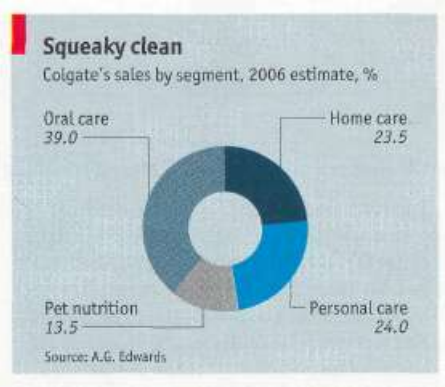
Colgate-Palmolive

Still fresh?

Colgate's days of rapid growth may now be behind it

FEW chief executives nowadays manage to dominate a company for as long as Reuben Mark has, let alone leave at a time of their own choosing and with an intact reputation. Mr Mark, who confirmed on January soth that he will step down as boss of Colgate-Palmolive this year (probably at the annual meeting in May, say analysts) has headed the consumer-products giant for 23 of his 68 years and worked there for more than 40. During his tenure total shareholder returns have exceeded 4,000%, almost three times those of the American stockmarket. This week Colgate announced record profits of $1.65 billion



(£897m), up 12% over 2005, on sales of $12.2 billion-and promised further double-digit growth for 2007.

The higher the note on which Mr Mark departs, however, the tougher the job will be for his successor, Colgate's 54-year-old president and chief operating officer, Ian Cook. The impact of a big restructuring programme (a rare event at Colgate) which helped to lift profits last year, and should add some $3oom to the bottom line in 2007, will fade thereafter. Rapid expansion in Latin America, which accounts for nearly a third of profits and where sales are growing by 14% a year, may slow as the region's economies cool. Some analysts expect Colgate's earnings growth to drop to the mid-single digits from 2008.

It is hard to see what could rev it up again. The legacy of Mr Mark's disciplined and highly focused style is a culture that is conservative—some would say overly conservative. Colgate's last big innovation, its range of "Total" toothpastes to fight tooth decay, was introduced in the 19905. It was late to the newer craze for whitening strips, which was spotted first by Crest, its arch-rival, owned by Procter & Gamble (P&G). Colgate's copycat product—a paint-on whitener-was a flop. And most of Colgate's recent new products, though slickly promoted by celebrities such as Brooke Shields, are brand extensions: toothpastes flavoured with mint or cinnamon, or enriched with vitamin c.

"Colgate is not strong on big innovation," says Jason Gere, an analyst at AG Edwards in New York. "The business is in great shape now, but my biggest question is about future growth." By contrast, P&G has gambled on entire new product categories and has created billion-dollar hits such as its Swiffer anti-static mops.

In addition to its relative lack of innovation, Colgate has also eschewed big acquisitions. Mr Mark reportedly once dreamt of a merger with Gillette, a company snapped up by P&G in 2005. Last year Pfizer's consumer-health division, including Listerine mouthwash—a brand Mr Mark said he would love to own-was bought by Johnson & Johnson. Either multi-billion dollar deal would have been risky. But by passing them up, Colgate has closed off potential routes to long-term growth and allowed two of its larger rivals to become even more threatening.

Once P&G combines the clout of its own Crest brand with Gillette's Oral-B franchise, Colgate could find its core earnings from toothpaste being squeezed. And Colgate's heavy reliance on a few categories (it is in about one-fifth as many product markets as P&G) in a relatively small number of regions (in some Latin American countries its market share in toothpaste approaches 80%) makes it vulnerable to a price war or a determined marketing push by a rival.

Today such risks look theoretical, and Colgate's healthy near-term growth and fat share-price are very real. Yet corporate fortunes can change rapidly and it is worth asking how quickly a culture as conservative as Colgate's would adapt. Mr Cook is a reserved, rather unflamboyant British marketing manager, making Mr Mark look feisty by comparison. Like Mr Mark he is also a company lifer, having been at Colgate for over three decades. Not only has he risen under Mr Mark, he will also have his former boss remaining as chairman, at least for a while-which falls short of best practice in corporate governance. The rest of the board of eight non-executive directors has an average age of more than 66 (three are over 70) and six have each served for more than 10 years—which under British standards would throw their independence into doubt.

Investors rarely question a company's corporate governance when all is going well, but they swiftly turn into critics if things change. Mr Cook is inheriting a strong, efficient company, but maintaining Colgate's growth will be no easy task. •

Those were the days

Fonte: The Economist, v.382, n. 8514, p. 66, 3 Feb. 2007.