Kotex, Kleenex, Huggies
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THE 1987 comedy Raising Arizona, convenience store robber H. I. (Nicolas Cage) is married to police photographer Edwina (Holly Hunter). Desperate for a child, the couple kidnaps an infant and hits the open road; suddenly H. I. realizes that the boy needs diapers. Gun tucked in his belt, he walks into a late-night convenience store, grabs a pack emblazoned “New! Elastic Waist and Added Absorbency,” and instructs the store clerk, “Wake up, son. I’ll be taking these Huggies and . . . uh . . . whatever cash you got.” During the ensuing police chase, H. I. holds tightly to his package of Huggies (medium-sized, 12–24 pounds), until he is forced to relinquish it in a hail of bullets.

Producer and writer Ethan Cohen pointed out that the filmmakers received no product placement fee. Cohen selected Huggies because it “sounded funnier than any other brand name,” he told a reporter.¹ “Go ahead and laugh, says Kimberly-Clark—as long as Huggies keep disappearing from the store shelves,” The Wall Street Journal commented. “Today, three out of 10 disposable sold in America are Huggies. Kimberly-Clark’s success in the highly profitable, ultra-competitive diaper business has amazed people in the consumer-products industry.”² Investors, impressed with Kimberly-Clark’s dividend performance, flocked to the stock through much of the 1980s, just like the young parents who were grabbing package after package.
of Huggies from the shelves. Kimberly-Clark’s inflation-adjusted stock price quintupled over the course of the decade.

Business analysts and commentators have attributed Kimberly-Clark’s transformation from a Wall Street stepchild into an investor darling to Darwin Smith, the maverick chairman and chief executive officer who led the company from 1971 to 1991. Born in 1926, Smith attended Harvard Law School, briefly became a member of the Chicago law firm Sidley & Austin which handled Kimberly-Clark’s legal affairs, and then joined the company’s legal department in 1958. Quickly rising through the ranks, he was appointed president of the company in 1969, effectively serving as CEO Guy Minard’s chief operating officer. What happened next literally became the stuff of corporate legend. *Business Week* reporter Kevin Kelly noted, “When he [Smith] became CEO in 1971, he inherited a stodgy papermaker with shrinking markets. By the mid-1980s he had transformed Kimberly into a well-known consumer products company with such market-leading brands as Huggies diapers, Kleenex tissues, and Kotex sanitary napkins.”

Author Jim Collins, who cited Smith as an example of exemplary corporate leadership in his 2001 bestseller *Good to Great: Why Some Companies Make the Leap . . . and Others Don’t*, concurred: “Smith created a stunning transformation, turning Kimberly-Clark into the leading paper-based consumer products company in the world. Under his stewardship, Kimberly-Clark generated cumulative stock returns 4.1 times higher than the general market . . . It was an impressive performance, one of the best examples in the twentieth century of taking a good company and making it great.” Many other observers have traced Smith’s success to what Collins has called “the most dramatic decision in the company’s history: Sell the mills. Shortly after he became CEO, Smith and his team had concluded that the traditional core business—coated paper—was doomed to mediocrity . . . [L]ike the general who burned the boats upon landing, leaving only one option (succeed or die), Smith announced the decision to sell the mills, in what one board member called the gutsiest move he’d ever seen a CEO make. Sell even the mill in Kimberly, Wisconsin, and throw all the proceeds into the consumer business, investing in brands like Huggies and Kleenex.”

These obsequious accounts of Smith’s tenure hardly amount to an accurate portrait of Kimberly-Clark’s transformation in the 1970s and 1980s. Nor do they do justice to Smith, an unpretentious man and a stickler for facts. As he would have pointed out to Collins and others, the liquidation of four coated paper mills attributed to him
was in fact based on a strategic review initiated by his predecessor Minard, who was also the driving force behind the decision to sell the mills shortly before his retirement in 1971. Likewise, Smith would have objected to Kelly’s description of Kotex as a “market-leading brand.” By the mid-1980s Kimberly-Clark’s share of the sanitary napkin market had shriveled to 15 percent. Simultaneously, the humble but tough-minded CEO would have taken credit for accomplishments that have largely escaped the attention of his admirers. In 1979, for example, he initiated an exquisitely timed sale of California timberlands that raised four times more cash than the liquidation of the entire coated paper business. Moreover, far from turning Kimberly-Clark from a papermaker into a consumer products company—a transformation that had started in the 1920s—Smith’s most important contribution was a partial reorientation of the consumer business itself, toward research and design-intensive products that competed in premium markets.

