PROCTER & GAMBLE IN EASTERN EUROPE (A)

Maurice Smith prepared this case under the supervision of Jeffrey Gandz and David Conklin and with the assistance of Asad Wali solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

In December 1990, John Pepper, President of The Procter and Gamble Company (P&G), was discussing the successes of the company's globalization efforts with Herbert Schmitz, a senior executive with P&G's European operations. Early in 1988, Wolfgang Berndt, then Group Vice President for Latin America and Canada, had correctly predicted that business opportunities would soon emerge within the countries of the Soviet block and had led an investigation which resulted in the establishment of an export business into East Germany and the USSR. With the fall of the Berlin Wall in the autumn of 1989, political change of unprecedented speed had been transforming the former Iron Curtain countries of East Germany, Albania, Bulgaria, Romania, Hungary, Poland, Yugoslavia, and Czechoslovakia. The USSR itself was undergoing profound economic, political, and social changes under President Mikhail Gorbachev's "glasnost" and "perestroika" programs.

Pepper and other senior executives of the company had recently completed a tour of some of these former Eastern block countries and had concluded that they offered substantial opportunities for P&G. Pepper explained: "We believe that now is the time to make a push into Eastern Europe, and I want you to lead the show. We want you to develop an overall strategy for Eastern Europe that will move us into a leading position. You should try to achieve a break-even in the third year of operations and be in a positive cumulative cash-flow position by 1998."

Schmitz believed that opportunities for Procter & Gamble to achieve a leadership position in the countries of the former Soviet block were clearly there. But how fast should P&G proceed to develop these different markets and in what priority should they be attacked? As well, what ought to be the priority product categories with which to enter and what kind of organization should be developed to carry out the eventual strategy? As Herbert Schmitz pondered these strategic questions, he knew he needed a clear set of criteria to guide P&G's approach to these markets.

PROCTER & GAMBLE: A WORLD-CLASS MARKETER

Procter & Gamble was founded in Cincinnati, Ohio, in 1837, as a partnership between James Gamble, an Irish soap maker, and William Procter, a British candle maker.[1] The Procter & Gamble Company which emerged from this agreement quickly gained a reputation for honesty that won the trust and respect of its suppliers and customers, and became known for its innovative products, which offered superior benefits at competitive prices. In every decade following its incorporation in 1905, sales more than doubled, propelled by new product introductions, continual product improvements, and diversification into related businesses.[2]

By the 1980s, P&G was, by most accounts, the world's pre-eminent marketer as well as a leading U.S. advertiser and a major supporter of basic research and development.[3] The company manufactured and marketed over 300 brands within 39 categories that were organized into four product groups: i) Laundry and Cleaning products; ii) Personal Care products; iii) Food and Beverage products; and iv) Pulp and Chemical products. (Exhibit 1 describes further each product group.) P&G brands were highly valued by consumers: they held first place in terms of market share within 22 product categories in 1990, up from 17 in 1985,[4] and in the other categories, P&G brands ranked a close second or third.[5] The overall success of P&G's products within the marketplace was revealed in an early 1980s' study which showed that 95 per cent of bathrooms, laundry rooms, and kitchens in American homes contained at least one P&G brand. No other company had ever before achieved this level of mass-market penetration in the United States.[6]

During the 1980s, growth in revenues was fuelled to a large extent by the expansion of P&G's International Division. The number of countries in which the company had on-the-ground operations more than doubled from 22 to 46, and the number of countries served only by export sales grew to over 90.[7] By 1990, approximately 40 per cent of P&G's worldwide sales were generated outside the U.S. as opposed to 25 per cent 10

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[1] *"Everybody's Business: A Field Guide to the 400 Leading Companies in America," Doubleday Currency, 1990.*
[2] *Descriptions of P&G's management systems and practices found throughout this case are based, in part, on i) A. MacDonald Court, "Procter & Gamble Company (A)," Harvard Business School (HBS) Case # 9-584-047, 1983 and ii) C. A. Bartlette, "Procter & GambleVizir Launch," HBS Case # 9-384-139, 1983.*
[3] *"The House that Ivory Built," Advertising Age, 20 August 1987.*
[4] *"P&G Rewrites the Marketing Rules," Fortune, 6 November 1989.*
[5] *"Everybody's Business."*
[6] *"Everybody's Business."*
[7] *1990 Annual Report, The Procter & Gamble Company.*

years earlier. Exhibit 1 presents P&G's financial results by business segment and geography.

Acquisitions also played an important role in fostering P&G's growth. The 1989 purchase of Noxell Corporation (brands: Cover Girl, Clarion, and Noxzema) in a 22-million common-share stock swap instantly moved the company to the number one ranking in the US$3-billion mass market cosmetics business.[8] Many other acquisitions during the 1980s resulted in "a medicine chest full of health-care products"[9] and elevated P&G to the number one producer of over-the-counter pharmaceuticals. Companies purchased included: Norwich-Eaton (brands: Pepto-Bismol, Chloraseptic), and Richardson-Vicks (brands: Clearasil, Nyquil, and other cold remedies), the latter being acquired after numerous rejected offers of a friendly takeover. Interestingly, P&G had been asked to intervene as a white knight when this formerly elusive acquisition target became the subject of a hostile takeover launched by Anglo-Dutch Unilever PLC, P&G's arch rival. P&G's total acquisitions from 1988 to 1990 — excluding the Noxell deal — amounted to nearly $1.4-billion.

In fiscal 1990, P&G earnings and sales attained record highs, continuing the trend of the past two years. Sales, up by 13 percentage points, reached $24-billion and net earnings came in at $1.6-billion, a jump of 33 percentage points over the previous year. The company also recorded its largest year-to-year percentage increase in worldwide unit volume in 32 years, and it achieved a return on equity of over 20 per cent for the first time since 1950.[10] Wall Street's opinion of this new-found darling was summed up in a newspaper headline appearing in late 1990: "Lone critic runs counter to P&G's horde of admirers by questioning pace of growth."[11] Exhibit 2 presents P&G's financial statements, 1988-1990.

DOING WHAT'S RIGHT FOR THE LONG TERM

To many insiders, P&G's success was fundamentally due to its willingness to operate every aspect of its business in a manner consistent with the values of "integrity, doing what's right for the long term, respect for the individual, and being the best at what we do." These tenets were inculcated early on within the organization by the founders who had both been raised in religious families and were known to be frugal and scrupulously honest.[12] James Gamble was once quoted as saying: "If you cannot make pure goods and full weight, go to something else that is honest, even if it is breaking stone."[13]

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[8]"P&G Tops in Cosmetics: Purchase of Noxell Stings Lintas," Advertising Age, 25 September 1989.
[9]"Everybody's Business."
[10]1990 Annual Report, The Procter & Gamble Company.
[11]Wall Street Journal, 23 October 1990.
[12]"Everybody's Business."
[13]A. MacDonald Court, "Procter & Gamble Company (A)," HBS Case # 9-584-047, 1983.

Over the years, P&G's set of values molded its practices and management policies which, in turn, helped to maintain and perpetuate these through the successive generations of managers.[14] In 1930, the advice given by a Procter to the first president of P&G who was neither a Procter nor a Gamble was: "Always try to do about what's right. If you do that, nobody can really find fault."[15] Edward G. Harness, Chairman of P&G from 1974 to 1981, stated: "Our predecessors were wise enough to know that profitability and growth go hand-in-hand with fair treatment of employees, of customers, of consumers, and of the communities in which we operate." The company's "Statement of Purpose and Strategy" (Exhibit 3) which was formally adopted in 1986 enshrined these values and principles and, combined with 150 years of industry experience, dictated the company's success through its commitment to them.

Valued Employees

Central to P&G's management practices was the high value it placed upon its individual workers. The company's long-time belief was that its interests were inseparable from those of its employees, its "greatest asset." According to John Smale, Chairman and CEO of P&G from 1981 to 1989: "The essential strength of this company is its people, and the values that the company has, and the values that the employees in the company embrace. Those values haven't changed."[16] This principle dictated human resource management policies over the years and yielded distinctive P&G practices such as: i) recruiting of high-quality people and promotion from within based solely on merit; ii) developing individuals through training and coaching; and, iii) encouraging and rewarding individual initiative, innovation, and leadership as well as teamwork across disciplines, divisions and geography, in order to achieve the most effective integration of ideas and people's efforts. By 1990, worldwide employment at P&G was approximately 89,000 people.[17]

The Famed Brand-Management System

Teamwork and strong internal competition characterized Procter & Gamble's well-honed organizational practices and management processes. The company's famed brand-management system, which had been devised in the early 1930s, was subsequently copied on a grand scale in corporate America and the world. Essentially, this system provided each brand with a management focus and drive at a low level of the organization and identified a group of people responsible for its performance in the marketplace. Each of these brand groups was led by a brand manager and included a number of assistants. Together, they planned volume objectives, and developed and

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[14] *"Patience and Perspective," Advertising Age, 20 August 1987.*
[15] *"Everybody's Business."*
[16] *"Patience and Perspective."*
[17] *Form 10-K, The Procter & Gamble Company, Securities and Exchange Commission, Washington, DC, 1990.*

implemented the total marketing effort, including marketing support, strategy and tactics. The group worked closely with line departments such as sales, product development, manufacturing, and finance.

