
Strategic Report

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Perception ■ Analysis ■ Communication

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Background

History

On May 3, 1913, five Oakland, California entrepreneurs invested \$100 apiece to set up America's first commercial-scale liquid bleach factory on the east side of San Francisco Bay. Their ambitious plan was to convert the brine available in abundance from the nearby salt ponds of San Francisco Bay into sodium hypochlorite bleach, using a sophisticated and technologically demanding process of electrolysis. They called their new undertaking the Electro-Alkaline Company. During its outfitting, an engineer for an equipment supplier, Abel M. Hamblet, suggested a name for the new product. From the words "chlorine" and "sodium hydroxide," which in combination form the bleach's active ingredient, he proposed the amalgam "Clorox".

By 1916, *Clorox* bleach was in distribution throughout the San Francisco Bay Area. Sales were \$14,237 for the year. In 1918, the company went public for the first time. Registered as the Clorox Chemical Company in the state of Delaware, its stock began trading on the San Francisco Exchange. By 1957 annual sales had multiplied more than tenfold, to over \$40 million. Through effective advertising (the first television commercials aired in 1953) and the construction of a dozen new plants between 1938 and 1956, the Clorox Chemical Company had garnered the largest share of the US Household Bleach products by the 1950s.

In 1957, that attracted a buyer - the huge Procter & Gamble Company, whose panoply of laundry products found in *Clorox* bleach a natural complement. Initially brought into the Cincinnati-based P&G as a wholly owned subsidiary, after three months the Federal Trade Commission had challenged the acquisition. A monopoly in the production and sale of household liquid bleaches might result, the agency charged. Ten years of litigation ended with a U.S. Supreme Court ruling that Procter & Gamble must shed The Clorox Company. On January 2, 1969, the company gained full, formal autonomy as a publicly held corporation with its shares traded on the New York Stock Exchange. In September 1969 the company introduced its first internally developed new product, *Clorox 2*, a dry non-chlorine bleach. A string of acquisitions followed, as did a growing stream of new products from the company's new Technical Center, which opened in 1973.

Clorox now markets many of the best-known retail brands in America, including: *Glad* bags and wraps, *S.O.S* steel wool soap pads, *Pine-Sol* cleaner, *Fresh Step* cat litter, *Hidden Valley* salad dressings and *Kingsford* charcoal briquettes, among others. The majority of its brands are either the market leader or a strong second. Clorox has become a major corporate presence throughout the world. The company's laundry additives, insecticides and home cleaning products are sold in more than 80 countries and are

manufactured in plants in North America, South America, Europe, Africa and Asia. The company has 11,000 employees. The Company's business operations, represented by the aggregate of its Household Products—North America, Specialty Products, and Household Products—Latin America/Other segments, include the production and marketing of non-durable consumer products sold primarily through grocery and other retail stores.

Products

The Clorox Company's product list is divided among three segments:

- Household Products-North America
- Specialty Products
- Household Products-Latin America

The products of the Household Products-North America segment include: (a) plastic bags, wraps and containers, under the *Glad* brand, (b) household cleaning products such as disinfecting sprays and wipes, toilet bowl cleaners, dilutable, spray and gel household cleaners, stain removers, mopping systems, spray cleaners, glass and surface cleaners, carpet cleaners, reusable cleaning cloths, drain openers, septic-system treatments; all-purpose spray and floor spray cleaners, mild-abrasive liquid and gel cleansers, steel-wool soap pads and scrubber sponges, mildew removers, soap scum and bathroom cleaners; daily shower cleaners and pre-moistened towelettes, primarily under the brands *Clorox*, *Formula 409*, *Pine Sol*, *Tilex*, *Soft Scrub* and *S.O.S.*, (c) laundry products, such as liquid bleaches, laundry stain removers and dry and liquid color-safe bleaches under the brands *Clorox* and *Clorox 2*, and (d) water filtration systems and filters under the *Brita* brand.

The products of the Specialty Products segment include: (a) auto care products such as protectants, cleaners and wipes, tire- and wheel-care products and washes, automotive additives and appearance products, primarily under the *Armor All* and *STP* brands; (b) cat litter products such as clumping cat litter, scoopable and silica-gel crystals cat litter, primarily under the *Fresh Step* and *Scoop Away* brands; (c) food products such as salad dressings and dip mixes; seasoned mini-cROUTONS, sauces, marinades, primarily under the *Hidden Valley* and *K C Masterpiece* brands; (d) seasonal products such as charcoal briquettes, charcoal lighter and wood chips under the *Kingsford* and *Match Light* brands; ant and roach bait stations and aerosols, ant granules and stakes and roach gels under the *Combat* brand; and (e) products for institutional markets such as bleaches, toilet bowl cleaners, disinfectants, disinfecting sprays and wipes, dilutable cleaners, insecticides, cleaners, food-storage bags, wraps, trash bags, dressings, barbecue sauces, briquets, clog removers, cleaners, steel-wool soap pads, mild-abrasive liquid cleansers, mildew removers, soap scum removers and bathroom cleaners.