Rather than a simple matter of selling the company’s mills, the transformation of Kimberly-Clark was a multifaceted process, rich with failures and achievements. Executing his predecessor’s plan to reduce the company’s presence in stagnant commodity paper markets, Smith engineered the sale of four revenue-draining coated paper mills. This move lifted a significant burden, enabling the company to improve its long-term profitability and concentrate its managerial, financial, and marketing resources on the remaining product lines, particularly consumer nondurables.

The divestiture was not as drastic and thorough as Collins and other recent observers have proposed, however. Kimberly-Clark retained a sizable newsprint business and remained a leading producer of cigarette paper. Moreover, Kimberly-Clark’s attempts to compete in hygiene products were far from flawless, especially in feminine care products. Despite investments into new products and processes, the company was unable to maintain its sizable lead in a market segment that it had dominated for almost five decades. Although it recaptured some ground in the early 1980s, when menstrual toxic shock syndrome associated with tampons boosted demand for pads, its market share shriveled to less than 20 percent in 1986, compared to more than 40 percent in 1970.

Kimberly-Clark’s decisive breakthrough came in premium disposable diapers. Its earliest attempts to break Procter & Gamble’s quasi monopoly dated to the late 1960s, when it introduced the Kimbies brand. Riddled with technological and marketing difficulties,
the disappointing results with Kimbies convinced a majority of company managers to terminate the foray into disposable diapers. Realizing the potential of disposable diapers, however, Smith urged Kimberly-Clark to stay in the market. As a result, the company launched a new product design and marketing program in the mid-1970s that positioned it for competition in the premium diaper market. Within a decade Smith’s gamble paid off. Huggies became the nation’s leading diaper brand in the 1980s, wresting market leadership from Procter & Gamble’s Pampers and Luvs.

Kimberly-Clark’s success in diapers was a departure from its own corporate strategies of past decades and from business trends of the 1970s and 1980s. For the first time in its history, Kimberly-Clark gained leadership in a consumer market pioneered by a major prime mover that enjoyed high brand loyalty. This was a notoriously difficult feat, as evidenced by Pepsi-Cola’s decades-long attempts to unseat Coca-Cola as the leading soft-drink maker, as well as similar efforts by Johnson & Johnson in sanitary pads and Colgate-Palmolive in toothpaste. Kimberly-Clark’s success in premium diapers was all the more remarkable because it was achieved on the home turf of Procter & Gamble, arguably one of the most resourceful and marketing-savvy players in the consumer products business. Equally important, Kimberly-Clark diversified into diapers by developing extant resources in research, development, production, and marketing, instead of taking the more conventional route of product diversification through mergers and acquisitions. The latter strategy was popular among companies whose core business stagnated or declined, which Kimberly-Clark experienced in the 1950s and 1960s. Buying into market leadership was also fraught with risks because it often produced organizational synergy problems and did little to reinvigorate the diversifier’s existing assets. Smith, whose reputation as a maverick CEO was partly due to his dislike of mergers and acquisitions, envisioned the Huggies program as an attempt to redeploy the company’s core assets and capabilities. Smith’s leadership and his disdain for mergers and acquisitions enabled Kimberly-Clark to avoid the financial pitfalls of divestiture that occurred across the business world in the late 1970s and 1980s as companies shed acquisitions that had failed to meet profit targets. A long-forgotten but notable example was General Electric, which endured the “Neutron Jack” days during Jack Welch’s early years as CEO, when he downsized tens of thousands of employees and sold off countless acquisitions that did not lead in their respective markets.
Kimberly-Clark’s comeback—which was neither a complete makeover nor an unmitigated success—was based on a strategy of partial asset redeployment, product development, and new departures in marketing where successes outweighed failures. The company’s emphasis on developing extant assets and capabilities put Kimberly-Clark ahead of other corporations that were forced to implement similar strategies years later, during the hostile takeover and leveraged buyout craze of the 1980s. For the first time since the interwar period, Kimberly-Clark found itself on the cutting edge of corporate strategy.