In 1987, a new level of supervisors named category managers was created. Each of these new managers was given profit and loss responsibility for an entire product line such as detergents.[18] Prior to this major change, brand managers working within the same product category had reported to different associate managers who were responsible for a variety of P&G brands from different categories. They, in turn, promoted the interests of their many brands to a divisional manager who co-ordinated the use of divisional resources, since he/she was ultimately responsible for the total marketing effort of the division's brands. Changes in the business environment in the early 1980s and sagging financial results revealed the weaknesses in this decades-old system as intense internal competition engendered conflicts, inefficiencies, and a lack of focus on how brands could work together and on what the competition was doing. In a bid to correct these problems, category managers were, therefore, introduced. They were given spending power and decision-making authority and made responsible for an entire product line's marketing plans, volume objectives, and advertising plans.[19] Divisional services such as advertising, distribution, and purchasing, along with sales, manufacturing, R&D, engineering, and, of course, brand groups, now all reported to category managers.[20]

P&G's well-established organizational processes and internal operations had been described by some as thorough, creative and aggressive; and by others as slow, risk averse and rigid.[21] Prior to the changes in 1987, every proposal generated at lower levels had been reviewed three stages up before receiving final approval. Although slow and, at times, bureaucratic, this system was designed to minimize the risks inherent in the very risky consumer-marketing business. As one observer noted: "The company [P&G] is painstakingly thorough in the development of everything from a cookie to a disposable diaper."[22] By pushing authority down to category managers, P&G was also seeking to get much closer to the customer and speed up the decision-making process without sacrificing its thorough and cautious approach to doing business.[23]

Answering Consumer Needs

Procter & Gamble's corporate values were also at the basis of its marketing policy of providing products of "superior value that answer the needs of the consumer." Indeed, as John Pepper, President of P&G, explained, "You are not doing right . . . by the consumer" when a problem brand is not achieving the desired degree of share and

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[18] *"The Marketing Revolution at Procter & Gamble," Business Week, 25 July 1988.*
[19] *"Marketing Rules."*
[20] *"Marketing Revolution."*
[21] *A. MacDonald Court, "Procter & Gamble Company (A)," HBS Case # 9-584-047, 1983.*
[22] *"Through Eyes of Wall Street," Advertising Age, 20 August 1987.*
[23] *"Marketing Rules."*

profit.[24] According to him, the fundamentals of P&G's marketing strategy were: "Know the consumer better, what they want; deliver that better than the competition, in our products; communicate that . . . in our advertising . . . [and] have a competitive price."[25] Attaining brand leadership share and profit in each of its product categories was P&G's goal.

The key to P&G's marketing strategy was superior product performance developed through intensive research and development. In 1988, it spent twice as much on R&D as Unilever, and almost 10 times more than long-time competitor, Colgate-Palmolive.[26] The company invested nearly $700-million or 3 per cent of sales in 1990 on its efforts to create better products.[27] Each product it developed went through extensive testing that could last up to three years. Before receiving a major brand-launch decision, a new product needed to demonstrate a clear advantage within the marketplace.[28] Once it was launched, however, P&G was 100 per cent committed to pursuing the new product's long-term potential.[29] An integral part of P&G's research and development program was the continuous and detailed market research it conducted in order to spot trends early, and then lead them. P&G interviewed over 10,000 consumers each day: to gain a better understanding of their needs and wants; to track attitudes towards P&G and competitor brands; to evaluate packaging, advertising, promotion and pricing; and to assess new product ideas.[30]

Other key features of P&G's product strategy included the use of innovative breakthrough technologies to reinvent product categories, and the continuous adaptation of brands to evolving consumer needs. The company's R&D efforts yielded Tide, the detergent that replaced soap, and invented the first disposable diaper that worked.[31] Since the latter was introduced in the early 1960s, however, the company's R&D had scored few megahits, although Olestra, the first zero-calorie fat substitute awaiting Food & Drug Administration approval, was expected to be a major win.[32] Building brand and consumer loyalty often involved putting a familiar brand name on a new product; for example, "Crest Tartar Control" used the well-known name of a toothpaste introduced in 1987.[33] As a result of this practice, and in defiance of conventional product-life-cycle theory, P&G brands often remained healthy and profitable over long periods of time. For example, Ivory Soap was over 100 years old and Tide more than 35. This strategy often drove P&G's acquisitions as well. New brands were bought in part to take advantage of P&G's distribution strength, and in part to apply P&G's technological

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[24]"Back to Basics," Advertising Age, 20 August 1987.
[25]Ibid.
[26]"Marketing Rules."
[27]Form 10-K, The Procter & Gamble Company, Securities and Exchange Commission, Washington, DC, 1990.
[28]"Perestroika in Soapland," The Economist, 10 June 1989.
[29]Ibid.
[30]1990 Annual Report, The Procter & Gamble Company.
[31]"Everybody's Business."
[32]"Marketing Rules."
[33]"P&G Sends Crest Rinse After Colgate," Advertising Age, 2 September 1987.

advantages to the acquired products in order to enhance their performance within the marketplace.[34]

Having developed superior product technology, P&G then applied massive advertising to communicate the benefits of its products. In 1989 alone, more than $2-billion was spent on this activity, over five times as much as Colgate-Palmolive's advertising budget. As one observer commented, "If a product can't be advertised, it doesn't belong in P&G's stable."[35]

Finally, maintaining competitive pricing required a continual striving for economies of scale within the company's worldwide operations. Interrelated raw materials and manufacturing facilities, centralized R & D and administrative staff functions, and sharing of advertisements between markets, sometimes with translated or dubbed soundtracks, were some of the ways P&G used to continually drive costs down.

THE CHANGING BUSINESS ENVIRONMENT

Beginning in the early 1970s and carrying on into the 1980s, the competitive dynamics within P&G's markets underwent significant change. This, combined with the increased globalization of the industry and P&G's slowness to respond to this new environment, caused margins, earnings and brand leadership to slowly erode. By the mid-1980s, however, a major restructuring program within the company was launched in order to reverse this slide in performance.

One of the most important impacts on P&G's traditional way of doing business was the consolidation of the retail trade. The arrival of large supermarkets and warehouse retailers such as Wal-Mart, together with new point-of-sale technology, shifted the balance of power within the marketplace away from manufacturers of consumer products. For example, over 80 per cent of Procter & Gamble's U.S. grocery business was now conducted with 100 retail chains versus 15 per cent 20 years ago. As a result of this change in market power, retailers benefitted by exploiting rivalries between manufacturers to extract concessions and dictate terms of trade.[36]

Competition within the consumer packaged goods industry was intensifying, and many of P&G's competitors, who had reacted more quickly to change, were benefitting from restructured operations better suited to the new competitive environment.[37] P&G faced much stronger competition in every product category, much of it emanating from foreign-based competitors such as France's L'Oreal, Germany's Henkel, Japan's Kao and the giant Unilever, who was waging a fierce battle in category after category. American

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[34]"P&G Company Report, Donaldson, Lufkin & Jenrette Securities, November 30, 1990.
[35]"Everybody's Business."
[36]"Perestroika in Soapland."
[37]"Marketing Rules."

producers, including longtime competitors Colgate-Palmolive and Kimberly-Clark, were also stealing significant share in the dentifrice and diapers markets. According to one analyst, more than 1,000 new products a month were popping up on supermarket shelves.[38] Exhibit 4 gives a brief summary of some of P&G's main competitors.

Within developed economies, the changing market dynamics were accompanied by maturing and splintering markets. Detergent unit sales, for example, increased by 17 percentage points over a 10-year period ending in 1989, while the number of brands competing within this category almost doubled to 46 from 27.[39] Brand extensions in various niches proliferated while total sales growth slowed to a crawl; in the U.S., supermarket sales volume grew a meagre one percentage point from 1988 to 1989.[40] Further, breakthrough and clearly superior products that revolutionize categories were becoming harder to find. Changing demographics compounded this fragmentation, as the increasing number of women in the workforce, plus the proliferation of media outlets, made it more difficult and expensive to reach the growing number of segments.[41]

P&G was slow to respond to this changing and more competitive global industry. The feeling among many observers was that, through its decades of successes, the company had become "a corporate Kremlin: bureaucratic, risk averse, and arrogant."[42] As a result, financial performance suffered as flagship products such as Crest and Pampers lost substantial market share: in the U.S., Crest fell to a 30.5 per cent share in 1985 from 40 per cent in 1977, with each point worth $10-million in revenues; and Pampers dived nearly 40 points to a 33 per cent share in roughly the same time period. Profitability at P&G's European operations was experiencing severe pressure, and its Japanese operation had accumulated losses in the order of $250-million since the subsidiary's opening in 1972. P&G's post-tax profits saw little growth during this time period and return on equity slid from over 10 per cent to below five per cent. In 1985, P&G posted its first annual decline in earnings since 1952.[43]

"Perestroika in Soapland"

Procter & Gamble's deteriorating results had not gone unnoticed and, by 1987, the company was well underway in implementing a wide range of internal changes, from marketing and sales to manufacturing and distribution. Modifications to its management structure and the creation of category managers were key applications. P&G became more customer-focused as well; to work with its large retail customers, it created customer teams that were led by product supply managers and staffed by representatives from manufacturing, engineering, distribution, purchasing, and finance. Other changes

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[38] *"Perestroika in Soapland."*
[39] *"Marketing Revolution."*
[40] *"Perestroika in Soapland," The Economist, 10 June 1989.*
[41] *"Washday Miracle," Financial World, 3 November 1987.*
[42] *"Marketing Revolution."*
[43] *"Washday Miracle."*

included restaffing top-management with managers experienced in international markets, increasing capital spending for modernization, and overhauling advertising strategy. According to one consultant close to P&G: "Smale revitalized the company without losing the basic values of P&G or getting into the short-term thinking that dominates American industry."[44] That year, a one-time write-off of $500-million for restructuring was recorded.

GLOBALIZATION

Market changes driven by globalization were also pressuring P&G to turn outward for growth. "In the past a company could succeed in its home market and not worry about the rest of the world," said Jurgen Hintz, Executive Vice President at P&G: ". . . but those days are gone. Yet in the end, we are only as good as our ability to compete in every local market."[45] Globalization had become the key to P&G's future growth and competitiveness, and its International Division was being tuned to meet the needs of diverse and growing foreign markets.

