

Talks at GS
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Jon Moeller: In general, for business, when you can create new opportunities and create new sources of delight for consumers and clients, good things happen.

Alison Mass: Well, hi, everyone, and welcome to Talks at GS. I'm Alison Mass, chairman of the investment banking division. And it's my great pleasure today to be joined by my friend and client Jon Moeller. Jon was named president and CEO of Procter & Gamble last November. He's been with the company for more than 30 years and has served as the chief operating officer, vice-chairman, and chief financial officer over the past decade.

Today we're going to talk with him about the current economic outlook, supply chain constraints, consumer trends, and company innovation. So Jon, thank you so much for joining me.

Jon Moeller: It's great to be here. I'm honored to be here and spend time with you.

Alison Mass: So I want to start to ask you to describe for us the moment that you found out that you would be the CEO of Procter & Gamble. Who called you? Where were you? What did they say? And what was your first thought?

Jon Moeller: I mean, it was a very simple moment in time. It was the end of a day. The board had just met. My boss, who was my predecessor, the chairman and CEO of the company, asked if I would go have dinner with him, which I did. And during that dinner, he shared that the board had asked that I assume responsibility for his work and that he was there to support me in any way that he could.

And in terms of how I felt, I didn't feel much different. My mission has been making a difference, and one of the wonderful things or aspects about our company is everyone can make a difference. You don't have to be the CEO to make a difference. And so to me it was just a bigger and potentially better stage from which to continue doing what I was already doing, which was making a difference for our business, making a difference for our organization. I certainly felt recognized and appreciated, and that was

great. But the next day was a new day, and time to make a difference.

Alison Mass: There can be surprises when you move into a new role, so are there any aspects of the chief executive job that you didn't anticipate?

Jon Moeller: There are many. I spent literally decades telling other CEOs, people who I was working for as CFO or COO, when they would move into the CEO chair, I would tell them, "Now, you need to understand, this is a very different job than anything you've done before." It's not a sector or business unit CEO on steroids. It's a totally different responsibility.

So I understood a lot of the differences about the role before I was in it because I'd been so close to it for so long. I served four different CEOs in that capacity. But the one thing that I didn't fully realize, people look at it sometimes as somewhat of a glamorous role. Not so much. All the good things that happen, the credit rightly goes to my colleagues around the world. And all the unfortunate bad things that happen, it's my responsibility. But that's, again, the way it should be, but I hadn't realized the extent

of that until I started in the role.

Alison Mass: Now, you recently said that it's not Procter & Gamble's recipe to take business from competitors in order to build your market share. That in fact your recipe is to expand the pie. So can you explain what that means in practice and how do you plan now to expand the pie?

Jon Moeller: This is a very simple concept, but it's taken a long time to get ingrained in what we do in our ethos and how we approach the world. But the businesses we operate in are generally fairly capital intensive. They're very competitive in nature. And if all we do through all of our innovation, commercialization, go-to-market execution is take business from a competitor, it's going to lead to very bad dynamics in the industry because they have that manufacturing facility -- let's take a paper business as an example -- which they need to fill in order to be economically viable. And so they will respond and try to take that business back. And that taking from each other is a very destructive dynamic.

The other thing is that, if we take business from a competitor and that's all we do, our retail partners, the

Walmarts of the world, the Targets of the world, there's no benefit in that for them. They still have the same level of sales. So our job has to be to create new business, not take old business. And we do that, four years ago, we focused our portfolio on ten categories where performance drives brand choice. We need to perform at a superior level, at a noticeably superior level at first use. And where we can do that, we are able to significantly grow categories.

Look at the detergent market in the United States. People would have assumed that was as mature as mature could be. That category is now growing 5, 6, 7%. And it's because of innovation we brought to the market which extends to the benefit for consumers. So that's our job. And if we do that well, things will be good. And if we don't, if all we do is focus on taking business, things won't be so good.

And I would argue I don't know your business obviously anywhere as well as you do, but I think in general for business, when you can create new opportunities and create new sources of delight for consumers and clients, good things happen. And when all you're doing is trying to punch your competitor in the nose, not-so-good things

happen.

Alison Mass: It's a good strategy. So Procter & Gamble, like most companies, has not been immune to the economic shock waves triggered by COVID. And you're now grappling with inflationary pressures, rising commodity and transportation costs, supply chain constraints, which we talked about early on in the pandemic. And I learned more about toilet paper from you than any other person I ever talked to. And obviously labor shortages. So how have you approached leading the company through all of this volatility?

Jon Moeller: Stay focused on serving him and her, our consumers. And do that in a superior fashion, as we just talked earlier. Increase the value that we provide to employees, primarily psychic in nature, that makes them want to join us in that journey of service to consumers and customers around the world. And be as efficient in doing that as we possibly can.