The products of the Household Products-Latin America/Other segment include: (a) in the Asia-Pacific region: bleaches, insecticides, disposable gloves, cleaning cloths, sponges and scourers, non-stick baking paper, ice cube bags, non-stick frying pan sheets, aluminum foil, foil trays, plastic covers, oven bags, re-closable bags, paste cleaner, food bags, cling films, trash bags, coolant concentrates, brake fluids and sponges, primarily under the *Glad*, *Chux*, *Home Mat*, *Armor All*, *Combat* and *Clorox* brands, (b) in the Latin American region: laundry additives, waxes, bleaches, spray and gel cleaners, liquid household cleaners, toilet bowl, bathroom cleaners, disinfecting sprays, bleaches, cleaning utensils, liquid household cleaners, waxes, brooms, cleaning utensils, toilet bowl cleaners, candles, cleaning utensils, air fresheners, laundry additives and fabric refreshers and cleaners primarily distributed under the *Clorox*, *Ayudín*, *Limpido*, *Clorinda*, *Los Conejos*, *Poett*, *Mistolin*, *Lestoil* and *Bon Bril* brands.

Industry

The Personal and Household Products Industry is highly competitive, as are the markets for consumer products in which Clorox competes. Most of Clorox's products compete with other nationally advertised brands within certain product categories and with "private label" brands and "generic" non-branded products of grocery chains and wholesale cooperatives. Competition is encountered from similar and alternative products, many of which are produced and marketed by major national companies having financial resources greater than those of Clorox, such as Colgate-Palmolive and Procter & Gamble. Depending on the product, Clorox competes on price, quality or other benefits to consumers.

In most categories in which Clorox competes there are frequent introductions of new products and line extensions. An important factor in Clorox's future performance will be its ability to identify emerging consumer and technological trends and to maintain and improve the competitiveness of its products. Continued product development and marketing efforts have inherent risks, including development delays, the failure of new products and line extensions to achieve anticipated levels of market acceptance, and the cost of failed product introductions.

On the other hand, there are some mutual agreements between competitors in developing new and improved products. One example is a current Clorox and Procter & Gamble joint-venture. On January 31, 2003, Clorox entered into an agreement with the Procter & Gamble Company to form a venture related to Clorox's Glad plastic bags, wraps, and containers business. In the agreement P&G agreed to contribute certain production and research and development equipment, licenses to use a range of current and future trademarks, and other proprietary technologies to Clorox in exchange for an interest in the profits, losses and cash flows of the Glad business. Under the agreement P&G will also provide

research and development support to the Glad business for the first ten years of the venture, subject to renewal options, and will be reimbursed for the cost of providing the research and development support. Clorox retains control of the Glad business. The agreement's initial term is twenty years, subject to renewal options. This example shows how the industry is not purely competitive and some joint-ventures are pursued if they are beneficial to both parties involved.

Clorox's main competitors in the Household Products Industry are Colgate-Palmolive, Proctor & Gamble, and privately held S.C. Johnson & Son. Clorox also competes with numerous smaller firms in smaller, local markets depending on the product.

Financial Analysis

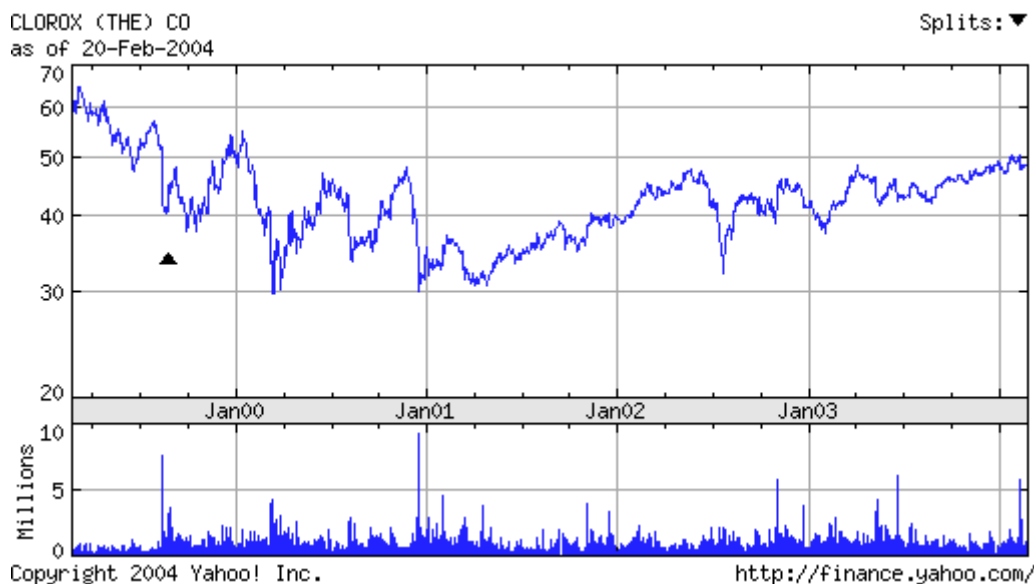
Shareholder Value

As of April 16th, Clorox was trading at \$52.70. This represents a market capitalization of \$11.07 billion with 210 million shares outstanding. The following table shows the market capitalization of Clorox over the past five fiscal years.