A Tough International Marketplace

International markets were tough ones in which to compete. The number of competitors in places such as Europe was higher than in the U.S., P&G's home market. Powerful non-U.S. competitors such as Unilever and Henkel which were entrenched in many countries tended to accept lower shareholder returns than P&G found acceptable. Profit margins were generally lower as excess capacity held prices down in most developed markets. According to Edwin Artzt, Chairman and CEO of P&G as well as the former President of the International Division, "International markets have tended to be rapid growth markets; therefore, you get an enormous amount of price competition and people willing to sacrifice in order to build share."[46]

Established in the early 1950s, P&G's International Division was developed by replicating the company's U.S. business strategy within each international market entered. The division's first vice president stated at the time: "We must tailor products to meet consumer demands in each nation. We cannot simply sell products with a U.S.A. formula. They won't work. We believe [however] that exactly the same policies and procedures which have given our company success in the USA will be equally successful overseas."[47] In 1953, an export operation was set up in Geneva to market P&G's core products — soap, toothpaste, diapers, and shampoos — to the rest of the world. The strategy was to build local demand first and then establish country-specific operations

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[44] *"Slow and Steady."*
[45] *1990 Annual Report, The Procter & Gamble Company.*
[46] *"A Global Comeback,"* Advertising Age*, 20 August 1987.*
[47] *"Procter & Gamble Europe: Vizir Launch," HBS Case #9-384-139, 1983.*

that were closer to the business and its customers. Over time, this method led to the development of a network of highly successful and profitable foreign ventures, each operating independently.

P&G's international strategy worked well until the mid-1970s, when increased competition caused growth to slow, prices to weaken, and profits to slide. In many instances, P&G was being beaten to new markets, sometimes with newer technology, or its own product innovations were being copied faster than it could introduce them within international markets. Partly to blame was the structure of P&G's international operations, which hampered effectiveness and slowed the global introduction of new products. The company was also not comfortable in undeveloped markets or in those where the local culture differed from American culture. Indeed, P&G once believed that its marketing prowess could ignore such differences when developing marketing strategy.[48]

Through its share of international marketing stumbles, missteps, and struggles within this environment, P&G eventually succeeded in building formidable worldwide operations by 1990. The International Division's share of company profits rose to 30 per cent, a substantial increase from its 20 per cent share four years earlier. Much of P&G's foreign expansion was achieved through acquisitions and joint ventures. During the 1980s, it spent $3-billion in 16 countries around the world, making more than twice the number of acquisitions that it had made in the 1960s and 1970s combined.[49] Acquired companies gave P&G strong international distribution channels, which were further leveraged with P&G brands already sold in the U.S. The Richardson-Vicks acquisition, for one, gave the company strong organizations in Australia, India, Indonesia, Thailand, and the countries of Latin America. According to one estimate, only one-third of P&G's products was distributed overseas in 1989,[50] and two-thirds of the company's international sales were coming from 24 brands including Crest, Head & Shoulders, and Pampers.[51] Tapping this growth potential led to strong earnings growth: international profits were up by 12 percentage points in 1990 after two consecutive years of increases of more than 37 percentage points.

Asia

After operating in Japan since 1973, P&G finally attained profitability in 1987 and was challenging national competitors Kao, Lion, and Unicharm who had almost driven P&G out of the market a few years earlier. P&G had initially enjoyed huge successes with its detergent and diaper brands, the latter gaining up to 90 per cent market share at one

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[48]"Marketing Rules."
[49]"Slow and Steady."
[50]"Procter & Gamble Company Report," Merill Lynch Capital Markets, July 27, 1989.
[51]"Marketing: After Early Stumbles, P&G Is Making Inroads Overseas," Wall Street Journal, 6 February 1989.

point. But by mistakenly assuming that what worked at home would also work halfway around the world, P&G made a number of tactical errors. Improperly managing the multi-tiered distribution system, of critical importance to consumer-product companies operating in Japan, proved to be a major one. The company was also overtaken by quickly improved local brands better suited to the market, while a number of advertisement faux-pas caused further deterioration in the company's market position and public image. Finally, the few brands marketed in Japan made it difficult to cover the high costs of maintaining the operation.

By 1990, however, P&G had gained the number one market position with seven of the over 20 brands it was offering in Japan which, with $1-billion in sales, was poised to replace Germany as P&G's second largest market outside the U.S.[52] Elsewhere in Asia, P&G was playing catch-up with Unilever in Indonesia and India, two rapidly developing markets in which P&G and its competitors, including Kao, Johnson & Johnson, Lion Corp., and Colgate-Palmolive, were waging fierce brand warfare to establish dominance. P&G had also recently entered Korea and China through joint ventures, the latter in 1988 with the shampoo "Head & Shoulders" in what was seen as an aggressive early move into this market.

Europe

First entered in the 1930s via the United Kingdom (U.K.), Europe was traditionally P&G's largest international business. It accounted for 60 per cent of non-U.S. sales in 1990 or over $5.7-billion.[53] The U.K. and Germany were the most important European markets, the latter generating more than $1.2-billion in sales.[54] Fierce competition in Europe led to thin profit margins: less than four per cent versus almost nine per cent in the U.S. business and over six per cent in the other combined P&G businesses in Canada, Asia and Latin America.

P&G made important changes in its European organizational structure to counter heightening economic and competitive pressures. During the 1960s, subsidiaries were opened in almost every West European country, each being a miniature P&G with complete development and marketing capabilities. To boost profitability, this structure was replaced by a "Euro-market" organization in the late 1970s. By treating Europe as one market conceptually and organizationally, P&G developed a common strategy among country organizations for product research, development, manufacturing and advertisement, while allowing for local execution at the marketing and day-to-day management levels. A matrix organization was implemented that required each country's brand manager to report to both his/her country manager and to a Euro-brand manager (usually a brand manager from a selected lead country). The benefits derived from this

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[52] "Japan Rises to P&G's No. 3 Market," Advertising Age, 10 December 1990.
[53] 1992 Annual Report, The Procter & Gamble Company.
[54] "Japan Rises."

restructuring included a reduction in operating costs, higher consistency in product quality, and greater speed in Europe-wide expansion of new or improved products. P&G's other international operations were eventually re-organized along these lines.

Latin America

The Latin America division, which began in Mexico in the 1950s, had subsidiaries in nine countries and exported to 10 others. It was a star performer within P&G, with sales reaching $1-billion or 15 per cent of international revenues in 1990, and a profit margin exceeding the average for the entire international division.[55] In many regions of Latin America economic and political turmoil that included hyper-inflation, governments as competitors, kidnappings of business people, leftist insurgencies, and strict price controls presented obstacles. However, P&G remained committed to these markets. When violence escalated in Chile in 1963, the company sold its operations to Unilever, the only time it ever voluntarily pulled out of a country, and later came to regret this move as it tried to catch up to Unilever after re-entry in 1983. Latin America — with its richness in raw materials, large numbers of young consumers eager for North American products, and greater political and economic stability projected for the future — was now central to P&G's global strategy.

Global Expansion to the Year 2000

For the decade leading to the year 2000, P&G's main marketing focus was further global expansion. It projected that foreign operations would contribute 50 per cent of revenues by 1995 through application of the following strategy:

> We will plan the growth of our investments on a worldwide basis to achieve maximum competitive advantage. We will take advantage of our strongest technologies and ideas by reapplying and tailoring them to meet consumer needs everywhere. We will market world brands that share global technology and common positioning, but with appropriate regional testing of product aesthetics and form, packaging materials, and market execution to best satisfy local customer demands for quality and value.[56]

Examples of this strategy included the reapplication of Crest's tartar-control ingredients to non-Crest toothpastes sold in foreign markets, and changes to core products to suit local tastes such as the smell of Camay, the taste of Crest or the formula of Head & Shoulders. Added John Pepper, "We are finding that our superior technologies are

[55] *"Foreign Formula: Procter & Gamble Fixes Aim on Tough Market - The Latin Americans," Wall Street Journal, 15 June 1990.*
[56] *1990 Annual Report, The Procter & Gamble Company.*

gaining great consumer acceptance. That is true whether those consumers are in undeveloped economies, or in the most advanced".[57]

THE FALL OF COMMUNISM IN EUROPE[58]

The fall of the Berlin Wall on November 9, 1989, became the dramatic symbol and starting point of a new era in Europe. Budding democracies and extraordinary new market opportunities for Western goods were rapidly opening up in countries that had been under the tight control of the Union of Soviet Socialist Republics (USSR or Soviet Union) since the Second World War. As one journalist reported: "With its thirst to rejoin the western world, its intellectual people and willing work force, its opportunities for investment and clear slate for nation building, Central Europe [Poland, Czechoslovakia, Hungary, Yugoslavia, Albania, Bulgaria, and Romania][59] has more potential for future prosperity than any region on earth."[60] At the base of this new era in Central Europe were the deep and broad economic and political reforms underway in the USSR since the mid-1980s.

Gorbachev, Glasnost and Perestroika

In 1985, when Mikhail Gorbachev became the Soviet Communist Party's General Secretary — the defacto head of state of the USSR — Soviet society was at a bursting point. Decades of economic mismanagement, failed attempts at reforming the economic system, and tight controls over intellectual, cultural and personal freedoms had generated widespread disenchantment and cynicism with the country's leadership and political system. Deep dissatisfaction, which had been secretly germinating since the 1960s, prevailed at every level of Soviet society: consumers were weary of lengthening queues for goods typically of poor quality; ordinary people were outraged by the arrogant, pervasive, Mafia-like corruption of ministries, high party officials, underground millionaires, and black marketeers; farmers were demoralized by rural decay, and scientists and engineers by industrial stagnation and growing technological inferiority with the West; army officials were alarmed by the inability of the USSR to compete on world markets and by the prospects of becoming a fourth-rate power. The decaying Soviet-style system of socialism, the increasingly pompous and arrogant propaganda, and the widening gap between communist ideals, people's expectations and reality solidified the belief that only wide-ranging reforms could reset the union on a course to prosperity.

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[57] *Ibid.*
[58] *This section is based on: M. Smith, D. Conklin, and J. Gandz, "The USSR: A note on the rise and fall of communism in Europe, 1917-1990", Western Business School #....., 1996.*
[59] *Eastern Europe refers to Central Europe plus the western republics of the USSR including the Baltic republics, Russia, the Ukraine, Moldavia, and Byelorussia.*
[60] *Longworth, R., "Central Europe: Potential for Prosperity,"* <u>*European Affairs*</u>*, July/August, 1990.*

To revive the USSR's stagnating economy, Gorbachev initially focused on: reducing rigidity inherent to the central planning economic system; increasing discipline and efficiency within factories; and ending corruption among state officials. To set his plans in motion, he had first to give people a voice, free up ideas and information, and remove the dead hand of dogma which had stifled initiative and suppressed creativity for decades. "Glasnost" — or openness — therefore, called for the reduction of state control over cultural, intellectual and religious activities, and encouraged more realistic scrutiny of state institutions by the people and the media.

