Procter and Gamble/Johson and Johnson
A logistics and Technology Comparison

Abstract

With all the competition in the sales world today companies must be on the very top of their game in order to be successful. Two very important business practices that are utilized in today’s industries would be an entity’s strategic use of their Technology and their Logistics. This paper analyzes two companies Johnson and Johnson (J&J) and Procter and Gamble (P&G) and gives detailed examples to compare their technological and logistical strategies more thoroughly. It will argue that while they both are equally competitive and successful they both also have many weakness and tasks they are overcoming. As well as, will give case studies showing the answers that both company’s utilized to overcome these obstacles. The information for this research was primarily investigated through Internet Journal articles, News Paper Articles, and United States/Panama Interviews. The case study shows that the company’s business practices of Technology and Logistics share many similarities and differences. The paper concludes that even though the companies are very similar in their practices they are also very different in their product lines. As well as, both companies despite their many obstacles before them have both put in ideas to overcome.

Introduction

With revenues of 78,938 million, Procter and Gamble is the world’s largest consumer products manufacturer. Its products reach over 4.2 billion people worldwide and with their strategic business practices this number is steadily growing. In 2009 it was the 22nd largest company as far as sales and the 4th largest when being compared to the other Fortune 500 companies. Procter and Gambles market capitalization of 175.2 billion as of March 2011 greatly surpasses the 46 billion dollar book value of the industries tangible assets. With this being noted spectators could place a much higher value on the company’s brands, earnings, and cash flow. Amongst Procter and Gamble there are six different branches that it has focused on that and in return is responsible for the current success the company indulges in. These branches are beauty, grooming, health-care, snacks and pet care, fabric care and home care, baby care and family care. These branches are then controlled under P&G’s organization structure of four divisions, Global Business Units (GBU), Global Operations, Global Business Services (GBS), and Corporate Functions (CF). The Global Business Unit covers all of the branches above specifically and focuses on the brand names. The beauty part of this includes cosmetics, deodorants, prestige fragrances, hair care, personal cleansing, skin care, blades and razors, face and shave products, grooming electronics, and small home appliances. Next would be the Health
and well-being segment which includes health-care, snacks, and pet care. The health-care portion covering feminine care, oral care, and personal health-care and the house hold care includes the fabric care and home care, which covers air care, batteries, dish care, and surface care. Finally, the baby care and family care entails baby wipes, bath tissue, diapers, facial tissue, and paper towels. It is obvious that P&G is involved in a very diverse production process so it is very intelligent that they set up branches to organize each of them.

Johnson and Johnson is the world’s leading consumer health company, who is involved with the R&D (research and development), manufacture and sale of consumer health care products, pharmaceutical and medical devices, and diagnostics. Across the world J&J has over 250 operating companies, and employs over 114,000 people. The global titan is headquartered in New Brunswick, New Jersey, and recorded revenue of 61, 527 million during the financial year of 2010. As well as, an operating profit of 16, 527 million during 2010, which is an increase of 6% over 2009, and a net profit of 13, 334 million in 2010, an increase of 8.7% over 2009. J&J’s strong presence in many areas of health care, as well as its investments in Technology, has greatly strengthened its financial position. With J&J being a very cash generating operation as well as, being one of the few global companies that has a triple A credit rating, the entity remains in a dominate position to take advantage of any beneficial purchases that could come forward.

In the technology department P&G has a strong R&D organization which includes over 6,500 scientists. The company owns over 29,000 patents with up to an additional 5,000 adding to it every year which makes it one of the leading holders of United States as well as, worldwide in patents. Following these remarkable numbers P&G also spends over 5 million on R&D and enacts around 8 patents per day. However, the company operates in a very competitive market and is always on a continuous search for new innovative ideas. P&G’s lack of doing this was reflected in the late 1990’s when it’s sales growth was much lower than expected due to it not producing new products. The chairman of the board and President and Chief executive A.G. Lafley stated “Innovation is our lifeblood- new ideas and new products that make consumers live better, build customers’ sales and profits, and total share holder return” (Lafley, 1990). However, it became clear to management at P&G that the company did not always fully utilize its existing knowledge, and did not try to learn from the outside world; they were in business with a closed innovation window.