You know, it's interesting. Supply, I never thought I'd be sitting in a room in New York City in front of a bunch of Goldman Sachs employees talking about supply. But just

to highlight the importance of that and operational excellence in the context of all of the challenges that we face, the first time that I met in person Doug McMillon, who is the CEO of Walmart, our largest customer, was not a Walmart office. It was not in a P&G office. It wasn't even in a store. It was in a warehouse. So it highlights the importance of supply and operational excellence in serving consumers in these difficult times.

So again superiority, a strong focus on service to consumers and customers and employees, operational excellence as efficiently as possible.

Alison Mass: So from your perspective, how far off are we from market forces equalizing global supply and demand? And do you see any relief on the horizon from inflationary pressures and commodity headwinds?

Jon Moeller: You know, if you look at things like the transportation market, which is a big deal for us. It's the highest portion of our cost of goods sold. I remember when transportation costs started increasing, and I tried to be very emphatic with our team that this was not a temporary thing and they shouldn't view it as a temporary thing. The

causes from a supply standpoint go all the way back to before COVID. And the US Congress passed legislation which reduced the number of hours that a driver could drive, which by definition reduces supply if you assume the same number of drivers.

And during COVID, that supply got further constrained. These people are just like you and I. They have families. They have kids out of school. They have their families' health issues and their own health issues to deal with. And so the supply gets further constrained.

And at the same time, if you look at demand, so what happened during COVID from a driving standpoint -- we don't spend much time thinking about this -- but the world changed. Why? Because all of us who used to go to a store -- maybe not in New York City be in other places -- and pick up products that we needed for ourselves and our family in a car, we now ordered online and it required a truck ultimately to serve those products from the store or the warehouse to our home. So you had massive changes in both supply and demand, and is there anything in that equation that you can think of that causes you to believe that's temporary? I certainly don't. So we're dealing with a

much higher cost structure in parts of our business that is likely here to stay.

Alison Mass: On that same theme, you've said that ensuring your global supply chain is required constructive disruption. So how specifically have you had to alter the supply chain? And given the pressures and constraints you faced and what we just talked about, how much of it are you thinking about permanently rerouting it to build resilience?

Jon Moeller: We have spent a lot of money and a lot of effort getting closer to consumers from a supply chain standpoint. In other words, locating factories and distribution centers closer to major population centers. We spend a lot of time with automation as a way to increase -- not only reduce the cost of supply but to increase our flexibility in responding to demand spikes wherever they might be.

Kind of the guiding vision, though, has been ultimate agility and flexibility in supply at today's cost. So we have a name for it that's MOQ1, minimum order quantity 1. And what that means is that we want to create a supply

capability that allows a consumer anywhere in the world to order one product and for us to be able to source that all the way to their door at the same cost that it currently costs us to sort big batch units of supply. So that's the guiding light, and we still have a ways to go.

I was just with our supply organization last week talking about innovation in the supply chain and what we call Supply 3.0. And really, really investing in supply as a competitive advantage. I mentioned the Walmart story. When I go to any CEO of a supplier today -- of a customer today, whereas in the past we might have talked about pricing, we might have talked about innovation, and those things are still relevant. Number one, supply. Number two, supply. Number three, supply. And we need to invest accordingly.

Alison Mass: I want to talk about the strength of your pipeline. Procter & Gamble has really raised the bar for innovation, especially through your focus on superiority. So what are the areas of your portfolio that are driving innovation right now?

Jon Moeller: There are kind of three pillars of innovation

as it relates to sustainability. One is reducing our demand for carbon, electricity, cardboard, you name it. The second is enabling consumers to improve their footprint. A great example is cold water washing with Tide and Ariel. I bet you most of you, if you're like me, have never touched the dial on your washing machine in terms of temperature for the water. But 90% of your energy usage, as you do a load of laundry or have somebody do a load of laundry for you, comes from heating the water to do the wash. So we want to have detergents available that allow you to have superior clean in cold water instead of warm water. That protects colors in garments, and it actually increases garment life, which is another incredible source of sustainability. Not bringing all those clothes to the landfill. So that's helping consumers improve their footprint.

And the third area of innovation, which I think is very, very exciting but requires new ways of thinking, is how we create technologies that can be utilized across industries to totally change the game. So, for example, we've now invented a process for both polypropylene and polyethylene recycling, which produces a product at the end of the process that's near virgin grade in terms of quality. What used to come out of those recycling processes is what you

see -- I just saw them driving in here today -- those gray park benches? That's the output of the old recycling methodology. Our technology removes orders, removes pigments, and, as I said, yields a near virgin-grade material.

And for 180 years-plus, we've focused our innovation efforts on proprietary and exclusive. Arms closed, protecting. On these technologies, it's open source, open arms. We've signed up partners, PEER Cycle, in the case of polypropylene, who will industrialize these technologies and they'll be available for any industry, including our competitors.