By late 1986, plans for the restructuring — or "perestroika" — of the Soviet economy, the most dramatic in the history of the USSR since Stalin, were initiated. Implicit to them was the realization by Gorbachev and his supporters that the market mechanism was useful and desirable in the resource allocation process. The main thrust of the reforms was, therefore, the freedom given to state enterprises to manage their operations and finances, decoupling them to a certain extent from an overbearing Communist Party bureaucracy. Managers, however, were still subject to state price controls, minimum deliveries to other state firms, restrictive labour laws, etc. In May 1988, private enterprise in the form of co-operatives was sanctioned in most areas of economic activity outside wholesale trade, but this reform excluded the possibility of owning property. By early 1990, over 244,000 co-operatives were contributing approximately one per cent to national income. Stronger trade and commercial links with the West were also sought. In 1988, all Soviet enterprises were granted the right to deal independently with foreign trade. As well, majority foreign ownership of joint ventures was legalized and allowed to operate outside the control of central planners.

Gorbachev also undertook major reforms to the USSR's power structure. He ended the Communist Party's constitutional monopoly over political power; although it still retained its leading role in Soviet society, it would now have to struggle for its privileged position. Within the party, two important groups were emerging: the radicals who were wanting speedy reforms, and the conservatives who were fighting for the status quo. In 1989, multi-candidate, but not multi-party, elections for the country's new parliament, the Congress of National Deputies, occurred. Many high-ranking party officials were defeated by radicals who included the long-time and well-known dissident, Andrei Sakharov, and the outspoken reformer, Boris Yeltsin. In 1990, Gorbachev created a new U.S./French-style presidency for himself with sweeping executive powers moderated by a new Presidential Council, which replaced the Politburo as policy maker. Within four years, adult universal suffrage would choose the USSR's next head of state. Through all of these changes, Gorbachev replaced many Old Guard politicians associated with previous General Secretaries.

In Soviet foreign policy, a whole new attitude was propelling Central European countries to assert their independence from Moscow's long-time hegemony. In 1988, Gorbachev sanctioned the unification of East and West Germany and encouraged national governments of Central Europe to proceed with their own brands of political and economic "glasnost" and "perestroika." At the same time, Gorbachev was negotiating arms limitation treaties with the U.S. and the removal of medium-range nuclear missiles from Europe. By the end of 1989, Soviet troop and military withdrawal from Central Europe had passed the critical level beyond which surprise attack on Western Europe was feasible. Gorbachev's objective was to convert a major portion of the USSR's military production complex, which consumed annually 12 to 14 per cent of the country's national income, to the production of civilian goods. In July 1990, the world was offered proof that the Brezhnev doctrine — that no socialist state should be allowed to destroy socialism within its own country — had indeed been laid to rest. At the 20th Congress of the Soviet Communist Party, Gorbachev defended the lack of intervention in Central Europe as Soviet-style socialism was being massively rejected in favour of capitalistic ideals: "There is no way of bringing yesterday back. No dictatorship, if someone has this crazy idea in his head, can resolve anything."

Mounting Chaos In The USSR

The plan to achieve a market socialist system in the USSR by the early to mid-1990s had produced more problems than solutions. A combination of breakdown in the traditional, centralized distribution system, production bottlenecks due to the faltering rigid and taut planning system, growing consumption, and an increasing tendency to hoard had emptied most of the shops in Moscow and other large cities by late 1990. Leningrad was facing food shortages reminiscent of the wartime siege by the Nazis. Black market prices, rising quickly, were several times higher than official state prices. The government's budget deficit, now at 17 per cent of state expenditures or 10 per cent of national income, was rising rapidly, and the country's external economic situation was deteriorating quickly. Its negative trade balance with the West grew to over $6-billion and its hard currency net debt in 1989 surpassed $30-billion, over twice its value in 1985 and more than the country's total hard currency earnings in 1989. Several Soviet trading partners were delaying hard currency payments for exports already delivered. In 1990, economic activity within the Soviet Union declined by four percentage points.

Gorbachev's reforms had done little to reverse the economic stagnation in his country. Reformers blamed bureaucrats for sabotage, while conservatives blamed the break-down in central planning, "profiteering," and a faltering distribution system. To many, it had become clear that Gorbachev's original concept of a synthesis of central planning and the invisible hand of the market was simply a chimera. Although the adoption of various new reforms at different levels of government spelled the official acceptance that the USSR should make the transition to a full fledged market economy, albeit a "regulated" one, little progress had yet been made on the manner and conditions for this transition.

Amid the political and economic confusion that raged in the USSR, many of its 15 republics intensified demands for autonomy. Azerbaijan and Armenia were increasingly out of control and independence movements in the Baltics were gaining momentum and strength as Lithuania declared its independence in March 1990, and Estonia and Latvia threatened to follow suit. Ethnic and nationalist unrest in the southern republics was creating further instability. In response to these forces, Gorbachev proposed in June 1990, a new union treaty that would allow greater autonomy within a loose federal or confederal structure. On the same day of this announcement, the Russian Republic's parliament, led by its newly elected President Boris Yeltsin, voted overwhelmingly to assert the sovereignty of its laws over those of the USSR. The spectre of military rule loomed larger in the USSR.

By late 1990, Mikhail Gorbachev had lost his personal popularity, assaulted by political developments quickly running beyond his control. The Union of Soviet Socialist Republics was close to the precipice, its imminent fall, leading to either its complete breakdown or reconstitution into a voluntary federal state.

REFORMS IN CENTRAL EUROPE[61]

By mid-1990, every country in Central Europe was embarking upon an uncertain journey of deep structural reforms to its political and economic systems. According to one reporter, "The desired destination in each case is some nebulous mix of democratic institutions, the alluring but confusing benefits of capitalism [excluding its negative costs such as unemployment and inflation], and the social safety net to which they've all become accustomed during more than 40 years of Marxist stagnation."[62] Most were in the process of establishing Christian democratic forms of government; each was starting from a different historical background, level of development, type of reforms, and speed of implementation. But due to their common heritage, all the countries of Central Europe were suffering, to varying degrees, from the following conditions:

- Uncompetitive and inefficient economies (compared to those of the developed OECD countries) due to the economic heritage of Soviet-style communism, which created the following conditions: general economic disequilibrium due to the absence of free functioning markets (budgetary imbalances in industry and government, chronic mismatch between supply and demand in most markets, external imbalance, etc.); actual or suppressed inflationary pressure due to price controls and a high overhang of money; continued reliance on central directives, and the lack of private enterprise; and a structural heritage of inefficient industrial plants, excessive consumption of energy and materials, technological obsolescence, and the

[61]*Sources: Excerpts from "World Outlook 1991," Economist Intelligence Unit, January 1991; "Country Reports, No. 4, 1991: Albania, Bulgaria, Czechoslovakia, Hungary, Poland, Romania, USSR, Yugoslavia, Greece, and West Germany," Economist Intelligence Unit, 1990; and "Country Profiles 1990-91: Albania, Bulgaria, Czechoslovakia, Hungary, Poland, Romania, USSR, Yugoslavia, Greece, and West Germany," Economist Intelligence Unit, 1990. "In East Europe, only Poland makes hard decisions", Wall Street Journal, June 5, 1990.*

[62]*"In East Europe, only Poland makes hard decisions", Wall Street Journal, June 5, 1990.*

lack of competitiveness of exports. (Appendix I further describes the competitiveness of these economies and the nature of their foreign trade.)

- Economies teetering on the brink of collapse: the restructuring process of their command-based economies, cutbacks in government subsidies to industry and consumers, falling demand throughout Eastern and Central Europe, and rising prices to market levels were conspiring with the breakdown of trade among themselves to create serious recession, even depression, exacerbated by hyper-inflation.

- Disputes among themselves due to rising unfulfilled trade agreements where a rising proportion of payments was being demanded in scarce hard currency.

- Serious tensions with the USSR who was resisting their push to scrap the Warsaw Pact — the mutual defence alliance created in the 1950s — while there remained a very high dependency on Soviet raw materials.

The following is a summary of the political and economic situations in the countries of Central Europe as of late 1990 (Exhibit 5 presents various market and economic data series):

Albania: A strategy of cautious reform had crumbled in December: the year was ending amid violent demonstrations, top leadership purges, the legalization of the opposition Democratic Party and the promise of free elections on March 31, 1991. Planned economic reforms included decentralizing economic decision-making, deregulating prices, and lifting the constitutional ban on foreign credits. It was hoped that this last measure would open the way to foreign investment. Albania was desperately seeking capital goods but was being held back by its limited ability to earn hard currency. Although more individual freedoms had been granted, there was a danger of protracted and bloody conflict as the conservatives and the secret police fought a rearguard battle. Clashes with the neighbouring Yugoslav province of Kosova with its 1.8 million ethnic Albanians was possible.

Although the country's living standards were the lowest in Europe, the perception of poverty was mitigated because everybody had a job of some sort, little was known of life in foreign countries, and there prevailed a widespread sense of national achievement and progress. Total labour force was about 1.5 million, and, although interest on savings was two to three per cent, Albania claimed to be the world's most saving society. Prices were very stable.

Bulgaria: Lack of strong political leadership and direction had continued unabated since the country had embarked on the road to democracy and market-based reforms. The transition was likely to be more protracted and torturous than that experienced by Poland, Hungary and Czechoslovakia, because Bulgaria had failed to make a clean break with communism; the party was returned to power in the country's first freely contested elections. In March, the government unilaterally suspended payments on its external debt and froze interest payments in response to a rapidly deteriorating economic situation. A package of reforms consisting of sweeping privatization, price liberalizations, and abolition of subsidies was likely to be implemented but would probably lack vigour in their application due to political deadlock.

Bulgarians had a higher living standard than Romanians and Albanians, but a lower level of employment due to a long term decline in the country's birth rate. Employment was shifting away from agriculture towards communications, trade, and services. Inflation was expected to be as high as 30 per cent as reforms progressed, but price and wage data were difficult to obtain from the communist government. As with most centrally planned economies, prices changed infrequently but sharply.