J&J has very healthy technology investment practices; they have invested more than any other health care company operating. In 1995 alone J&J invested nearly 40% of their sales, or 7 billion, in R&D to promote and develop new products. However, the challenge of J&J is that it must bring this 40% cost down, but continue to maintain the independence and entrepreneurship that its 160 operating divisions possess. Unfortunately, one of the practices the company put into effect was reducing its headcount from 83,600 to 81,000 employees, and closing over 25 plants.

Both of the company’s distribution practices illustrate that of a global network level. Just recently P&G leased a new built to suit warehouse in Kansas City, MO. This warehouse will help its home care products reach the Western United States more quickly and efficiently. Following suit J&J finished construction of their 440,000 square foot distribution center in Memphis, TN, which will enable them to provide direct shipment of medical products without involving third party logistics in their costs. The focus of this paper is to compare Procter and Gamble’s technological and logistical practices to that of Johnson and Johnson’s. More specifically, the paper will show the strengths and weaknesses of each company in these areas as well explain the solutions they chose to overcome their obstacles.
Logistics

Mega distribution centers have a bright future, says Art St. Onge, logistics expert and president of St. Onge Company. Speaking at the dedication of Procter and Gamble's new facility in St. Louis gateway Commerce Park, St. Onge said, “We can expect to see more of these giant warehouses sprouting up throughout the country, storing wares of several products rather than just one product is an efficient, cost-effective way of storing goods.” (Art St. Onge, 2010, p.18). Along with this construction, P&G’s paper products company has also signed a 1.7 million square foot lease that is valued at more than 50 million for a build to suit warehouse in Mehoopany, PA. There is no question that P&G's success has paved the road for many companies to follow as St. Onge was stating above. Although P&G’s main headquarters are located in Panama City, Panama its U.S office is located in Cincinatti, Ohio where it is just as busy. In 2002 three of the top ten new non food products sold within the U.S came from Procter and Gamble.

Global operations is comprised of Procter and Gamble's market development organization (MDO), which handles developing go to market plans at the local level. The MDO includes dedicated retail customer, trade channel, and country-specific teams. It is organized along five geographic units: North America, Western Europe, Central &Eastern Europe/Middle East Africa, Latin America, and Asia, which compromises Japan, Greater China, and Australia, India, Korea (Ailawadi & Lehmann & Neslin, 2001).

P&G also holds leading global market shares in many different categories, which would be baby care at 35%, blades and razors 70%, feminine care 35%, and fabric care (30%). The company's strong position at the top is a reflection of its strong brand portfolio. They have over 23 brands that are on top in sales reaching over 1 billion annually, as well as another 20 brands just below these that reach sales of over 500 million annually. The company's brand strength is demonstrated by the fact that its brands are market leaders in 15 of the 21 major consumer categories in which it operates globally (Datamonitor, 2011). Basically, by having their strong brands and leading market positions it enables the company to achieve large economies of scale in distribution and maintain good bargaining positions with retailers.

Johnson and Johnson has reported net earnings of 3.45 billion for the second quarter of 2010, compared to 3.21 billion for the second quarter of 2009. William Weldon, chairman and CEO of J&J said “Our second quarter results include strong growth in a number of our recently launched products, which contributed to solid earnings. Remedial action to address the product quality issues at McNeil consumer health care are on going and of high importance. At the same time, we continue to make significant investments in acquisitions, strategic partnerships in advancing our pipeline, positioning us well for future growth.” (Datamonitor, 200, p. 8).

Unlike P&G, J&J's main office is located in the United States in New Brunswick, New Jersey, where it implements an operation definitely worthy of being called a global network. One of J&J's major global strengths as far as its production and distribution lies heavily in how diverse they are. The amount of diverse production they are involved with greatly reduces their dependance in one area. Also, by having these options J&J has the choice of going with the products that can give them the most financial growth. This strategy is put into affect when Elan made a decision in July 2009 to form a joint venture with J&J for the development and commercialization of Alzheimer's disease immuno
therapies including Bapineuzumab (Datamonitor, 2011). However, according to a report from Goldman Sachs, J&J is requiring all of its medical products distributors to agree to not source any of J&J’s products from any entity other than J&J (Sachs, 2004). The idea of this enforcement is reduce the risk of counterfeit medical products that are getting to the consumers. If a distributor fails to comply with the company's terms, then the distributor's status will be revoked and shipments of J&J products will be no longer allowed by them effective March 5, 2004. A list of some of the companies that signed this agreement are as follows Cardinal Health (allegiance division), Henry Schein (medical segment), McKesson (medical products division), Owens&Minor, and PSS World Medical. The agreements with these distributors is very important due to the fact that J&J's products account for over 14% of the hospital distribution market.