Another example is digital watermarks, where, on any piece of plastic we can embed the equivalent of a watermark on a piece of paper that allows a reader, when that material goes into a recycling process, to automatically sort that material, which is one of the big barriers today to efficient recycling. The costs are too high going in, and the output coming out isn't high enough quality. Well, you start combining this ecosystem of technologies, and you're creating a universe that changes the world in terms of the economic viability of recycling.

I could go on on this topic forever. You won't let me, and I won't do it to you. But innovation is truly our lifeblood as a company. We talked about growing markets earlier requires innovation. We're talking about very difficult problems to solve from a climate standpoint, requires innovation. It's what we do.

Alison Mass: Okay, for the record, I just want you to know that I have turned the dial --

Jon Moeller: Wow! Awesome!

Alison Mass: -- on the water temperature on my washer. So let's move to the China market, a place you know well. You've worked on the company's laundry business there for a time. It's your second largest market in both sales and profits. But the competition continues to gain traction there. So how different is it competing for market share in China than it is here in the US? And where do you need to improve in order to continue to meet the demands of the Chinese consumer?

Jon Moeller: I could spend a day on that question, too.

As Alison said, I lived and worked in China many moons again in the '90s, so it's a place and a set of consumers that I have some passion for. The first thing I would say, the game in developing markets -- and for a minute I'll still put China under that heading -- is not about market share. It comes back to what we were talking about earlier. It's about market growth, and it's about attracting consumers to use new categories and more categories and use more of them to thoroughly meet their needs. And when we forget that and start focusing on market share, we get ourselves in trouble, as we talked earlier, and we miss this big opportunity for the growth in markets.

So that's what we're focused on in China. How do you do that? You do that through innovation. You do that through close proximity to consumers and understanding their rapidly evolving needs. We just recently put more R&D people on the ground, working embedded with our business units to make sure we do a good job of that. But in these categories, whether it's China, Brazil, India, the United States, Western Europe, where performance truly drives brand choice and you can deliver it, markets grow. And by definition, when you are the disproportionate driver of market growth, you build share. So it all comes

together.

Alison Mass: You talked about sustainability a little bit when we talked about innovation, but you, the company and you, Jon, have been an early adopter of sustainability practices. And you've committed to achieving net-zero greenhouse gas emissions across all of your operations and supply chains by 2040. So can you explain a little bit how ESG practices, from water reduction to plastic package removal, you know, some of the things you've talked about earlier, have been infused across all of your businesses and essentially become a new way of thinking for the whole company?

Jon Moeller: If you're focused on a superior experience, increasingly in today's world you have to be sustainable. It's just not a choice. So there's no opt out here. But as I said earlier, you can't be sustainable and not preferred in categories where performance drives brand choice. That's a losing strategy. So it's imperative in every business to bring these things together -- superior products that are sustainable. And I talked about the three pillars earlier of innovation in the sustainability space. I'll give you a couple of examples in other categories which demonstrate that

this isn't just one category. It's not just a detergent kind of thing.

That second pillar, helping consumers reduce their footprint, automatic dish washing. The prevailing belief is that that is an energy inefficient process, that it consumes a lot of energy and a lot of water. The reality is that is, if there are at least four dishes in the dishwasher, you'll use much less water per dish than you will hand washing. And just advertising that helps people understand the opportunity that they have doesn't force them to comply but it's their choice. Opening up eyes to those kinds of opportunities are important.

Another example that deals with column one. We just changed our packaging for Gillette razors in Europe from all plastic to all cardboard. Now, that's not a perfect solution because cardboard makes its own sustainability demands. But that package is superior for consumers when they shop. It's easier to read. It's easier to help self-selection at the shelf. Importantly, it's much easier to open. I used to tell our grooming team that I'd have to stop taking my blood thinning medication two days before trying to open one of their packages because it was so hard and

dangerous to do. And it's recyclable. So those are just a couple of examples across businesses that hopefully give you a feel that we're serious about this.

Alison Mass: When you were named CEO, Jon, you said that Procter & Gamble was one of the most personally and socially relevant companies on the planet. And with that comes a higher sense of responsibility for the communities you serve. So what responsibility do you feel the company owes society?

Jon Moeller: Well, first of all, let me explain the statement because it sounds pretty high fallutin'. But we touch, we interact with more consumers across the world on a given day than almost any other company. And that's why I think we're highly socially relevant and have responsibility that goes along with that, to serve these consumers in a complete sense.

Our responsibilities are wide and ranging, and they're some of the same responsibilities you have, I would argue.