Fiscal Year	Shares Out.	Closing Price	Market Cap	% Change
1999	235M	48.06	11.38B	
2000	235M	41.21	9.68B	-14.68
2001	227M	31.86	7.23B	-25.31
2002	223M	39.76	8.87B	+22.68
2003	214M	41.91	9.0B	+1.46
Current	210M	51.45	11.07B	+23.00

(Shares Outstanding in millions, Market Cap in billions)

Clorox's market capitalization plummeted from 1999 to 2001, as it fell from 11.38 billion to just over 7 billion. Clearly contributing to this fall in market cap was the roughly 33% fall of Clorox stock price, as shown in the stock price graph below. However, since the 2001 fiscal year both the stock price and market cap of Clorox have rebounded and risen steadily, as they are currently above \$50.00 and 10 billion dollars respectively.



For some further stock performance comparisons see the charts below. Chart 1 below depicts Clorox's (CLX) stock performance during the past year as compared to its two biggest rivals, Proctor & Gamble (PG) and Colgate-Palmolive (CL). As the graph indicates, Clorox's stock has outperformed its rivals over the past 12 months.

Chart 1

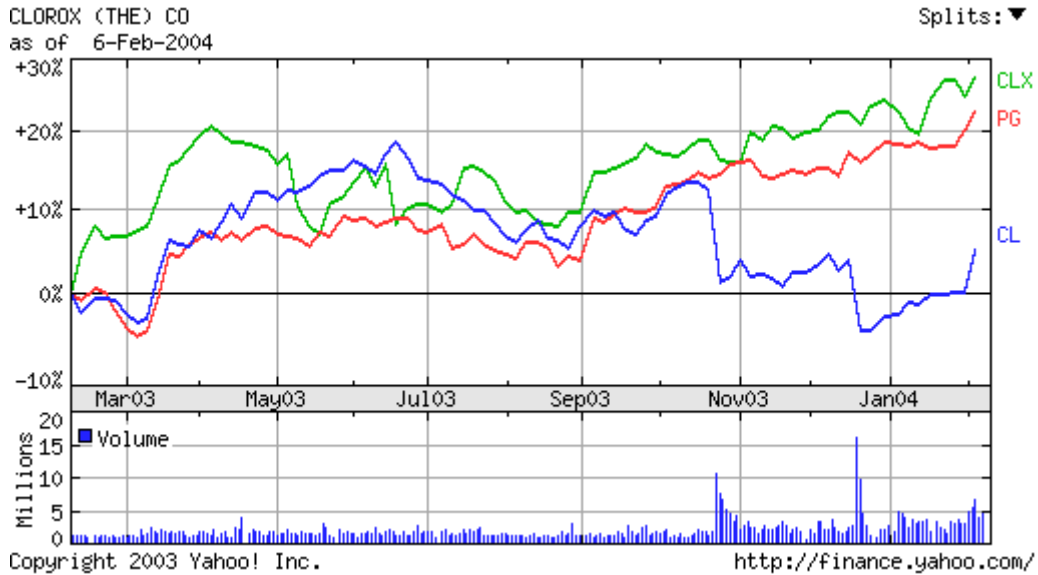
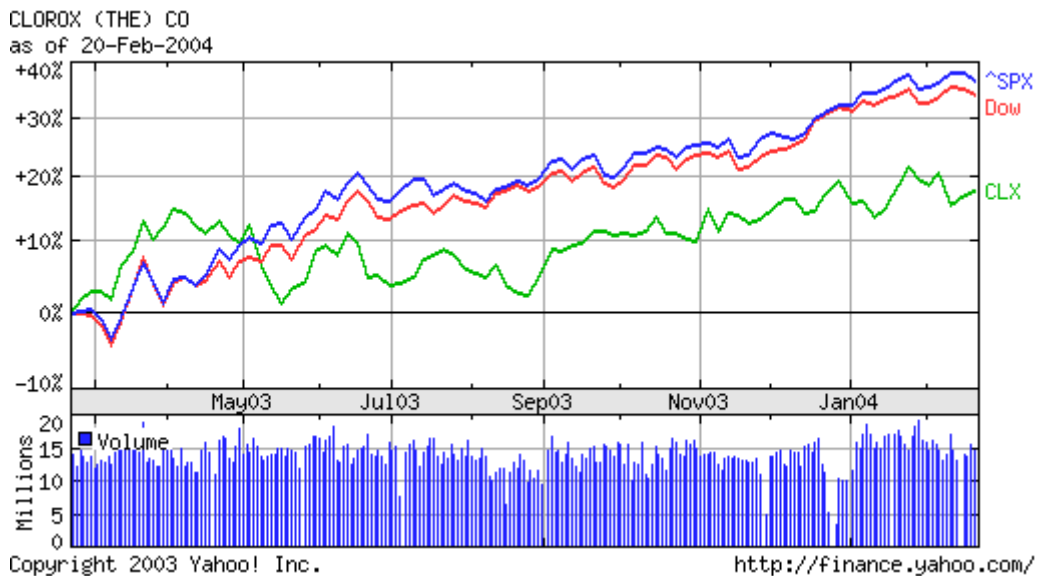


Chart two below compares Clorox's (CLX) stock performance during the past year relative to the performance of the Dow (Dow) and S&P 500 (SPX). Clorox has underperformed compared to these two indices.