Very similar to P&G's warehousing capabilities, J&J's new facility in Memphis, TN obtained the capability to ship 100% of Ethicon Endo-Surgery products as of November 24, 2003. As well as, the facility practices many of the same technology that P&G's warehouses do. These technologies include searchable product catalogs, order history, contract pricing, and other service capabilities.

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Top 25 supply chain companies graph Procter & Gamble is number 3

Exhibit 1 We Expect to See Consumer Division Sales Reaccelerate from a 9% Decline in 2010 to an 8% Growth in 2012

Source: Corporate reports and Bernstein estimates and analysis.

Johnson & Johnson annual sales graph
Technology

As a consumer products company, Procter & Gamble relies heavily on innovation and continued marketing investments in order to establish a significant competitive advantage (Datamonitor, 2011). So as a reflection of this the company has made many investments into their R&D (research and development) as well as their marketing. Over the past ten years P&G has spent over 2 billion dollars in R&D which is right at twice that of its nearest competitor, Unilever, whose average spending on this matter is around 1.1 billion. Virtually all of the organic sales growth delivered by P&G in the past ten years has come from new brands and new or improved product innovation (Datamonitor, 2011). As a way of staying on top in this department, P&G openly interacts with over five million consumers annually in over sixty countries all over the world. As well as, P&G performs over 15,000 research studies annually and invests more than 350 million every year in studies directed toward consumer understanding. Additionally, P&G involves external innovation partners to boost its internal innovative capability, an approach it calls “connect and develop” (Datamonitor, 2011). With this being said more than half of the company's product innovation comes from external partners. However, although P&G knew its sales growth could only increase if it's innovation followed, the company quickly realized that its costs in R&D was surpassing its sales growth, which in no way would be a benefit if this continued.

Traditionally, P&G was always closed doors with its patents and also worried about releasing information to the outside. Actually, in 1999 before C&D came into effect less than 10% of P&G technologies were being utilized in products. However, with the new program the company planned and did turn it around to 50% with the collaboration of its new external partners. In June 1999, P&G launched a new strategy to increase growth through innovation called 'Organization 2005'. One of the main aims of 'Organization 2005' was to stimulate innovation by making P&G's internally focused and fragmented communications more outwardly focused and cohesive. Gordon Brunner, Chief technology officer, and head worldwide R&D, at the time said he wanted to create a culture that connected people and technologies in a more effective way. To emphasize the point Brunner said that, R&D could become C&D 'connect and develop' (Dodgson & Gann & Salter, 2006). The idea of connect and develop was very important to the 'Organization 2005' strategy. Its business evolved from connections such as that from candles to soap, from the animal fat in soap to the first all vegetable shortening (Dodgson & Gann & Salter, 2006). P&G's history is strong with innovative new products created through connecting situations that were not very obvious before. As P&G's Dr. Mike Addison put it at a Connect and Develop Symposium in February 2003, “Innovation is all about making new connections, most breakthrough innovation is about combining known knowledge in new ways or bringing an idea from one domain to another. This is characteristic of the 'technology synergies and fusion' elements of Rothwell's fifth generation innovation process” (Dodgson & Gann & Salter, 2006). The acceptance that the most solutions to Procter & Gamble's problems lie outside of their company was a very important beginning to the connect and develop program. Larry Hutson describes how prior to its inception he discovered that P&G operated in around 150 areas of science (Dodgson & Gann & Salter, 2006). At the current time P&G employed over 7,500 R&D staff. However, it was figured that their were 1.5 million researchers around the world working in these particular areas of science and technology that were usually more informed than P&G's internal researchers. With this becoming clear the company had no choice but, to look outside the box if they wanted to achieve global dominance.