Czechoslovakia: Following the "Velvet Revolution" of November 1989, democratic politics had been quickly restored and the first freely contested elections since 1946 were held in June 1990. With an elected right-of-centre government, the country's Communist Party was headed toward further isolation. Slovakia's demands for devolution of power in favour of the country's two states was being met to counter a nationalist, and possibly separatist, revival within. The government was pressing ahead with radical market reforms. Liberalization of domestic prices, the elimination of subsidies, and the introduction of "internal currency convertibility" were set for January 1, 1991. Other reforms included the elimination of subsidies to industries and consumers, the distribution of shares in nationalized enterprises to the population, and the implementation of restrictive monetary and fiscal policies to keep a check on inflationary pressures. Opponents to these reforms were warning of extreme disruptions. They were exerting strong pressures to delay them, and were suggesting more state involvement in managing the economic transition. The process of reform was proving far more complex than expected, and the privatization programme was yet to be finalized. The Czechs were searching for a slow route to risk-free capitalism; as well, they had more to start with given their rich prewar industrial base.

Although 56.6 per cent of the population was of working age, the country suffered from a shortage of skilled workers due to practices such as overmanning in enterprises and the use of labour intensive technology. As firms were being cut off from government subsidization, this problem was expected to revert to one of unemployment. In 1988, average real wages, disregarding additional hidden inflation, were only 34 per cent higher than those in 1978.

Hungary: In the autumn of 1989, opposition political forces including the country's Communist Party agreed to a peaceful transition to democracy and free elections, the first since the Second World War. These were held in March 1990, and the majority of seats were won by well-organized and dynamic democratic parties. Communist and socialist parties were further marginalized. The government appeared to be the most well-balanced in Eastern Europe. Trade was quickly shifting to OECD countries from those of Eastern Europe; the country had managed over the last decade to move more significantly toward a mix of Marxism and market economics than any other East and central European country. In agreement with the International Monetary Fund (IMF), Hungary operated an active exchange rate policy: the rate was adjusted several times a year to reflect domestic and foreign rates of inflation. The process of privatization was gaining momentum, and large U.S. and Japanese multinationals were beginning to make long-term commitments to the country. The government's three-year economic renewal programme stressed gradualism versus shock, and it hoped to reduce state ownership within the economy by 50 percentage points within five years. Critics accused the government of being seriously unfocused in its economic reforms, suggesting that gradualism was a naive attempt at avoiding the necessary pain of reform. Sharp debate over foreign ownership, privatization, and land reform was bogging down the process. Hungary was never a highly industrialized nation, and it never was willing or able genuinely to privatize its economy.

Consumption levels were relatively higher than in other countries of Eastern and Central Europe. About 90 per cent of the population possessed televisions, washing machines and refrigerators. However, Hungarians worked more hours per day than citizens in other countries of Europe; in general, purchasing simple consumer goods required this, and many held two, even three, jobs as a result. As restructuring continued, unemployment was expected to rise. Inflation over the last five years, although significant, was controlled, mostly due to the government's gradual approach of eliminating subsidies.

Poland: At the start of 1990, Poland's new Solidarity government launched an ambitious IMF-backed program it called its "leap to the market": reductions of government subsidies with the aim of generating a balanced budget, backed by a highly restrictive tax-based incomes policy, and anchored to a sharply devalued exchange rate and decontrolled prices. The impact was dramatic and the Polish authorities were taken aback by the extent of the recession that was induced. However, export growth which was higher than anticipated led to an unexpected hard currency surplus, and the zloty was now convertible. Social support (or acquiescence) for this programme was remarkable throughout most of 1990. External worries and evolving internal political situations could blow the country off course and delay economic recovery. Poland benefitted from a degree of political unity unknown in the rest of Central Europe: genuine political revolution ran deeper through the bureaucratic hierarchy of government. Parliamentary elections were to be held in spring or summer 1991. It was widely accepted that Poland would be unable to carry much longer the burden of its US$45-billion external debt. A debt-reducing gesture of some generosity was likely to be announced.

At the end of August 1990, unemployment, a new phenomenon in Poland, stood at 4.5 per cent of the work force (roughly 50 per cent of the population). In the past, labour tended to be in short supply. Recent hyper-inflation was also a new phenomenon being experienced, although wages tended to inflate at the same rate.

Romania: Romania's first freely contested elections were held in May 1990. The transition to democracy was marred by unrest and violence, including the beating of demonstrators in Bucharest in June and ethnic violence in Transylvania which left many dead and injured. Action against former secret police was also limited. Because of skepticism on the part of the West about the new leadership's commitment to the applications of genuine democratic principles, economic assistance was being withheld. A pro-Western government was nominated by the prime minister and key economic portfolios were taken over by two economists with strong free market leanings. A blueprint for reforms over 1990-92 was published and included immediate price increases, measures for widespread privatization, and the gradual introduction of convertibility. Living standards were deteriorating and political considerations would continue constraining the progress of economic reform.

During the 1980s, the country suffered from a slowdown in employment growth due to a lack of capital given the external debt-repayment program. The labour force in 1987 was about 11 million. Each age cohort under the age of twenty-two contained approximately 400,000 people which was approximately 150,000 larger than the age cohort leaving the working population each year. While actual wage rates were unavailable, the trend since the early 1980s had been toward large wage increases followed by correspondingly large increases in commodity prices. The labour force situation was compounded by the anti-abortion policy instituted in 1968.

Yugoslavia: The emergence of democracy in 1990 coincided with the unleashing of age-old ethnic antagonisms and with the most serious and fundamental economic reform yet undertaken. The country had the opportunity of becoming the leading emerging democracy of East and Central Europe in terms of economic adaptation to the markets of Western Europe. Centrifugal forces of nationalism were creating doubts about the future existence of Yugoslavia in the minds of Western governments business. Some observers considered it possible that the high tide of destructive nationalism had been reached and that Yugoslavs — above all, the two nationalities which were the two key pillars of the federation, Croatia and Serbia — would come to recognize that they both had to live together. A program to reform the ownership structure of enterprises was in place with employees and ex-employees given much more favourable offers than elsewhere in East and Central Europe. The Federal Executive Council led by the prime minister would try to obtain democratic legitimacy through national elections in 1991. The danger of a total collapse of central authority leading to prolonged economic and financial chaos was very real.

Yugoslavia's domestic labour force was estimated to be 10.4 million people including 2.5 million employed within the private sector, which was primarily agriculture. During the 1980s, the gradual freeing of prices created substantial inflation: on average, prices rose by 1,256 per cent in 1989, 199 per cent in 1988, and 118 per cent in 1987. By June 1990, the monthly inflation rate was wrestled down to zero due to wage freezes, a tight monetary policy, a fixed exchange rate against the deutschmark and internal convertibility against the country's currency. During this time, real wages fell sharply.

OPPORTUNITY IN EASTERN AND CENTRAL EUROPE

In February 1990, John Pepper, Wolfgang Berndt, just-retired Chairman John Smale, and several of P&G's European managers set off to investigate first-hand the political upheavals sweeping through Eastern and Central Europe, and size up the business opportunities that might result for P&G. After listening to government officials, they realized that political, economic, and social transformations would proceed very quickly in many of these countries. Hungary seemed to be following a more pragmatic transformation program than Poland and Czechoslovakia, but the latter two countries were more desirous of wanting change and were active in planning for it. The USSR was a country completely perplexed by the very notion of privatizing businesses. When they visited the Kremlin, a high official suggested that P&G take over the Soviet Union's entire detergent and pulp industries without delay. "That perception of how a free market business works gave us a pretty clear signal that things weren't going to change there overnight."[63]

Of significance to P&G was the fact that communist countries had created a very large middle class. Incomes tended to be much more evenly distributed among the population than in most western countries, although income differences with the West could be as high as seven to one. The entire region, including the USSR, had a population of over 430 million people, almost twice as much as that of the U.S., and its combined 1989 GNP was $3.5-trillion or 90 per cent of West Europe's. For certain countries, per capita income was as high as in Greece. Consumer habits differed, however, and appliances such as washing machines were much less advanced. Effective TV and radio infrastructures seemed to be in place to reach these markets.

Consumers in Eastern and Central Europe had long prized the occasional Western goods, and were now eager to have these on a regular basis. At a U.S.-sponsored trade show in Moscow in 1989, hundreds of people lined up every day at the Colgate-Palmolive Co. stand to receive a free tube of toothpaste, a product in constant short supply.[64] The large population had been deprived of abundant and quality consumer goods for years. When P&G explored various detergent manufacturing facilities, it discovered that the employees within one of the best factories of the region were often haphazardly substituting ingredients irrespective of the impact this had on the detergent's cleaning ability. This practice occurred because of chronic shortages in raw materials and the need to achieve output targets dictated by the state plan. Most of these plants, built 20 years

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[63] *Pioneering Pays Off in Eastern Europe," P&G World , January-March 1995, 20-22.*
[64] *"Corporate America Flocking to Moscow; Lure of Untapped and Market Overrides Perestroika's Complexities," Wall Street Journal, 24 October 1989.*

earlier by foreigners, had not been well-maintained or upgraded with newer technology, and were, therefore, in poor shape.

Despite the pervasive low levels of productivity, work forces in these countries tended to be highly skilled and educated. Most of these countries had industrial and commercial traditions that only seemed stunted and not uprooted by communism. Rich cultures, ancient universities, devotion to learning, vivid inventiveness, and powerful ambitions, especially among the younger generations, appeared to be abundant. Education levels were considerably higher than in most developed countries, especially in the applied sciences and related technical fields. Labour wage rates, extremely low by Western standards, made investment in labour-intensive businesses attractive. As well, most land and equipment were undervalued. These factors, together with the special trading relations that were being developed with the European Community, suggested that investing in these economies could be achieved at low levels of capital with the added benefit of access to the rich markets of Western Europe. Tax holidays and duty-free zones that enabled manufacturers to import raw materials and export finished products were some of the incentives being offered to foreign investors.