Chart 2



Income Statement Overview

Years Ending June 30	2003	2002	2001
In millions, except share and per-share amounts			
Net sales	4,144	4,022	3,859
Cost of products sold	2,225	2,279	2,289
Gross profit	1,919	1,743	1,570
Selling and administrative expenses	532	526	483
Advertising costs	456	391	348
Research and development costs	76	66	67
Restructuring and asset impairment costs	33	184	59
Interest expense	28	38	88
Other (income) expense, net	-8	-23	46
Earnings from continuing operations before income taxes	802	561	479
Income taxes	288	204	153
Earnings from continuing operations	514	357	326
Losses from discontinued operations, net of tax benefits of \$5, \$28 and \$2 for the years ended June 30, 2003, 2002 and 2001, respectively	-21	-35	-1
Net earnings	493	322	323
Earnings (losses) per common share			
Basic			
Continuing operations	2.36	1.54	1.39
Discontinued operations	-0.1	-0.15	-0.01
Basic net earnings per common share	2.26	1.39	1.37
Diluted			
Continuing operations	2.33	1.52	1.37
Discontinued operations	(0.10)	(0.15)	(0.01)
Diluted Net earnings per common share	2.23	1.37	1.35

Clorox's net sales in fiscal year 2003 increased by 3% as compared to fiscal year 2002, which was driven by an overall 2% increase in volume. Their improvements in net sales and volumes were driven by a 17% increase in advertising costs and the introduction of several new products in fiscal year 2003, including *Clorox* bathroom cleaners with *Teflon*, Don't Mop with Dirty Water Again! *Pine-Sol* cleaner, *Formula 409* wipes, *Brita* pour-through pitchers with electronic filter change indicators, *Hidden Valley* BBQ Ranch dressing, *KC Masterpiece* Dip & Top sauces, *Armor All* car wash wipes and *Scoop Away* plus crystals cat litter. In comparison, Clorox's net sales in fiscal year 2002 increased 4% to \$4,022 million on a 3% increase in volume versus fiscal year 2001.

Other drivers behind these figures include product and advertising costs, and the political and economic situation in South America. The cost of products sold decreased by 2% in fiscal year 2003 as compared to fiscal year 2002 and decreased as a percentage of net sales to 54% in fiscal year 2003 from 57% in fiscal year 2002. This improvement was driven by Clorox's ongoing cost cutting initiatives which led to supply chain savings, particularly in the procurement, manufacturing and logistics areas. Cost of products sold as a percentage of net sales decreased to 57% in fiscal year 2002 from 59% in fiscal year 2001. These cost savings were also consistent with Clorox's initiatives to reduce its cost structure. Advertising costs as a percentage of net sales increased to 11% in fiscal year 2003 from 10% in the prior year. The increase reflects higher advertising levels to support Clorox's base business as well as new products introduced in fiscal year 2003.

Segment Information

The following tables break down Clorox's sales, earnings, and expenditures into its three primary segments, which allows for a deeper analysis of trends by product and by location of sale.

Net sales (in millions)	2003	2002	2001
Household Products — North America	2,282	2,198	2,097
Specialty Products	1,369	1,304	1,222
Household Products — Latin America/Other	493	520	540
Total	4,144	4,022	3,859

Earnings (losses) from continuing operations before income taxes (in millions)	2003	2002	2001
Household Products — North America	607	535	453
Specialty Products	521	517	397
Household Products — Latin America/Other	66	-66	74
Corporate Interest and Other	-392	-425	-445
Total	802	561	479

Capital Expenditures (in millions)	2003	2002	2001
Household Products — North America	47	37	9
Specialty Products	46	30	9
Household Products — Latin America/Other	62	32	29
Total	155	99	47

Clearly the political and economic situation in South America is having an effect on the Household Products-Latin America/Other segment. Net sales and earnings have declined in that segment the past three years combined with a large increase in capital expenditures. One notable driver behind this negative trend is competitive bleach pricing in South America, particularly Brazil.

Ratio Analysis

The following table provides important financial statistics for Clorox Co. as well as those of its main rivals, Proctor & Gamble (PG), Colgate-Palmolive (CL), and S.C. Johnson & Co., which is a privately held company.