In order to keep up with their innovation and constantly new product introductions P&G invests over 8 billion in advertising annually, which makes P&G one of the world's largest advertisers.
By the company focusing so strongly on research and development it enables them to renew its product line, which in return continuously intrigues their consumers and excels their revenue growth. P&G also has a very strong cash productivity (the percentage of earning converted into cash). This is a result of the company's strong productivity, revenue management, and cost reductions. For example, P&G is the receivables leader of the industry, operating more efficiently with fewer days of receivables outstanding than any consumer products competitor (Datamonitor, 2011). By practicing efficient business exercises such as these the company is also able to keep a very strong credit rating, which in return gives it flexibility to borrow and invest money where ever is the most beneficial to them.

Johnson & Johnson has very similar research and development practices but, not as elaborate as Procter & Gamble. J&J's main expertise usually falls in the medical and pharmaceutical departments. The research for these products is divided into two major entities R.W. Johnson Pharmaceutical Research, which is an institute in the U.S and Janssen Research foundation in Europe. The company must also contend with the challenge posed by the rising power of PBMs, as they seek to induce price competition among some of the company's less-differentiated product lines such as oral contraceptives and antibiotics (Bernstein, 1995). Also, J&J has to spend strongly to protect its Tylenol base from Procter & Gambles's Aleve and American Home's Advil.

Data Collection

My data collection for this paper was researched by two methods the Internet and Interviews. Through the internet I was able to find many E Journals and Articles on both companies which greatly increased my understanding of them. Most of my research was done at the USM academic library and I found many research tools useful their. My keywords used in the business source complete article searches were P&G/J&J logistics, shipping, technology, warehouses, history, and distribution. Through this search engine I found a lot of my information as well as graphs that illustrate the information I am discussing in the paper. However, one of my few obstacles was that when doing my searches it is important to put quotes around the company name, otherwise the search engine will mix the words and not take the researcher to the right database.

Unfortunately, due to the company currently moving locations as well as their high security practices; during my trip to Panama I did not get to interview Procter and Gamble. Security at their location would not even allow pictures of or around their complex. However, I did get to interview to other third party logistics companies that handled both P&G and J&J products. The two companies I am speaking of would be 3PL and J. Cain & Co. and the representatives from both entities told me a great deal of their product distribution comes from both of these global titans.

My interview equipment is illustrated below and it was your basic Olympus Camera/Video Recorder which was very effective for my uses. Some of my questions included to the companies were rent costs, mortgage costs, annual sales, annual distribution costs, annual research and development costs, lease agreements, and average price per square foot. One company in particular that was overseeing the development of Panama Pacifico informed me that the average cost per square meter, as they figure in Panama, would be about 6 dollars. Another question that I asked was related to the surrounding waters of Panama, City because I noticed that no one was fishing them or doing anything other type of recreational activity. I was informed by Marissa Arauz, who was our guide that “the city waters are one hundred percent contaminated and it would be at least fifty years before they naturally cleaned themselves back to normal again” (Arauz, 2012). She further informed me that most of the
contamination was due to the Panama local's misuse and that the sewage was dumped their.

J. Cain & Co. Third Party Logistics Company Interview

The illustration above is a picture of the J. Cain & Co. representative who gave us a power point and lecture as well as a guided tour of the warehouse. As mentioned above both Procter & Gamble and Johnson & Johnson use this third party logistics company for their distribution. This company was located in Colon, Panama which is a free trade zone so one could understand the benefits of the companies utilizing them.

The illustration below is a picture of the 3PL company representative who also gave us a guided tour of their warehouse operations, which was located in Panama Pacifíco. I asked if they distributed any of Johnson & Johnson or Procter & Gamble and she informed me they did but, unfortunately their was no product in house that day, therefore I have no pictures. However, it was interesting that most of their product they were handling was alcohol and automobile aluminum for Mitsubishi. Their were no racks to utilize the height of the 30 foot ceiling but, the representative explained to me they only had
racks in place when needed so that their storage capacity could be more flexible. Another very informative fact I learned was that their monthly lease was 80,000 dollars so it would definitely be to their advantage to be as flexible as possible.