There were, of course, significant risks to investing in any of the countries of Eastern and Central Europe: most currencies were not yet convertible, and the high levels of external debt in many of these countries meant that hard currency would be extremely scarce; the economies were in recession, compounded by the breakdown in trade among themselves, and reforms among these countries were progressing at widely different speeds; laws were unclear, governments were still shaky, and the political outlook in many of them was unclear as socialist parties still held sway with sizeable portions of the populations. As well, the distribution infrastructure, especially in Russia, was very inefficient, and people were unaccustomed to advertising and mass marketing on the scale done in the West. North American marketers knew little of the tastes and needs of these citizens who were still somewhat secretive and indirect in their responses, a behaviour born out of decades of totalitarianism. Further, the vast majority of companies were state-owned. With the sweeping transformations, one could also sense an undercurrent of social and ethnic tension that stretched back decades, if not centuries, with little indication of its depth or magnitude.

Many Western companies had already made plans to enter Eastern and Central Europe. Ford Motor Co. had decided to build an $80-million automotive components plant in Hungary, and other firms such as General Electric and Levi Strauss & Co. were pursuing serious ventures of their own. The number of Western joint ventures in some of these countries had increased dramatically since 1988: in the USSR, 1,000 were signed compared to 162 in 1988; in Hungary, this number had increased from 150 to 600, and in Poland, from 20 to 400.[65]

[65]*The American Banker, July 26, 1990.*

Of P&G's competitors, Colgate-Palmolive, which had exported many products into Eastern Europe for a number of years, was reported to be planning operations in Hungary, the USSR, and Poland, either by acquisition or start-up. Its Colgate dental products had recently received the prestigious seal of approval from the Soviet Ministry of Health's Central Scientific Research Institute. The company was pursuing an aggressive expansion program in all areas of the oral care business throughout the world. Unilever had recently announced that it was planning to move back into Eastern and Central Europe through buy-backs and joint ventures with former offshoots seized by communists after the Second World War. In 1990, it already had sales of over $200-million in East Germany and was soon likely to establish joint ventures in Poland and Hungary for detergents and edible oils. It was less interested in the countries of Romania, Yugoslavia and Bulgaria because of perceived political instability. Gillette Co., which had been exporting to these countries for over 10 years, had recently signed a joint venture in the USSR where its trademarks had long been registered to protect them from piracy. Estee Lauder Inc. and Revlon had shops in these markets and were hoping to expand further. Henkel had recently entered into four joint ventures to produce laundry detergents: one in the USSR, one in East Germany, and two in Yugoslavia at a cost of DM40-million. Henkel was planning to modernize the JV sites and apply its management expertise to supporting the local brands before launching its own in 1991. Establishing a venture in Czechoslovakia would take longer. The company was already operating in Hungary and Poland in other chemical-related products. Kao of Japan had recently entered Europe via its purchase of the German hair care company, Goldwell. It was also engaged in the modernization of laundry detergent plants in the USSR.

THE DECISIONS

Herbert Schmitz faced a number of critical decisions concerning P&G's foray into the uncharted waters of Eastern and Central Europe:

1. Which of the countries should P&G enter first? How fast should it proceed?

2. Should P&G introduce a wide array of brands or hit hard with one or two key products? From which category should these come? What kind of advertising and promotion should be used?

3. A regional source of supply would likely be needed if the company was to manufacture the products locally in order to match costs with revenues. How should this production capacity be allocated throughout the region? Should P&G import product instead in order to minimize risks?

4. What type of people and organizations would be required to manage this new business?

5. What other unusual problems, given the communist history within these countries, should be anticipated?

Although P&G's globalization experiences offered many insights and success models to work with, Schmitz knew he needed a set of criteria to help make the appropriate decisions given his mandate and the unusual nature of the business environment he was entering.

Appendix I

FOREIGN TRADE AND COMPETITIVENESS OF EAST AND CENTRAL EUROPEAN ECONOMIES (1990)

The fall of communism in Eastern Europe, as well as the democratising process in the Soviet Union, led to profound shifts at the Soviet bloc-wide level, especially within the Council for Mutual Economic Assistance (CMEA) or Comecon. Founded in 1949 by Bulgaria, Czechoslovakia, East Germany, Poland, Romania, Mongolia, Cuba, the USSR, and Viet Nam (since 1978), Comecon, it was often argued, was set up by Stalin as a Soviet response to the Marshall Plan for the reconstruction of Europe. Its purpose was to provide a means to encourage specialization and co-operation among member states, but its achievements were modest. By 1990, there remained little rationale or interest in the continued existence of this organization and its demise in the era of market-oriented, post-communism transition became inevitable.

The "socialist economic integration" under the CMEA's aegis never functioned as a tool for increased trade and efficient specialization. Many observers identified it as a "trade-destroying union"; that is, without it, there would have been more intra-regional, as well as East-West, trade. The CMEA was, nonetheless, successful in assuring member countries stable supplies of (chiefly Soviet) energy and raw materials on advantageous terms; "hard" goods (energy) would be obtained for "soft" East European manufactured goods, which could be sold for hard currency (outside the CMEA) only at substantial discounts. As one youthful Hungarian reformer quipped: "We trade our stray dog for their blind cat." This implicit subsidization had, over the years, shielded East European industries from competition, thereby contributing to the region's economic decline and wasteful use of resources.

There was a strong drive in the East European capitals to do away with Comecon as soon as possible and to forge links with Western countries. All European CMEA countries (except Romania) had concluded trade agreements with the European Community by late 1990, and some were aspiring to full membership by the year 2000. East European policy makers tended to dismiss proposals for a separate East European payments union, regarding it as a Western ploy to delay East European accession to the EC, even though this would be a tool for stimulating their mutual trade and, hence, improving their position in their approach to the EC.

As of January 1991, trade between these countries was to be cleared in U.S. dollars and at the going world market prices. As a result, either the quality of East European exports would have to be substantially improved, or their prices deeply discounted.

The transition to this new system would entail dramatic change in intra-CMEA terms of trade in the USSR's favour (for the short term, at least), and a further contraction in East European-Soviet trade (in certain cases, up to 50 per cent in 1990). The USSR was reducing its shipments of energy and other raw materials, forcing Comecon countries to buy on world markets. Pressure on world oil prices due to the Persian Gulf conflict was exacerbating this negative shock to their economies. In view of this, it was believed that each country would try to negotiate cushioning mechanisms with the USSR for the period of transition.

Sources: Selected excerpts from "Hungary: Country Profile, 1990-91," The Economist Intelligence Unit (October 1990): 36-39; and "In East Europe, only Poland makes hard decisions", Wall Street Journal, June 5, 1990.

Exhibit 1
SEGMENT INFORMATION, THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES

A. PRODUCTS

Procter & Gamble manufactured and marketed over 300 brands within 39 product categories divided into the following four product groups:

1. Laundry and Cleaning products included detergents, hard surface cleaners and fabric conditioners. Well known product names included: Bounce, Bounty, Cascade, Charmin, Cheer, Comet, Downy, Mr. Clean, Spic and Span, and Tide.

2. Personal Care products included personal cleansing products, deodorants, hair care products, skin care products, oral care products, paper tissue products, disposable diapers, digestive health products, cough and cold remedies, and other pharmaceuticals. Well known product names in North America included: Always, Bain de Soleil, Chloraseptic, Clearasil, Cover Girl, Crest, Head & Shoulders, Ivory, Camay, Luvs, Metamucil, Oil of Olay, Pampers, Pepto-Bismol, Pert, Scope, Secret, Vicks, Vidal Sassoon, and Zest.

3. Food and Beverage products included shortening and oil, snacks, prepared baking mixes, peanut butter, coffee, soft drink and citrus products. Well known North American products included: Citrus Hill, Crisco, Duncan Hines, Folgers, Jif, Pringle's, and Sunny Delight.

4. Pulp and Chemical products: approximately one-third was sold to other P&G product groups.

B. FINANCIAL RESULTS AND ASSETS BY PRODUCT GROUPS (millions of US dollars)

1. Laundry and Cleaning products:

	1990	1989	1988	1987	1986	1985	1984	1983
Net sales:	7,942	7,138	6,668	5,784	5,348	4,884	4,715	4,756
EBT[1]:	781	754	699	510	667	691	740	725
Assets:	3,296	2,964	2,852	2,690	2,369	2,038	1,845	1,670
Capital Expenditures:	383	273	285	245	233	216	228	199
Depreciation/ Amortization:	170	151	149	120	99	79	75	76

2. Personal Care products:

	1990	1989	1988	1987	1986	1985	1984	1983
Net sales:	11,767	10,032	8,676	7,512	6,451	5,107	4,930	4,780
EBT:	1,314	1,031	888	498	625	332	689	694
Assets:	8,786	7,511	7,114	6,679	6,446	3,776	3,242	2,918
Capital Expenditures:	586	510	483	473	539	594	321	204
Depreciation/ Amortization:	464	428	375	332	243	165	142	133

Exhibit 1 (continued)

3. Food and Beverage products:

	1990	1989	1988	1987	1986	1985	1984	1983
Net sales:	3,318	3,029	2,963	2,976	2,923	2,815	2,461	2,249
EBT:	304	(14)	32	(282)	(64)	(110)	(91)	117
Assets:	2,726	2,023	1,721	1,690	1,761	1,717	1,556	1,219
Capital Expenditures:	131	101	120	142	157	165	234	116
Depreciation/ Amortization:	117	90	88	95	72	64	48	41

4. Pulp and Chemical products/Other products:

	1990	1989	1988	1987	1986	1985	1984	1983
Net sales:	1,666	1,778	1,532	1,186	1,161	1,237	1,309	1,079
EBT:	307	362	248	148	74	104	96	29
Assets:	1,450	1,431	1,410	1,273	1,279	1,244	1,169	1,151
Capital Expenditures:	197	138	117	52	108	110	113	81
Depreciation/ Amortization:	101	90	79	77	74	69	64	59

C. FINANCIAL RESULTS AND ASSETS BY GEOGRAPHY (millions of US dollars)

1. United States:

	1990	1989	1988	1987	1986	1985	1984	1983
Net sales:	14,962	13,312	12,423	11,805	11,210	10,243	9,554	9,074
Net earnings:	1,304	927	864	354	634	521	707	758
Assets:	9,742	8,669	8,346	8,483	8,394	6,829	6,072	5,344

2. International:

	1990	1989	1988	1987	1986	1985	1984	1983
Net sales:	9,618	8,529	7,294	5,524	4,490	3,625	3,737	3,685
Net earnings:	467	417	305	95	143	96	125	105
Assets:	6,516	5,260	4,751	3,849	3,461	1,946	1,740	1,614

3. Total[2]:

	1990	1989	1988	1987	1986	1985	1984	1983
Net sales:	24,081	21,398	19,336	17,000	15,439	13,552	12,946	12,452
Net earnings:	1,602	1,206	1,020	635	709	635	890	866
Assets:	18,487	16,351	14,820	9,683	13,055	9,683	8,898	8,135

Notes:
1. EBT: Earnings Before Taxes.
2. The differences between "Total" and the sum of "1. United States" and "2. International" are due to allocations to "Corporate."