The sources used as the basis for the present chapter require comment. All internally generated financial data since 1975 remain confidential, as do minutes of board meetings. Furthermore, given the increasingly competitive nature of the consumer products and paper businesses, access to internal information on product strategies, production technology, and other sensitive data generated since 1975 remains restricted. Financial and other statistics presented in this chapter, as well as discussions of corporate and brand strategies and related matters, are based largely on publicly available sources. These limitations admittedly render the present chapter more tenuous than previous ones, but they still permit what amounts to an outline of Kimberly-Clark’s transformation in one of the most turbulent phases in American economic and business history.

I.

The company’s partial withdrawal from the commodity paper business evolved over a five-year period. It started in November 1970, when Minard—disappointed with recent earnings—appointed a task force to conduct an in-depth analysis of coated paper operations. A group of nine executives, headed by executive vice president Harry Sherrin, pored over “sales budgets by mills and by product lines, profit trends, profitability by grades, and factors currently affecting the paper industry.”6 The task force quickly determined that both short-term and long-term prospects were discouraging. Kimberly-Clark’s coated paper mills suffered from excessive inventory buildup that required repeated write-offs, even as the committee was compiling its report. The mills operated at barely 80 percent capacity, precipitating the firing of 390 workers, more than 10 percent of the coated paper workforce in the first six months of 1971 alone. Most of the paper
machines were “comparatively old, narrow and slow—a serious dis-
advantage when competing against newer, wider and faster
machines.” The high cost of labor, energy, and environmental control
had “combined to produce a total cost structure which has not been
and is not projected to be appropriately offset by changes in product
mix, gains in productivity or price increases.”

The market outlook was bleak, bolstering the need for action.
Industrywide expansion of papermaking capacity during the 1960s,
combined with the disappearance of several major publications at the
end of the decade and an overall decline in magazine advertising dur-
ing the 1970 recession, resulted in sharply lower prices. The Sherrin
committee’s conclusion—that a significant turnaround was nowhere
in sight—was shared by Minard, who told Forbes that the U.S. maga-
azine business was “heading the way of the dodo and the great auk.”

In August 1971 the Sherrin committee presented its report and
recommendations to the board. Its key suggestion was to sell the coat-
ed paper mills at Anderson, California; Niagara Falls, New York; and
Niagara, Wisconsin. What was left of the magazine paper business
was to be consolidated at the last remaining coated paper mill in Kim-
bly, Wisconsin. Other major items considered for liquidation were
the company’s extensive timberlands and a forest product business in
Northern California that had been acquired in 1961 to provide a pulp
source for the Anderson mill. Although the housing boom of the early
1970s created strong demand for building timber that rendered the
Anderson forest and timberland properties profitable, a prospective
buyer of the mill would in all likelihood ask Kimberly-Clark to sell
them to ensure a pulpwood supply for the mill, the task force
argued.

Donald Hibbert, executive vice president for corporate finance
and a member of the Sherrin task force, presented financial data that
were premised on the hypothesis that the board would adopt all of
the committee’s recommendations. Hibbert noted that in the year of
disposal, “nonrecurring losses would be substantial but that in the
following year, earnings improvements in the range of $12 million
could be expected [without a sale of the Anderson forest and timber-
land operations] and $10.5 million [with a sale of the Anderson for-
est and timberland operations].” At Minard’s urging, the board
unanimously approved the Sherrin committee’s recommendations,
setting into motion the asset liquidation.

Minard, however, did not stick around to enact the measures that
he had vigorously supported and had pushed the board of directors to
authorize. The unenviable task of implementing divestiture fell to Smith, who succeeded Minard as CEO in October 1971. The properties on the block employed 2,920 workers and operated 13 paper machines with a daily capacity of 1,230 tons of paper. Except the ten-year-old Anderson mill, the plants were comparatively old and small by industry standards and suffered from high transportation costs because they imported most of their pulpwood from remote timberlands. These liabilities, combined with the structural problems cited by the Sherrin task force, made it difficult for Kimberly-Clark to obtain attractive bids.