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**3PL Third Party Logistics Company Interview**

**Case Study**

**Distribution/ Legal Difficulties with Both Companies**

![Map of Procter & Gamble Main Office in Panama City](Panama_Map.png)

**Procter & Gamble Main Office   Panama Map**

The above illustration is the location for the Procter and Gamble main headquarters in Panama City, Panama. Although I did not get to interview or see any inside operations, the companies that I did
visit, that worked with P&G, were proof enough that the company operated as a major global network.

This illustration above is the location of the main headquarters for Johnson & Johnson in New Brunswick, New Jersey. Along with my internet research, as I mentioned above, many of the companies I interviewed in Panama dealt with the distribution of J&J as well as P&G. Following these interviews and with my already researched internet material, helped me to understand that J&J was also a major global player as well. However, with all of the hard work and intelligent business decisions practiced by Johnson & Johnson as well as Procter & Gamble the companies still face problems.

In March of 2011, the FDA filed a consent decree of permanent injunction against Johnson and Johnson. J&J had two of its officers filing to comply with the current goods manufacturing practice requirements. The company had to suspend its production at their Consumer Healthcare's Fort Washington, Pennsylvania facility due to this injunction which affected the total year's sales by around 900 million. These problems happen very often to J&J; that is the problems a global company has to be familiar with but they are definitely not alone with their obstacles. Procter and Gamble has had a major increase in their product recalls. In November of 2009 the company recalled its Vicks Sinex Nasal Spray in the U.S, Germany, and the UK. Their reason for doing this was for precautionary reasons after finding bacteria B.Cepacia at a small level at its plant in Gross Gerav, Germany. Also, the next month P&G had to recall its Vicks Day Quil Cold & Flu-count Liquid Caps Bonus Pack in the U.S. “The product was recalled as it did not contain a child resistant backing for the blister packs in the box, despite label statements that the product is in child-resistant packaging” (Datamonitor, 2011, pg17). Even outside of the medical field P&G also recalled its Pringles Restaurant Cravers Cheese Burger and Pringles Family Faves Taco chips due to the FDA suspicion of possible Salmonella contamination.

As mentioned above J&J was having some issues with counterfeit products coming through some of their contracted companies beneath them. “McNeil Children's Medicines due to repeated quality control failures has generated serious legal problems for it and parent company Johnson & Johnson” (Wechsler, 2010, pg14). As a result of this the FDA is saying that the company knowingly mislead the public. As well as, they believed J&J had not properly managed McNeil when it came to informing consumers about the real product risks and benefits; they mislead them. The results could be charges brought against J&J as well as McNeil executive for failing to follow food and drug laws.
“Procter & Gamble, which has been filing various legal suits over brand infringement of late, has now had the tables turned and is being sued by New York-based Pfizer Inc” (Enright, 2006, pg 4). The argument is that P&G has been stating incorrect information about its Crest Pro Health mouthwash products, that in return hurts Phizer's listerine sales. P&G was stating that 4 out of 5 dentists recommend their brand as compared to Phizer's but, had no information or research to back it up. The outcome of this individual obstacle put P&G in the situation of, through court order, Phizer demanding the end of these false claims and wanted to be reciprocated by P&G paying them equal the profits they made.

Another issue Johnson & Johnson has dealt with is the recall of Mylanta and AlternaGel Liquid Antacid. “Johnson & Johnson was forced to recall 12 million bottles of Mylanta and almost 85,000 bottles of its AlternaGel liquid Antacid earlier this month because the presence of small amounts of alcohol from flavoring agents was not noted on product packaging” (MMR, 2010, pg66). Along with these recalls the company also encountered some Tylenol alcohol content issues and overall J&J had to recall over 200 million bottles of product in 2010.

So with all of the distribution and legal ramifications that both Procter & Gamble and Johnson & Johnson have/will experience there is no doubt that the companies therefore must push even harder to become global power houses. The only way to neutralize the problems they are having is figure out ways to bring in more benefits. The following illustrations beneath show the companies attempts to do just that.