Equality is a huge opportunity. It's a societal need. But more than that, it's an economic growth driver, whether that's in our country, whether that's in your company. You

know, I talked about superiority before, and we talked about products and packages and other things. But the question I keep asking our team is: How is it possible that we can, on a sustainable basis, deliver superiority if we don't have superior employees? And how are we going to attract and hold superior employees if we don't have a superior value proposition for them? And how is it possible that a superior proposition ignores equality?

So this all -- one of the problems is, historically, we've approached these things in very isolated ways. But in my view, they're intimately tied together. And where we will really move the needle is in building ecosystems that include all of that. It took a long time, it's a very simple thing. I know you're out there saying, "Duh." But we established balance as an important concept within our company. And in this case, it was balance between the top line and the bottom line. We needed to deliver both, and I could go on for ages as to why that's important.

Now, the concept of balance has been expanded. And we talk about serving and delighting consumers, customers, employees, society, and share owners. And I firmly believe that if one piece of that is missing, we won't serve any of

the rest of it. Again, there's no opt out. It's a different world. We have to deliver against each of those objectives. And that's a very exciting endeavor, in my view. And I know it's exciting for the people that I work with day to day.

Alison Mass: Procter & Gamble created an incredible innovation that I wanted you to talk about that can help solve the global water crisis. And again, that sounds largess. But your water purification packets enable people anywhere in the world to clean polluted drinking water in a matter of minutes, which is kind of incredible. Can you share how the innovation came about and how it developed into the Children's Safe Drinking Water program?

Jon Moeller: I'm not quite sure how it came about. It was before my time. But I remember the first time I was exposed to it because somebody brought a transparent acrylic container into my office that was filled with water from the Ohio River, which had a lot of sediment in it. It was very dirty. And they said that they could make that water clean enough in my office, on my desk, for me to be comfortable drinking it. And I didn't see how that was going to be possible. But the technology that they had

developed did exactly that. I did drink some of the water, but only after the technician drank some first.

Alison Mass: That was smart.

Jon Moeller: Yeah. But it's another one of these, it falls under the same category as this open-source innovation we've been talking about. We quickly realized that it had potential to save lives around the world at a significant level. Waterborne illnesses prior to COVID were the primary cause of death certainly in young children and infants. And we knew that there were other partners -- you talked about private-public partnership -- who had better access to where the needs were actually located and knew how to serve those needs, the various relief agencies in the world. So we've partnered with them to make this available at cost to hopefully continue to help. And I think this is an area that's going to be increasingly important as water supplies become smaller and more polluted.

Alison Mass: Over the last few years, you've reengineering the Procter & Gamble operating structure to streamline, empower, and decentralize decision making, which has been much lauded by the markets. So how did you know

that was the right structure to evolve into in such a large global company? And what did you learn throughout that process?

Jon Moeller: I don't think we knew that it was the right structure, per se. But what we knew was we had the wrong structure. It's a structure that I used to describe affectionately as the jacket. We were highly, highly matrixed. We had global business units running the business. We had geographic markets running the business. And we had functions running the business. And we were staffed to run the company three ways.

And you can imagine, as a young person in that organization trying to make any sense out of the direction that you were receiving, which was often inconsistent and confusing and slow. And the worst thing about the thicket, just like a real-life thicket, is there were lots of hiding places. So there was no accountability within the thicket. When something went right, you didn't know who to credit. And when something went wrong, you didn't know who to correct.

And what the new structure did, we took what we called

focus markets, which were 80% of our sales, 90% of our profits, and said, look, we're going to run those through global business units and they're going to run end to end. So they're going to have their own sales people. They're going to have their own innovation people. It's just like a stand-alone business.

And then at the time, I, as COO, would take responsibility for all of the other markets. So it was about 94 countries. And because the amount of time we were spending -- I remember standing up in front of our leadership team and talking about this and they all hated it. And they thought -- one of the things that they believed was that they could do a better job managing some of these emerging markets than I could. And so I talked about the example of Peru. Wonderful country. Beautiful if you've ever been there. And I asked them how many of them -- and, you know, Macchu Picchu doesn't count -- how many of you have ever taken a business trip to Peru? And the answer was zero. And I said, okay, how arrogant are we that we think we can run that better, never having been there, not knowing the people, not knowing competitors, not knowing customers, than our local organization?

And long story short, what's happened here is we've been able to dramatically accelerate growth in the focus markets because we have the right resource allocation and investment allocation of those markets. We took the US from 2% growth to 8% growth. We took China, our second largest market, back to double-digit growth. And at the same time, in the enterprise markets, we were able to grow at a rate that was higher than the rest of the company and build margin in the process so that last year we exited with only one company -- or one country, Argentina -- losing money, which is where before we had a mess.

Anyway, a long answer, but I think when you can -- focus matters. Less is often more. And accountability is important as well.

Alison Mass: Please join me in thanking Jon for joining us.

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