Key Numbers	CLX	CL	PG	SCJ	Industry Avg
Market Cap:	10.32B	27.45B	131.07B		277.14M
Employees:	8,900	37,700	98,000	12,000	1,800
Revenues:	4.17B	9.90B	46.99B	5.37B	385.95M
Net Income:	486.00M	1.37B	5.71B		8.68M
Profitability	CLX	CL	PG		Industry Avg
Gross Margin	45.19%	54.96%	50.28%		48.67%
Operating Margin	18.31%	20.47%	18.75%		12.30%
Return on Equity	41.54%	443.30%	38.07%		
Return on Assets	14.08%	19.39%	12.45%		
Valuation	CLX	CL	PG		Industry Avg
Price/Earnings Ratio	21.90	21.41	24.37		21.71
Price/Book Ratio	8.73	49.34	8.05		4.6
PEG	1.87	1.90	1.85		1.90
PS	2.51	2.86	2.79		1.61
Other Data	CLX	CL	PG		Industry Avg
Revenue Growth (Past Year)	5.70%	-1.40%	7.80%		1.70%
EBITDA	980.00M	2.43B	8.81B		26.76M
EPS	2.232	2.395	4.148		0.69
EPS Growth Rate	9.8%	12.40%	19.20%		9.2%

Size

One key issue for Clorox is the fact that it is much smaller than its main competitors, especially Proctor & Gamble. Clorox has a market cap and employee base less than 1/10th the size of Proctor & Gamble, and has a market cap and employee base of less than 1/2 of its other main competitor Colgate-Palmolive. However, in comparison to the industry average Clorox Co. is actually quite large, surpassing the average on almost all statistics, indicating it is a major player in this industry.

Valuation

Clorox is not an overvalued company. With a P/E ratio of 21.90 Clorox is at or around the industry average as well as its biggest competitors. Its PEG of 1.87 is also quite reasonable in comparison with the industry and competitors.

Profitability

These measures indicate the ability to produce profits with each dollar of equity, assets, and invested capital. Clorox has reasonable profitability margins in relation to key competitors and the rest of the industry. With a gross profit margin of 45.19% (which is profit after accounting for the cost of goods sold), Clorox is slightly lagging behind the industry average and its key competitors. This would indicate that they are producing their products less efficiently compared with their competitors. Clorox is ahead of the industry and its competitors with respect to its operating margin.

Growth

Revenue growth for Clorox was a respectable 5.70% last year, which surpassed both the industry average of 1.70% and the respective growth percentages of its key competitors. Clorox's projected earnings per share growth (EPS) of 9.8% is also higher than the industry average, but is notably lower than that of its main competitors.

Porter's Five-Forces Analysis

Market Definition

The Clorox Company is in the Personal & Household Products Industry of the Consumer/Non-Cyclical Goods sector. The largest of these firms is Proctor & Gamble, which in 1957 attempted to acquire Clorox. Clorox was initially brought into Proctor & Gamble as a wholly owned subsidiary, but after three months the Federal Trade Commission challenged the acquisition and the U.S. Supreme Court ruled that a monopoly in the production and sale of household liquid bleaches might result. Ten years of litigation ended with The Clorox Company becoming its own entity.

Clorox is in the business of inventing, manufacturing, selling, and distributing a wide variety of non-durable household products. Their principal products are divided and sold across three segments; Household Products - North America, Specialty Products, and Household Products - Latin America/Other. Their product line primarily consists of laundry and household cleaning items; bags, wraps, and containers; food items such as dressings and sauces; auto care products; pest control products; water filtration devices; and cat litter products.

Internal Rivalry

The market for personal and household products has become increasingly competitive over the past few decades. One key reason for this increase in competition can be attributed to the rise of discount retailers. Discount retailers such as Wal-Mart, Kmart, and Target function both as premier bulk buyers of household products, making them an instrumental factor on a firm such as Clorox's sales. They also have the ability to introduce privately labeled products, which increases competition even more. However, as a result of the increased competitiveness of the industry there has been an increase in partnerships among competing firms in both R&D and marketing. As examples, Clorox & Wal-Mart currently have a Wal-Mart in-store marketing deal with Clorox's charcoal and Wal-Mart's meat, and Clorox and Proctor & Gamble are currently engaged in an R&D venture concerning Clorox's Glad bags.

Clorox relies on a diverse geographic base for its revenues. Nearly 90% of its sales are generated through its North American Household Products and Specialty Products segments, with the remaining 10% coming from Latin America/Other Household Products. Because of the nature of Clorox's business and that of its competitors, Clorox competes with a variety of different firms depending on the product and the location. In some cases Clorox will compete against one firm for one product in one location, such as a local manufacturer and distributor of salad dressings, or it will compete against one firm's many products across a wide geographic region, as it does with Proctor & Gamble.

Within its three segments internal rivalry is strong and Clorox faces stiff competition. In its Household Products-North America segment Clorox relies heavily on its niche product *Clorox Bleach*, which is the leading bleach product. It also relies heavily on its line of *Glad* bags and products as well as *Brita* water filters, which are product leaders as well. However, other Clorox products in this sector, such as *Formula 409* and *SOS* carpet and tile cleaners have posted losses and are currently lagging behind such products as Proctor & Gamble's *Mr. Clean* in sales.

In its Specialty Products segment Clorox relies heavily upon its charcoal and food dressings. Today *Kingsford Charcoal* is the leading manufacturer of charcoal in the U.S. as more than 1 million tons of wood scraps are converted into charcoal briquettes every year, and Clorox's *Hidden Valley* and *K.C. Masterpiece* dressings are also posting high sales and growth. However, products such as its cat litter and auto care brands remain slightly above stagnant and Clorox has been forced to divest two of its insecticide products, *Black Flag* and *Maxforce*, due to poor performance.