The Niagara Falls, New York, mill, built by Kimberly-Clark in 1920 and once considered the technological marvel of the U.S. pulp and paper industry, went to the Cellu-Products Corporation for $16 million, or 10 percent below book value due to its dilapidated condition. The Niagara, Wisconsin, mill was another hard sell, partly because workers had launched a spirited defense of wages and benefits during a seven-month strike in 1971. A year later Pentair Industries Inc., a Minneapolis-based conglomerate, submitted a $10 million bid, provided that the Niagara mill workers agreed to a three-year wage freeze and that the state of Wisconsin would postpone a previously scheduled pollution abatement program. The sale went through in 1972 when the outside parties agreed to Pentair’s conditions, which became a particularly bitter pill for the workers because inflation turned the wage freeze into a de facto 20 percent cut. The Anderson mill went to the Simpson Lee Paper Company, a forest products company in the Pacific Northwest, for only $7.5 million, partly because Smith insisted that Kimberly-Clark keep the timberlands.13

Divestiture produced satisfactory results for Kimberly-Clark. As Hibbert had predicted, short-term effects were painful. Mill disposal required a $42 million nonrecurring write-off, which—combined with poor ordinary income—produced a 1.1 percent net loss for 1971. There was reason for optimism about long-term prospects, however. Management reported in February 1972, “First, a drain on reported earnings is eliminated . . . Our short-term objective for the plan was to improve net earnings in the range of $6 million during the first twelve months following its consummation. Second, a drain on cash is eliminated and a source of cash is created . . . [We] estimate it will exceed $50 million, much of which will be realized over the next two years. Third, a drain on managerial talent and energy is eliminated. We can concentrate on areas promising greater rewards for our stockholders.”14 Actual results for 1972 exceeded the conservative
estimate of a $6 million improvement in net earnings, contributing to a 66 percent increase in net profits compared to 1971, excluding the latter year’s nonrecurring charge.

These results would have been even better if Kimberly-Clark had liquidated its entire coated paper business, which dragged down the operating profits of the paper and specialty products division. The latter accounted for 24.5 percent of net sales but only 19 percent of net operating profits. By comparison, consumer products accounted for 59.6 percent of net sales and 65.8 percent of net operating profits, while newsprint contributed 15.6 percent and 14.7 percent respectively.\textsuperscript{15}

The main culprit was the eighty-year-old Kimberly mill. Cost and quality improvements launched in 1971 produced no discernible changes over the next three years. What management called “irresponsible rumors spread by competitors that the company is considering the shutdown of this facility” precipitated an exodus of customers for magazine paper in 1974.\textsuperscript{16} In February 1975 Smith pointed out to board members that “the very poor performance of the Paper Division’s coated specialties business as reflected in recent business reports [is] primarily due to the Kimberly mill, which continues to be a major problem.”\textsuperscript{17}

In a last-ditch effort to save it, Smith reassigned the mill from the paper and specialty products division to an autonomous operating unit headed by Hibbert. (The move helped double the operating profitability of the papers and specialty division in the next twelve months.) Under Hibbert’s direct management, the mill still accounted for an operating loss of $7 million in 1975. The loss convinced Smith of the necessity to liquidate the Kimberly mill, despite its historic and cultural significance as a symbol of the company’s past successes.

