

Competitive Analysis: Huggies Supreme diapers

By

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## **INDUSTRY ANALYSIS**

### Industry Concept:

Within the diaper industry—which includes not only diapers, but also “training pants”—there are only two significant companies that compete nationally with Kimberly-Clark’s (K-C) Huggies brand diapers. The first company being P&G (P&G) whose lines of diapers include Pampers and Luvs. The second company is Paragon. “Paragon, [is] the No. 3 disposable diaper maker in the world, [and] pegs its share of disposable diaper market at 14-plus percent, but says it owns 75 percent of the private label sector”(Thayer, 2003). However, Tyco International, a Bermuda-based company, intends to acquire Paragon this year. Tyco hopes that “By adding Paragon, we believe that we will realize greater manufacturing and distribution efficiencies, which will result in greater value and service for our customers”(Thayer, 2003). There are several smaller companies that include Hospeco and Associated Hygienic Products; they produce private-label brands but are relatively small in both their market share and revenue. In addition, “disposable diapers compete against cloth diapers and services, but otherwise have no substitutes. The disposable diaper continues to take market share from cloth diapers, and forecasts show this trend continuing in the future”(Quinn, 2002).

The differentiation in the diaper industry is one of a differentiated Oligopoly. There are only a small number of very large manufacturers that control most of the industry. On a global scale, both K-C and P&G compete, as Kotler states, “along the lines of quality, features, styling, or services”(Kotler, 2003). The three manufacturers that truly compete internationally are K-C, P&G, and Paragon (to some extent as joint ventures). K-C derives its global power by being

“the world's leading maker of tissues and paper towels, and ranks just behind Proctor & Gamble as the US's # 2 household and personal care manufacturer”(adbrands.net, 2003).

Kotler describes the major barriers to entry as having “high capital requirements; economies of scale; patents and licensing requirements; scarce locations, raw materials, and distributors; and reputation requirements”(Kotler, 2003). Within the diaper industry, the foremost barrier to entering is the capital aspect: high initial startup (plant, equipment, marketing). Secondly, patent infringement must be carefully examined. Paragon was ordered to pay over \$340 million for patent infringements against both P&G and K-C. New entrants will also face competitors that will “defend their market share through increased advertising...They will [also] pressure supplier and distribution networks to grant less favorable prices [to competitors]”(Quinn, 2002).

Exit barriers, for the major corporations, would include legal and moral obligations to employees and stockholders, and emotional barriers. The emotional barriers would be placed upon the executives who have made these products very well-known and recognized; believe it or not, they are attached to the brands.

This industry and its companies maintain some degree of vertical integration. They also mix this strategically with outsourcing, and depending on the country involved, one method may be complete, as is the case for K-C de Mexico where it, “manufactures, markets and distributes consumer, personal care and paper based products”(Kimberly-Clark de Mexico, 2000). Furthermore, in Australia, “all paper produced by...Kimberly-Clark...is converted into paper products (packaging, tissues and sanitary goods) by the companies themselves”(Australia, 1993).

Both K-C and P&G have utilized vertical integration throughout not only the diaper industry, but also company-wide in order to compete globally.

### Market Concept:

Consumers in the diaper industry want their products, and the companies that produce them, to understand that they [consumers] “expect high absorbency, no rewetting, a comfortable fit and skin-friendly and breathable materials. In addition to this, they expect a perfect fit and a diaper that is easy to handle with features such as refastenable tapes,” states Margarete Krämer, press officer for Paul Hartmann AG, Heidenheim, Germany. “Leakage protection and dryness are the top two priorities, and if a diaper can not do this, it will not stand a chance on the market,” said Christian Bona, international marketing manager at SCA Hygiene Products, Stockholm, Sweden. (Wubbe, 2003).

K-C’s major competitors in the market of diapers are P&G, Paragon and the combined, and total cloth diaper industry and manufacturers (they amount to only 5% of the diaper market). We will only discuss the two major competitors. P&G has maintained its competitive edge by having a strong R&D budget, along with customer loyalty and satisfaction. Paragon creates private-label brands such as Wal-Mart’s White Cloud brand.

Although private-label brands have not been a real threat “With the help of exclusive branding practices, increased quality and value-minded consumers, private label is gaining more strength in the diapers segment” (Sivak, 2003). Furthermore, as Victor Sasson, international sales manager for Irvington, N.Y.-based Absorbent Product Technologies states, “We’re tapping into graphics with warm attractive packages that don’t play as hard to the store name branding as to branding. They don’t necessarily shout out private label, as many consumers will shun the

product when it carries the store name. We want to attract the switchers, the shoppers that are willing to give a brand a try”(Sivak, 2003). Cloth diapers and services are losing ground yearly, even as pressure mounts against the disposable diaper industry regarding their harm to the environment. This is an alternative choice in the market, yet it is somewhat negligible.

## **COMPETITIVE ANALYSIS**

The major, direct, competition with K-C’s Huggies Supreme brand diaper (the latest in diaper technology) is P&G’s Pampers Cruisers brand. The other manufacturers are gaining ground in overall development; however, patents and smaller R&D allowances keep competition from entering the “high-end” diaper market. (P&G actually competes against its own brands: Pampers and Luvs; however, Luvs is lower quality).