In its Household Products-Latin America segment weakening economic conditions, poor infrastructure, currency devaluations, and political turmoil in South America have all negatively impacted the segment. Furthermore, continuing competitive pricing activity in South America by Clorox's bleach rivals has hurt the business significantly. Due to deteriorating economic and market conditions and the Company's lack of scale in Brazil, the Company announced its intent to sell the Brazilian business.

Entry

Entry of a new firm into the Personal & Household Products industry is unlikely to seriously threaten Clorox. Many of the existing firms in this industry are very large and diversified. Clorox, for example, has a market cap of over \$10 Billion and net sales of over \$4 Billion, as well as a product line spanning eight different categories of products. These products range from laundry detergent to cat litter to car dashboard cleaners. Furthermore, Clorox and other main competitors in this industry are not restricted geographically. Their products are sold and recognized nationwide and a new entrant would be hard pressed to compete on such a large scale. A smaller, local entrant would have difficulty to attract brand loyal customers away or seriously threaten a company such as Clorox. A new entrant would simply not be able corner enough market share to compete and survive.

The second major barrier to entry is the large start-up costs. Clorox has \$1.07 billion in existing property, plants, and equipment. Existing buildings and plant machinery make up almost 80% of that figure alone. Financial figures that large are a sure barrier to a start-up company attempting to enter the Personal & Household Products industry on a scale comparable to Clorox's or Proctor & Gamble's.

However, there is one unique situation that poses a serious entry threat to Clorox. The introduction of an existing firm into the Personal & Household Products industry through private labeling is a threat Clorox must consider. One of the discount retailers Clorox sells to could have the capabilities to do this. For example, over the past two years 26% and 24% of Clorox's sales were to Wal-Mart, and thus if Wal-Mart chooses to privately manufacture products Clorox would be seriously threatened.

Substitutes

Substitutes pose a serious threat to profitability and growth in the Personal & Household Products industry because Clorox must compete on price, quality, or other benefits to consumers. Clorox faces a substitute problem in two distinct ways. One is through stiff product competition. In this case Clorox's line of products must directly compete with its rivals products. Some examples include Clorox's *Formula 409* vs. Proctor & Gamble's *Mr. Clean* in cleaning products, or Clorox's *Hidden Valley* dressings vs. Newman's Own salad dressings and barbecue sauces.

In addition to product competition, Clorox faces price competition as well. Other personal and household products manufacturers can undercut Clorox's price in an attempt to gain market share for a particular type of product, such as tile cleaners. Discount retailers such as Wal-Mart also have the ability to privately manufacture and sell their own alternatives to existing Clorox products, often at a much cheaper price. Although brand loyalty may help decrease the potential impact of such price competition, the possibility of lower sales exists.

As both these examples show, in the Personal & Household Products industry there are frequent introductions of new products and existing line extensions. Therefore an important strategic issue for companies such as Clorox is being able to identify emerging consumer trends and to maintain and improve the competitiveness of its products. In order to do this Clorox engages in intensive advertising and marketing of its products.

Complements

Clorox's product line is extremely diverse. Its products have the potential to be complements to other products or benefit when the prices of its products' complements fall. For example, when the price of red meat falls consumers may be more inclined to purchase Clorox's *K.C. Masterpiece* barbecue sauce and/or use *Kingsford* charcoal to barbecue. Other factors can also contribute to the sales of Clorox products, such as extensive rainy weather driving insects inside or nice weather increasing demand for barbecue supplies. Most of Clorox's products can complement each other as well, as its *Formula 409*

carpet cleaner could easily be purchased and used in conjunction with *Clorox Ready Mop* for general household cleaning purposes.

Supplier Power

The bargaining power of Clorox's suppliers is relatively weak due to the high concentration of firms selling basic materials. Clorox bleach is manufactured through a simple cycle, where salt water is broken down by electric current into its chemical components, then mixed with water, and finally mixed with chlorine. Numerous companies supply chlorine and other chemicals, such as Cragin Industrial Supply and Detco Industries. Other key inputs for Clorox's products, such as wood chips for their charcoal products, are also easily available from numerous suppliers such as Weyerhaeuser and Louisiana-Pacific Ltd. Also, countries such as Japan and China who rely heavily on woodchip suppliers for their paper industries are the leading buyers of woodchips and essentially set the price at which woodchips trade. In both cases, a company like Clorox has the opportunity to buy from multiple sources, reducing the potential threat of price gouging.

With respect to manufacturing and product development, Clorox owns most of these key inputs as well. The manufacturing process of its Household Products – North America and Specialty Products segments takes place in three separate plants in the U.S. whereas the manufacturing of its Household Products – Latin America/Other is located in its own plant in Argentina. By owning the plants where manufacturing takes place Clorox eliminates most of the downstream threat of price gouging. Similarly, Clorox's employee base includes numerous scientists who are constantly working on increasing the performance of current products as well as working on new formulas to create new products. Clorox scientists file 25 patents on average each year, and obtain patent rights the majority of the time. Their efforts allow Clorox to accelerate the pace at which a product is brought to market. By employing a force to help with research and development this also helps to eliminate the threat of having to compete with other companies in "buying" new technologies from the scientific community.