Sources: 1990, 1987, 1985, 1983 Annual Reports, The Procter & Gamble Company; Form 10-K, The Procter & Gamble Company, Securities and Exchange Commission, Washington, DC, 1990.

Exhibit 2

CONSOLIDATED STATEMENT OF EARNINGS
THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES
(millions of U.S. dollars except per share amounts)

Years Ended June 30	1990	1989	1988
Income			
Net sales	$24,081	$21,398	$19,336
Interest and other income	561	291	155
	24,642	21,689	19,491
Costs and Expenses			
Cost of products sold	14,658	13,371	11,880
Marketing, administrative, and other expenses	7,121	5,988	5,660
Interest expense	442	392	321
	22,221	19,750	17,861
Earnings before income taxes	2,421	1,939	1,630
Income taxes	819	733	610
Net earnings	1,602	1,206	1,020
Net earnings per common share*	$4.49	$3.56	$2.98
Net earnings per common share assuming full dilution*	$4.27	$3.47	$2.96
Dividends per common share*	$1.75	$1.50	$1.38
Average shares outstanding (in millions)*	346.1	334.4	338.6

*Adjusted for two-for-one stock split effective October 20, 1989

CONSOLIDATED STATEMENT OF RETAINED EARNINGS,
THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES
(millions of U.S. dollars)

Years Ended June 30	1990	1989	1988
Balance at beginning of year	$5,587	$5,688	$5,170
Net earnings	1,602	1,206	1,020
Dividends to shareholders			
- Common	(592)	(504)	(466)
- Preferred	(47)	(16)	(11)
Excess of cost over the stated value of common shares purchased for treasury	(177)	(787)	(25)
Noxell retained earnings at July 1, 1989	208	n/a	n/a
Balance at end of year	$6,581	$5,587	$5,688

n/a : not applicable

Exhibit 2 (continued)

CONSOLIDATED BALANCE SHEET,
THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES
(millions of U.S. dollars)

June 30	1990	1989	1988
Assets			
Current Assets			
Cash and cash equivalents	$1,407	$1,587	$1,065
Accounts receivable, less allowance for doubtful accounts of $29 in 1990 , $24 in 1989, and $21 in 1988	2,647	2,090	1,759
Inventories	2,865	2,337	2,292
Prepaid expenses and other current assets	725	564	477
	7,644	**6,578**	**5,593**
Property, plant, and equipment	7,436	6,793	6,778
Goodwill and other intangible assets	2,594	2,305	1,944
Other assets	813	675	505
Total	**$18,487**	**$16,351**	**$14,820**
Liabilities and Shareholders' Equity			
Current Liabilities			
Accounts payable - trade	$2,035	$1,669	$1,494
Accounts payable - other	350	466	341
Accrued liabilities	1,690	1,365	1,116
Taxes payable	445	523	371
Debt due within one year	897	633	902
	5,417	**4,656**	**4,224**
Long-term debt	3,588	3,698	2,462
Other liabilities	706	447	475
Deferred income taxes	1,258	1,335	1,322
Shareholders' equity			
- Convertible class A preferred stock	1,000	1,000	-
- Common stock - shares outstanding(*): 1990 - 346,294,159; 1989 - 323,980,816; 1988 - 169,365,668	346	162	169
Additional paid-in capital	510	529	463
Currency translation adjustments	44	(63)	17
Reserve for employee stock ownership plan debt retirement	(963)	(1,000)	-
Retained earnings	6,581	5,587	5,688
	7,518	**6,215**	**6,337**
Total	**$18, 487**	**$16,351**	**$14,820**

(*) Adjusted for two-for-one stock split effective October 20, 1989

Exhibit 2 (continued)

**CONSOLIDATED STATEMENT OF CASH FLOWS,
THE PROCTER AND GAMBLE COMPANY AND SUBSIDIARIES**
(millions of U.S. dollars)

Years Ended June 30	1990	1989	1988
Operating Activities			
Net earnings	$1,602	$1,206	$1,020
Depreciation, depletion, and amortization	859	767	697
Deferred income taxes	(129)	(16)	176
Increase in accounts receivable	(387)	(331)	(154)
Increase in inventories	(312)	(103)	(97)
Increase in payables and accrued liabilities	236	779	318
Other	137	193	97
	2,006	**2,495**	**2,057**
Investing Activities			
Capital expenditures	(1,300)	(1,029)	(1,018)
Proceeds from asset sales and retirements	263	98	81
Acquisitions	(484)	(506)	(399)
	(1,521)	**(1,437)**	**(1,336)**
Financing Activities			
Dividends to shareholders	(639)	(520)	(477)
Change in short-term debt	205	(385)	369
Additions to long-term debt	734	532	47
Reductions of long-term debt	(786)	(369)	(60)
Issuance (redemption) of preferred stock issues	-	1,000	(250)
Purchase of treasury shares	(179)	(794)	(26)
	(665)	**(536)**	**(397)**
Increase (Decrease) in Cash and Cash Equivalents	**$(180)**	**$522**	**$324**

Sources: 1990, 1989 Annual Reports, The Procter & Gamble Company.

Exhibit 3
P&G'S STATEMENT OF PURPOSE AND STRATEGY

A STATEMENT OF PURPOSE AND STRATEGY

We will provide products of superior quality and value that best fill the need of customers.
We will achieve that purpose through an organization and a working environment which attracts the finest people; fully develops people and challenges our individual talents; encourages our free and spirited collaboration to drive the business ahead; and maintains the Company's historic principles of integrity, and doing the right thing.
We will build a profitable business in Canada. We will apply P&G worldwide learning and resources on the most profitable categories and on unique, important Canadian market opportunities. We will also contribute to the development of outstanding people and innovative business ideas for worldwide company use.
We will reach our business goals and achieve optimum cost efficiencies throught continuing innovation, strategic planning and the continuous pursuit of excellence in everything we do.
We will continuously stay ahead of our competition while aggressively defending our established profitable businesses against major competitive challenges despite short-term profit consequences.
Through the successful pursuit of our commitment, we expect our brands to achieve leadership share and profit positions and that, as a result, our business, our people, our shareholders, and the communities in which we live and work, will prosper.

These are the principles that guide our actions as a Company and our attitudes about our employees:

- We will employ throughout the company, the best people we can find withour regard to race or gender or any other differences unrelated to performance. We will promote on the same basis.
- We recognize the vital importance or continuing employment because of its ultimate tie with the strength and success of our business.
- We will build our organization from within. Those persons with ability and performance records will be given the opportunity to move ahead in the Company.
- We will pay our employees fairly, with careful attention to the compensation of each individual. Our benefit programs will be designed to provide our employees with adequate protection in time of need.
- We will encourage and reward individual innovation, personal initiative and leadership, and willingness to manage risk.
- We will encourage teamwork across disciplines, divisions and geography to get the most effective intergration of the ideas and efforts of our people.
- We will maximize the development of individuals thought training and coaching on what they are doing well and how they can do better. We will evaluate Procter & Gamble managers on their record in developing their subordinates.
- We will maintain and build our corporate tradition which is rooted in the principles of personal integrity; doing what's right for the long-term; respect for the individual; and being the best in what we do.

These are the things that will enable us to achieve the category leadership that is our goal in every business in which we compete:

- We will develop a superior understanding of consumers and thier needs. This is the foundation and impetus for generating the superior benefits and value consumers seek in our brands.
- We will develop strategies and plans capable of giving us the competitive advantage needed to meet our business objectives.
- We will create and deliver product and packaging on all our brands which provide a compelling advantage versus competition in bringing consumers superior benefits that best satisfy their needs. To do this we will be the world leader in the relevant science and technology.
- We will seek and significant and sustainable competitive advantages in quality, cost and service in our total supply and delivery systems so as to meet our business objectives.
- We will have superior, creative marketing on all our brands. We will have enduring superior copy, and promotion programs distinguished by their creativity, effectiveness, and efficiency.
- We will develop close, mutually productive relationships with our trade customers and our suppliers. We will work with these partners in ways that are good for both of our businesses.
- We will promote a sense of urgency, and a willingness to try new things. This will enable us to get better ideas working in the market ahead of competition.
- We will follow the principles of Total Quality to achieve continual improvement in everything we do. Whatever level performance we have achieved today, we know that we can and must improve upon it tomorrow.

Exhibit 4

MAIN P&G COMPETITORS

UNILEVER: Unilever had two parent companies, Unilever PLC and Unilever NV, located in the United Kingdom and the Netherlands, respectively. With 1989 sales of over US$33-billion, the company offered a wide range of products and services in over 75 countries, and was one of the two top packaged goods companies in the world. It had 10 per cent of the world personal-care products market, and one per cent of the world food market and was the largest detergent manufacturer in the world. Through careful planning it was seeking to expand to every corner of the globe, especially India, South America and Asia. Over 60 per cent of sales were realized in Europe. Brands included Imperial Margarine, Lipton Tea, Ragu Foods, Dove (handsoap) and Sunlight (dishwashing soap).