Strategic groupings against K-C’s Huggies are as follows:

Group A: P&G’s Pampers. These diapers include the latest advances in diaper design; are geared towards quality; are high priced items.

Group B: Private-label store brands which include: Wal-Mart, Kroger, Publix, etc. are imitations; are lesser quality; are moderate-to-low priced.

P&G’s objectives are clearly to maintain market share and maximize sales while emphasizing slow and steady growth for long-term profits. They have invested heavily into the Pampers brand and continue to use a large part of the R&D budget to patent more technologies before competition.

Paragon, along with the other private-label brands, are placing a high emphasis on improving the quality of their diapers in order to compete against brand names. One other strategic objective that is being used by private-label brands is the fact that “They should be selling a brand, not a price. If a product is just a ‘compare me to...’ it can be hollow. Retailers should try to attract consumer away from the brands with an initiative ... price is one of them, but beyond price, why is the product great? Do promotions with the same kind of zest as the merchandising of the branded products”(Sivak, 2003). These private-label brands bring in a higher profit for the sellers.

The strengths and weaknesses of competitive positions are as follows:

1. Dominant: P&G
2. Strong: N/A
3. Favorable: Paragon’s p/l brands
4. Tenable: Other p/l brands (not mentioned as major competitor)
5. Weak: N/A
6. Nonviable: Cloth diaper manufacturers/services (not mentioned)

The size of the market and market share for K-C and competitors follows on next page (the figures are based on the year ending 2001):

## TOP 7 DISPOSABLE DIAPERS & TRAINING PANTS

By share of U.S. diaper/training pants sales

| Rank                           | Brand         | Measured Media Ad Spending |           |                      |        |                      |
|--------------------------------|---------------|----------------------------|-----------|----------------------|--------|----------------------|
|                                |               | Market Share               |           | In 11 Consumer Media |        | Per 2001 Share Point |
|                                |               | 2001                       | 2000      | 2001                 | 2000   |                      |
| 1                              | Huggies       | 44.3%                      | 44.1%     | \$52.1               | \$56.7 | \$1.2                |
| 2                              | Pampers       | 23.9                       | 21.8      | 21.7                 | 30.3   | 0.9                  |
| 3                              | Private Label | 17.8                       | 15.9      | IIIA                 | NA     | IIA                  |
| 4                              | Luvs          | 8.4                        | 9.5       | 10.8                 | 17.3   | 1.3                  |
| 5                              | Drypers       | 2.0                        | 4.1       | IIA                  | NA     | IIA                  |
| 6                              | I M Bigg      | 0.05                       | 0.05      | IIA                  | NA     | IIA                  |
| 7                              | Snuggems      | 0.02                       | 0.03      | IIA                  | NA     | IIA                  |
| <b>Total for the top 7</b>     |               | <b>96.5</b>                | 95.5      | <b>84.6</b>          | 104.3  | <b>0.9</b>           |
| <b>Total sales in millions</b> |               | <b>\$2,846.2</b>           | \$2,931.3 | <b>113.4</b>         | 132.5  | <b>IIA</b>           |

**Notes:** Dollars are in millions. Measured media from Taylor Nelson Sofres' CMR. Market share and total market value from Information Resources Inc.

The “share of mind” in the diaper industry is equally split between Huggies and Pampers. This is probably due to the advertising campaigns used for the products.

The “share of heart” again is split between Huggies and Pampers. Although, Huggies may have the edge, today, because of the Supreme’s full stretch capability.

### Kimberly-Clark’s Strategy

K-C has had a history of taking over markets through acquisitions and mergers as well as building new plants in new locales to create opportunities for their products. “In the last 8 years the company has made 40 acquisitions to achieve leading market shares. In some cases, but not all the product brand has been changed to a globally recognized brand”(Marsh, 2002). “They

have created value in the global marketplace by building and/or buying market-centric production facilities. They do not share their technology through alliances either. In fact, they guard their technology secrets with a passion that rivals even some military organizations. Their model for value creation is to have the best technology for the right product produced inside the market circle being served in the most effective way”(McNutt, 2002). Huggies brand is among the 43 global brands that surpass the \$billion mark. K-C’s products are either no. 1 or no. 2 in 80 different countries and they maintain “With the addition of new production capacity in Asia and Latin America, every region in the world will have access to our best technology for premium diapers. It’s a move that supports the continued globalization of our infant care business”(Kimberly-Clark Corporation, 2002). The relationships and supply chain management that K-C has developed with retailers and suppliers has been a win/win situation. The long-term objective of K-C is to deliver sales growth of 6-8% per year and to increase earnings per share by a double-digit rate. In conclusion Bill Lee, Supply-chain Director states, “Our No. 1 mission is to make sure that our customers are getting the products they want, when they want them and at a good value. And at the same time, while we execute that every day, we also need to be looking for new and better ways to operate so that we can, in fact, take more costs out”(Keller International Publishing, 2001).

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