Buyer Power

The bargaining power of buyers, most notably discount retailers, has become an increasing threat to firms in the Personal & Household Products industry such as Clorox. Over the past couple of decades discount retailers such as Wal-Mart have grown dramatically, and with it, their demands of companies in this industry have grown as well.

Because the market strategy of discount retailers is to stock goods at competitive prices to attract value-seeking customers, they will often store goods in their own warehouses and then stock the stores

themselves when demand increases at any particular outlet. This business model necessitates large volume purchases by the retailers to maintain inventory, and discount retailers will often demand and receive discounts on such large purchases. This adds to the bargaining power of retailers, especially considering that companies like Clorox depend on these bulk purchases to generate sales.

Furthermore, because the Personal & Household Products industry is dominated by multiple firms selling a wide variety of similar products to retailers such as Wal-Mart, if one of the large discount retailers isn't happy with one firm, it can seek to do business with another. Or the retailer can take the firms of the industry out of the question. Companies such as Wal-Mart can privately manufacture, label, and sell household cleaning products of their own much in the same way supermarkets will manufacture their own generic counterparts to brand name cereals.

Summary of Five Forces Analysis

Force	Threat to Profits
Internal Rivalry	High
Entry	Low - Medium
Substitutes & Complements	Medium - High
Buyer Power	Medium - High
Supplier Power	Low

Evaluation of Key Issues

Product Line Management:

Eliminating Market Laggards, Boosting Market Leaders, Augmenting Market Share

PAConsulting is optimistic for the future of the Clorox Company. After performing a financial analysis of the fiscal years 2001 – 2003, a Porter’s Five Forces Analysis of Clorox and the Personal & Household Products industry, and an in-depth research of the current trends in the Personal & Household Products industry PAConsulting found that Clorox is in a position to cement many of its products as clear market leaders and use these products as engines of future growth. PAConsulting recommends a restructuring of the Clorox product line in conjunction with an increase advertisement and marketing. This restructuring includes selling and/or divesting those Clorox products that are not significant competitors in their product group and the advertising and marketing includes a sustained campaign to boost Clorox’s market leaders and increase their market share.

Eliminating Market Laggards - Analyzing How Products Affect the Bottom Line

This recommendation falls in line with the Company’s continued focus on its priorities and strategic goals. Over the previous two fiscal years Clorox’s cost-cutting mentality has resulted in volume and net sales growth and ongoing improvements in the Company’s overall cost structure. Currently the benefits realized through increased volume and cost savings in recent quarters are being eaten away by losses realized through Clorox’s unfavorable product mix. This necessitates management of the Clorox product line and the elimination of certain products. PAConsulting recommends that Clorox discontinue its *Ever Clean* and *Ever Fresh* cat litters, its *Combat* pesticides, and its *STP* auto care products.

In the market for cat litter Clorox’s main rival is Ralston Purina, which sells two brands of cat litter. Clorox is one of the leaders in cat litter sales and sells 4 brands; *Ever Clean*, *Ever Fresh*, *Scoop Away*, and *Fresh Step*. Of these four brands Fresh Step and Scoop Away have been highly successful, turning in all-time record shipments last quarter for scoopable and regular cat litters and plus crystals cat litter, and driving the 5% and 6% growth of cat litter sales the past two quarters. The other two brands have been less successful, partially due to less advertising and promotional support. Furthermore, *Ever Clean* cat litter is only available in smaller specialty pet stores, restricting sales potential even more. It is PAConsulting’s recommendation that Clorox sell its *Ever Clean* and *Ever Fresh* cat litter brands due to lagging sales and devote its energies and resources to its two cash cows in that product market.

In the market for pesticides and insecticides Clorox has been a longtime struggler. It was recently forced to sell its *Black Flag* and *Maxforce* pesticide lines in 2003 and 2002 respectively, and now its *Combat* pesticide is also having difficulty generating sales and posting profits. Competition in this product market is very intense, and other companies such as S.C. Johnson (who makes Raid) and Ortho have larger product lines and higher sales. Losses realized on Combat are offsetting the gains currently being made in Clorox's seasonal line products such as charcoal. It makes sense for Clorox to sell *Combat* and exit the pesticide/insecticide product market completely and refocus its energies and capital elsewhere.

In the market for auto care products Clorox has been struggling in recent years. As a whole this group of products has posted sales decreases in 5 of the past 6 quarters. Leading this struggle has been Clorox's *STP*, a competitor in the car performance products category. Their direct competitor in selling fuel and oil additives is Sopus, which recently bought Pennzoil-Quaker State. Pennzoil and Quaker State are the two the market leaders in car performance products and their names are synonymous with quality auto care products. In addition to name recognition, this company has resources far greater than Clorox in the car performance product lines. As a result it is our recommendation Clorox exit the fuel and oil additives product market.