One of Two Panama Canal Lock Construction/Expansion Project in Panama

Around the world companies know of the new expansions that are taken place in the Panama Canal and the illustration above is a sneak peak on the construction of it. My class was fortunate to be able to see this as for the security and clearance levels to get on the compound are very strict. With this expansion there is no doubt that global trade will begin to become faster and more efficient than ever. With these new lock expansions ships that used to could only fit with 4,000 TEUs will now be able to get through with 14,000 TEUs. The companies that take advantage of this as, P&G and J&J are
currently doing with the original canal, are putting together a good recipe for success!

Panama Canal Dredging Project in Panama

The above illustration is picture of the dredging they are doing in the canal to deepen and widen it. Along with the larger locks being built for the much larger ships they have to make sure the canal will be able to handle them as well.

Johnson & Johnson Product in J. Cain & Co. Warehouse in Colon, Panama (Project)

As I mentioned above the above photo is Johnson & Johnson product located in the J. Cain & Co. Warehouse. Since the J. Cain & Co. Warehouse is located in Colon, Panama they are in a free trade zone and this is evidence that J&J is trying to capitalize on this distribution benefit.
Johnson & Johnson Pharmaceutical Sales Graph U.S (Project)

The graph above is simply showing how much pharmaceutical sales that Johnson & Johnson is involved with. Even though it seems that most of the recalls come from the medical product, due to them being more dangerous to the public, one can see above that there are great financial benefits to producing and distributing them.

Panama Project Map

Finally, above is just an aerial photo of the Panama Canal and where the expansion is taking place as opposed to where the original locks are already in place.

Results/Impact

The results of my comparison of Procter & Gamble and Johnson & Johnson is that the two companies are very similar. They both operate on a global network and have large product lines that are
distributed and consumed world wide. While Procter & Gamble is somewhat larger; the business practices and decision making by both of them are still much alike. If I had to see one major difference in their technology it would have to be P&G's connect and develop program. Both J&J and P&G practice research and development in their technology portions of their company but, P&G is the main one focusing on outside intelligence to help boost their business. Along with the obvious distribution benefits, this could be another reason for P&G making Panama their home base.

As far as the, outside the U.S operations, both companies appear to have the same problems happen elsewhere as they do in the U.S. This would be a emphasis on the product recalls, advertising laws, and FDA regulations. However, it obviously much easier to distribute in the U.S as compared to many of their second world countries that they export to. This would be primarily due to the U.S having a stable government and laws in place that can not radically change as they do in many other areas.

![Top Spending Print Advertisers](image1)

These advertising results is important because it shows how much each of the companies are spending on advertisement annually. This is relative because one can see that even though P&G is spending twice that of J&J they are still both the top leaders in it and that, along with their other intelligent business decisions, is what makes them both so similarly successful.

![P&G Net Sales (Amounts in Millions)](image2)
The two graphs above show the segmented net sales of the individual products of both companies. These sales results are important because they show that the companies are also very different due to their product lines being mostly very opposite. While they may compete in a small line of medicine; beyond that they are both completely different entities who specialize in their own individual diverse name brands.

**Summary**

My visit to Panama was one of the most intriguing vacation/learning experiences I have ever had in my life. An individual could not ask for a better situation to broaden their horizon, as far as the company that I had and the area that we were exploring. It is interesting to me that even though I did not get to visit my Panama company, Procter & Gamble, I still got to experience a great understanding of why they would choose to claim Panama as their home base. While one could understand the obvious tax benefits of the free trade zone there, as well as, the economic growth taking place with the canal expansion and the development of the city. It is also interesting to see the day to day ways of life and culture that the locals practice. A company as successful and dominate as P&G will definitely always have their business reasons for the decisions they make, as far as, locations and financial practices. But, I would like to think that somewhere in these decisions to primarily operate out of Panama management also admired the life ideas their. As some of the locals explained to me, Americans live to work, but, Panamanians work to live. I would like to think that some of the decision makers at P&G may have taken this life style into consideration when they made the final choice to call it home base for their company. From the visit I received an information over load that could not have been overcome by any other means. The trip was well organized and carefully planned and I would not take it back for the world. If I was asked what could have been done to make the visit better for the students my response would be “Make it Longer”!
Works Cited Page