COLGATE-PALMOLIVE: A U.S.-based company, Colgate-Palmolive's primary growth strategy had been one of acquisition. With 1990 sales of US$5.04-billion, the company was the second largest soap, detergent and toothpaste company in the U.S. It enjoyed, however, world leadership in oral care with over 40 per cent share of the world toothpaste market. With operations in over 100 countries, Colgate's overseas sales accounted for over 60 per cent of revenues, 30 per cent emanating from Europe. Its core businesses were personal-care and household products lines, with brands that included Colgate toothpaste, Irish Spring soap, and Palmolive dishwashing liquid.

GILLETTE: Gillette was a personal-care products company that through a series of acquisitions had expanded into the pen, stationery supplies and small appliance business. Sales in 1990 totalled US$3.82-billion, with shaving equipment accounting for 70 per cent of the business. Over 63 per cent of its sales were generated outside the U.S. It manufactured in 27 countries, had operations in another 23 countries and sold in a further 200 countries.

HENKEL KGAA: A German-based manufacturer of chemical products, Henkel had 1990 sales of US$6.89-billion. Two-thirds of Henkel's sales were made outside of Germany, despite being Germany's largest chemical manufacturer. Product ranges were broken down as follows: detergents and household cleaners — 31 per cent of sales, chemicals — 31 per cent of sales, institutional hygiene and industrial cleaning products — 15 per cent of sales, adhesives and related products — 15 per cent of sales, cosmetics and toiletries — seven per cent of sales.

JOHNSON & JOHNSON: Johnson & Johnson provided a wide range of consumer and professional-care products. It was the world's largest manufacturer of health-care products. With sales of US$9.76-billion, brands included Tylenol (OTC pain reliever), Band-Aid, and Stayfree (a feminine hygiene product).

Exhibit 4 (continued)

MAIN P&G COMPETITORS

KAO CORPORATION: A highly diversified Japanese manufacturer of household and personal-care products, KAO had been referred to as the P&G of Japan. Kao revolutionized the business of selling personal-care products in Japan by using a technical approach to advertising, rather than one based on image. Brands included Attack detergent and the Sophia line of cosmetics. Sales in 1990 were US$4.32 billion.

KIMBERLY-CLARK: Based in the United States, this company had products ranging from tobacco paper to transportation equipment. The company's operations were broken down into three principal divisions: consumer products (including disposable diapers), newsprint and paper products, and aircraft services and air transportation. Sales in 1990 were US$5.73-billion.

L'OREAL: This France-based company had sales of US$4.23-billion in 1990. L'Oreal was the largest manufacturer in the world of high-quality cosmetics and boasted the highest research and development budget in the industry. Brands included Lancome, Ambre and Solaire, and Cacharel.

Source: L. Mirabile (ed.), International Directory of Company Histories, volumes II and III, St. James Press, Chicago, 1991.

Exhibit 5
Central and Eastern Europe
Table 1: Market Indicators

1990	Albania	Bulgaria	Czech.	Hungary	Poland	Romania	USSR	Yugoslavia	Greece	FRG[a]
Population (mn)[1]: Average Annual % change 1986-1990	3.27 2.1	8.95 0.2	15.6 0.1	10.2 -.08	38.0 0.3	23.3 0.5	290.8 0.8	23.8 0.6	10.1 0.2	61.7 0.3
Two Largest Cities (population, mn)	Tirane (0.2) Durres (0.1)	Sofia (1.1) Plovdiv (0.4)	Prague (1.2) Bratislava (0.4)	Budapest (2.0) Debreen (0.2)	Warsaw (1.7) Lodz (0.9)	Bucharest (2.0) Brasov (0.3)	Moscow (9.0) Leningrad (5.0)	Belgrade (1.5) Zagreb (0.8)	Athens (3.0) Salonkia (0.9)	W. Berlin (2.0) Hamburg (1.6)
Number of cities population > 500,000	0	1	1	1	5	1	24[2]	NA	2	11
NMP in bn of local currency[1,3]	NA Lek	26.4 Lek	605.0 Crowns	2,200.0[4] Forints	587,514 Zloties	640.0[5] Lei	665.0 Roubles	442.5[6] Dinars	10,670[4] Drachmas	2410.0[4] DM
% Volume growth (1991 forecast)	1.0 (1.0)	-12.0 (-5.0)	-3.5 (-7.0)	-2.5 (-3.0)	-15.0 (5.3)	-15.0 (-10.0)	-3.0 (4.0)	-6.0 (-1.0)	1.3 (2.0)	(4.0 (3.5)
Average annual % change 1986-1990	3.0	0.9	1.2	0.5	-0.7	-7.2[7]	-0.9	-0.9	1.6	3.1
Per Capita Income (US$) PPP[8]	NA	$7,510	$10,140	$8,660	$7,270	$4,490	$8,850	NA	NA	NA
Avg Commercial echange rate per US$	6.00	2.313	18.8	62.82	9,500	23.9	0.58	11.58	158.4	1.69
(1989 avg. value)	(6.48)	(0.828)	(15.07)	(59.07)	(1,439)	(14.9)	(0.64)	(2.88)	(162.4)	(1.88)
Per Capita Income (US$)[9]	$688	$2,505	$3,050	$3,132	$1,631	$1,648	$5,306	$3,849	$6,587	$24,477

a. Federal Republic of Germany (West Germany) 1. Estimates. 2. Number of cities with a population over one million. 3. Net Material Product (NMP): the value added output of goods and services relating to physical production, transportation, and distribution. Banking, health, education, public administration, and defence are all excluded. NMP is therefore smaller than GNP or GDP. But, in some cases, it tends to be more variable. In Hungary, for example, NMP growth for 1990 was estimated at -4.5% and GNP at -2.5%. 4. For Hungary, Greece and West Germany, GNP figures are reported. 5. 1989 value. 6. Gross Social Product (GSP) figures, marginally less than GNP or GDP, are used. 7. Average annual over 1988 to 1990 only. Government statistics for prior years are of doubtful accuracy. 8. Source (excluding Albania, Yugoslavia, Greece and FDR): USA Central Intelligence Agency, Handbook of Economic Statistics, 1989, at purchasing power parities (PPP). 9. Per capita GDP at current 1990 prices (US$); source, Statistical Yearbook, 40th issue, United Nations, New York, New york, 1995.

Exhibit 5 (continued)
Table 2: Economic Structures

1990	Albania	Bulgaria	Czech.	Hungary	Poland	Romania	USSR	Yugoslavia	Greece	FRG
Origins of Output (%)[1]										
Agriculture & Forestry & Fishing	34	12	7	20	13	15	12	15	13	2
Industry	43	60	60	-	-	59	-	-	-	39
Maufacturing, Mining, Utilities	-	-	-	36	48	-	43	42	25	-
Construction	8	9	11	7	12	7	13	7	5	-
Production Services	15	18	22	20	-	-	-	-	-	28
Transport & Communications	-	-	-	-	-	8	6	7	11	15
Trade	-	-	-	-	-	7	15	-	16	-
Non-Productive Services	NA	NA	NA	16	NA	NA	NA	-	-	-
State & Private Households	-	-	-	-	-	-	-	-	-	13
Others	-	-	-	-	27	4	-	30	30	4
Output by use (%)[1]										
Consumption	NA	75	-	-	-	-	75	-	-	-
Private Consumption	NA	-	58	61	67	56	-	48	72	54
Government Consumption	NA	-	25	11	12	6	-	8	17	18
Gross Fixed Investment	NA	-	-	21	12	27	25	19	16	20
Stockbuilding and est. error	NA	-	-	4	8	3	-	23	3	1
Net Exports	NA	-	-	3	NA	4	NA	2	-7	6
Accumulations	NA	25	18	-	-	-	-	-	-	-
Main Destination of Exports (%)[2]										
Socialist States	NA	86	61	42	35	46	64	22	NA	4
Developed Countries	NA	7	31	31	24	19	22	65	64	96
Main Origins of Exports (%)[2]										
Socialist States	NA	76	62	40	28	57	67	14	NA	4
Developed Countries	NA	17	31	38	27	9	25	67	63[2]	96
% of Output Exported	NA	34	33	23	23	26	2	20	27	35
Largest Western Trading Partner	NA	FRG	FRG	FRG	FRG	FRG	FRG	FRG	EC[3]	EC

1. Figures reported are based on GNP, NMP, or GSP, and are the latest available. 2. Case writer's estimate based on national account figures as given by *Economist Intelligence Unit*. Figures for each country are from the latter part of the 1980's, and exclude trade activity in 1990. 3. EC: European Community.

Exhibit 5 (continued)
Table 3: Foreign Trade and Money

1990	Albania	Bulgaria	Czech.	Hungary	Poland	Romania	USSR	Yugoslavia	Greece	FRG
Consumer Price Inflation (%) Annual	NA	30	10	30	580	40	8	120	20	3
Average Annual Inflation	NA	9	2	15	186	8	4	354	17	1
1991 Forecast	NA	50	50	40	45	NA	12	50	20	4
Hard Currency										
exports US$ bn	0.3	1.5	5.0	6.5	9.4	1.5	29.0	11.6	6.3	402.0
imports US$ bn	0.3	2.0	5.5	5.9	5.9	2.9	35.0	15.1	17.7	337.0
Current Account US$bn	NA	-2.0	-0.1	-0.1	0.9	-2.5	-2.0	-0.2	-3.5	49.4
Current account US$bn 1989	NA	1.3	-1.4	-1.4	-1.6	2.6	-4.5	12.0	-2.6	55.4
Reserves excluding gold US$bn (Dec)	NA	NA	NA	1.0	5.2	NA	NA	8.2	4.0	66.0
Gross External Debt US$bn (Dec)	NA	10.4	7.5	21.0	44.7	1.0	62.0	NA	20.7	97

Sources: "World Outlook 1991," Economist Intelligence Unit, January 1991; "Country Reports, No. 4, 1991: Albania, Bulgaria, Czechoslovakia, Hungary, Poland, Romania, USSR, Yugoslavia, Greece, and West Germany," Economist Intelligence Unit, 1990-91; and "Country Profiles, 1990-91: Albania, Bulgaria, Czechoslovakia, Hungary, Poland, Romania, USSR, Yugoslavia, Greece, and West Germany," Economist Intelligence Unit, 1990.