Creating New Market Leaders and Reinforcing Powerful Brand Names

In eliminating the above mentioned products Clorox would have significantly higher resources to support its product breadwinners; its laundry and household care products such as Clorox Bleach and Pine-Sol, and its seasonal products such as Kingsford charcoal and Hidden Valley dressings and sauces. As past quarterly reports indicate these are the products that drive sales and growth in the Household Products – North America and Specialty Products segments, which is where Clorox generates close to 90% of its business. By reinforcing the brand names of market leaders in these categories Clorox can capitalize on the opportunity to boost sales and drive product growth.

The Specialty Products segment is an area PAConsulting feels Clorox has significant room to aggressively advertise its products. As recent financial reports indicate, this segment's strong volume growth over the past 6 quarters has been driven by increases in shipments of food products, cat litter and charcoal. In particular, delivering record second-quarter shipments this year were *Hidden Valley* bottled salad dressings, *K C Masterpiece* barbecue sauces, *Kingsford* and *Match Light* charcoal, and *Fresh Step* and *Scoop Away* scoopable and regular cat litters and plus crystals cat litter.

Clorox has the ability to strategically market these Specialty Products and cement their status as product leaders. Last year Clorox entered into a joint-marketing venture with Wal-Mart where Kingsford Charcoal was sold in Wal-Mart's meat aisle. The joint-marketing of charcoal and meat was tested over

the summer of 2003 and results showed that sales of Kingsford Charcoal on Wal-Mart's meat aisle were 80% higher than the charcoal sales in Wal-Mart's home and garden center, where the charcoal was previously sold. It is PAConsulting's recommendation that Clorox continue joint-marketing ventures with Wal-Mart for Clorox's Specialty Products. In addition to its Kingsford Charcoal brand PAConsulting supports the plan for Clorox to enter its dressings and sauces, notably its K.C. Masterpiece barbeque sauce, into advertising ventures with Wal-Mart. Clorox should view Wal-Mart as an asset and aggressively exploit its position as America's number one discount retailer to sell and promote its own products. PAConsulting also recommends that Clorox aggressively market its auto care product Armor All with Wal-Mart's tire centers. In the struggling auto care product market the only Clorox product offsetting sales and volume losses has been Armor All, a protective product that helps reduce wear and rust on the vehicle. Its sales have increased through shipments and sales of their new Armor All car wash wipes products. And Armor All, one of the leading products used to clean and shine tires, would be a perfect complement to Wal-Mart's tire centers.

Augmenting Market Share through Advertising and Marketing

Because of the ultra-competitive nature of the Personal and Household Products industry continued advertising and marketing is necessary to sustain market position. Inherent behind this logic is the first-mover advantage ideology of this industry, where it is believed that the first company to increase the advertising and marketing of a certain product within a specific category is likely to garner market share for that product at the expense of its rivals. Clorox's advertising costs decreased by 15% for the three month period ending in December of 2003 as compared to the same three month period a year earlier. In an industry that relies so much on advertising for success, PAConsulting recommends that Clorox increase its advertising in an effort to increase the market share of its industry leaders.

Although this would benefit all of Clorox's products, one area this would be especially beneficial to is Clorox's water filtration product Brita. Brita is the market leader in portable household water filtration, but sales have fallen 2% and 13% over the past two quarters respectively at the expense of main rival Omni. A similar lagging sales problem can be seen in some of Clorox's bleach spin-off products, such as Clorox Disinfecting Wipes and Clorox Ready Mop. Because products in Clorox's Household Products – North America segment account for almost 55% of total sales and products in their Specialty Products segment account for almost 35% of total sales, Clorox cannot afford to see its market leaders like *Glad*, *Kingsford*, *Brita*, and *Pine-Sol* lose market share or let advantages to gain market share slip away. Thus increasing advertising as a percentage of total costs is a necessary strategy for Clorox, and one possible financing solution could be using cash realized through the sale of existing products mentioned above.

Conclusions

One of the disadvantages facing the Clorox Company is that it can't match the size of its main competitors in the Personal & Households Products industry, notably Proctor & Gamble and Colgate-Palmolive. However, Clorox's name is well known in the Personal & Household Products industry, and its products have the ability to match and surpass the products of their rivals in their respective category groups in terms of market share and sales.

The biggest issue facing Clorox today is that its current product mix is an unfavorable one. In trying to compete in so many different product categories their costs are high and it has been hard to take advantage of the profits posted by their market leaders taking into account the costs and losses of their lagging products. Through a restructuring of the Clorox product line, however, Clorox will improve its current cost structure, eliminate those products that have continually struggled in their respective product categories, and will be in a better position to market their product leaders. In conjunction with this restructuring must be an advertisement and marketing increase. Clorox has the potential to boost most of its products to market leader status and increase overall market share in a highly competitive industry, and taking advantage of this situation would put Clorox in an extremely favorable position in the highly competitive Personal & Household Products industry, and provide Clorox a stepping-stone to boost sales and growth in the future.

Information for this report gathered from:

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