxy battle against DuPont, a chemical company, in 2015, but the company went on to make many changes that Mr Peltz had sought. Trian recently won a separate victory, securing a seat on the board of General Electric on October 9th.

At P&G, new thinking is sorely needed. The 180-year-old company sells products in nearly 200 countries and territories. It has America’s bestselling razors (Gillette), toothpaste (Crest), detergent (Tide) and toilet paper (Charmin), to name but a few of its products, but has lost share in more than a dozen of its top categories. Total shareholder return in the five years to February 13th 2017, the last trading day before Trian's stake (of 1.5%) was announced, lagged the median of its peers by 55 percentage points and the S&P 500 Consumer Staples Index by 27 percentage points.

P&G has taken steps to become more streamlined. In the past three years it has culled its brands from 170 to 65 and reduced the number of employees by 35,000. But Mr Peltz maintains that the firm remains too insular and slow to adapt to a fast-moving market. His frustrations are shared by many institutional investors. Those recently surveyed by Sanford C. Bernstein, a research firm, were particularly critical of the board, which is packed with other bosses, including Terry Lundgren, the chairman of Macy's, a department store, and Meg Whitman, boss of Hewlett Packard Enterprise, an IT firm.

Institutional Shareholder Services (ISS), an influential proxy-advisory firm, recently noted that the board had presided over bureaucratic tangles and botched acquisitions. Both it and Glass Lewis, another proxy adviser, backed Mr Peltz's appointment. Many small investors, who own about 40% of P&G's shares, appear to have disagreed. Employees may have feared bigger layoffs to come. Mr Peltz says he will continue to push P&G even if he fails to prevail in the proxy's certified vote count.

But his powers may be limited. He is not seeking to sack David Taylor, who became chief executive in 2015 and is thought to be moving P&G in the right direction (albeit too slowly for investors' taste). Nor is he trying to split up P&G. Mr Peltz's most substantive change would be to reorganise its ten business units into three, overseen by a lean holding company, to make the firm nimbler. Reorganisation—if the board supports it—could take years to yield results.

Mr Peltz is also urging P&G to acquire more small and local brands. Yet given the mismanagement of prior deals, it is unclear that it would find suitable targets or sustain their growth. Many of the world's largest consumer firms are struggling—against small online brands on the one hand and the expansion of Amazon and the rise of Aldi and Lidl, two German discount chains, on the other. Dealing with such challenges will require ingenuity and speed not yet seen at P&G. It is far from clear if Mr Peltz has the answers either.

This article appeared in the Business section of the print edition under the headline "Close shave"