In March 1976 the Midtec Paper Corporation offered to buy the property, provided that unions signed a three-year contract that stipulated a wage freeze for 1977, with subsequent raises contingent upon $1.5 million or more in net earnings. When a majority of the 1,050 Kimberly workers rejected the proposal, Kimberly-Clark threatened to close the mill for good and started shutting it down in July 1976. Faced with a do-or-die proposition, the workers voted in August to overturn their earlier rejection of the contract, enabling Kimberly-Clark and Midtec to proceed with the $14.5 million sale. The transaction marked Kimberly-Clark’s final exit from magazine papers, which had been one of its core businesses since the turn of the century.\textsuperscript{18}
Hindsight suggests that Kimberly-Clark’s abandonment of coated papers had considerable merits. In order to compete with industry leaders Weyerhaeuser, Champion International, and St. Regis Paper in the weak magazine paper market of the 1970s, Kimberly-Clark would have had to launch major plant reconfigurations to update the dilapidated Niagara, Kimberly, and Niagara Falls mills, with little prospect of reaping a substantial return on investment anytime soon. At Niagara Falls, Pentair Industries had to spend $8.2 million—half as much as it had paid for the entire plant—to raise the mill’s output by a mere 7 percent. In addition, the recession of the early 1980s hurt large producers of coated paper, including St. Regis, whose net income dropped from 6.2 percent in 1981 to 1.7 percent in 1982. Demand for magazine paper rebounded during the subsequent general economic recovery, precipitating an 8 percent price increase in 1984 and a scramble for new capacity. However, the sums involved in building new mills and updating old ones with state-of-the-art equipment reflected the rapidly growing capital intensity and increased competitiveness of the coated paper business. Weyerhaeuser built a $380 million mill in Mississippi, Bowater Incorporated (a U.S. spin-off of a British papermaker) spent $340 to expand its South Carolina plant, International Paper (IP) converted a newsprint machine in Arkansas to coated paper at a cost of $200 million, and Scott Paper invested $220 million into a new paper machine at a New England mill. Companies that were willing to invest such amounts often reaped substantial returns on investment in the mid-1980s, but high demand cyclicality and falling prices—the familiar scrooges of the commodity paper business—again took their toll at the end of the decade. Repap Industries, a Montreal-based paper company that had acquired the old Kimberly-Clark mill in Kimberly, Wisconsin, and had become one of largest North American suppliers of coated paper in the 1980s, barely broke even in 1989 and 1990. When demand for magazine paper fell throughout the early 1990s, Repap lost an aggregate $510 million over four consecutive years, twice as much in inflation-adjusted dollars as IP had lost in the Great Depression. The liquidation of its coated paper business enabled Kimberly-Clark to avoid substantial investments in the 1980s and major losses at the beginning of the following decade.19

As Sherrin explained in 1973, “[W]e didn’t pull out [of commodity papers], we pulled back from these fields.”20 This move was reflected in the company’s organizational structure with its three main product divisions: consumer and service; newsprint, pulp, and forest
products; and papers and specialties. The last category comprised the Schweitzer thin paper operations with eight plants in the northeastern United States and several in France, two business paper plants in the Midwest, and four envelope plants in Ohio. Combined net sales in the mid-1970s comprised 11 percent of Kimberly-Clark’s overall sales, and the division’s operating profit exceeded that of the consumer and service division. This was largely the result of the satisfactory performance of the Schweitzer unit, which was one of the nation’s largest suppliers of cigarette paper and which remained profitable in later years as the principal supplier for Philip Morris and R. J. Reynolds.

A development program launched in the early 1980s by Schweitzer researchers in France resulted in an innovative manufacturing process that facilitated the use of tobacco stems in cigarette production. The process also permitted the manipulation of the nicotine content in cigarette tobacco, leading to charges by health advocates that Kimberly-Clark was legally liable for the effects of cigarette addiction. The company spun off its cigarette paper business in 1995, when it still accounted for 5.5 percent of net sales.21

The company’s pullback from commodity papers in the 1970s did not include its newsprint business, the centerpiece of the newsprint, pulp, and forest products division. Retaining newsprint was a gamble, particularly because most American newspapers lost readers and advertisers to television during the early 1970s, leading to reduced demand especially in northeastern markets. The New York Times, for example, which procured most of its supplies from the Kapuskasing mill in Ontario that it owned jointly with Kimberly-Clark, reduced its daily circulation by more than 100,000 copies from 1970 to 1976. Simultaneously, however, capacity reduction by major U.S. and Canadian producers buttressed tonnage prices, which almost doubled over the course of the decade. A major strike against large Canadian producers in 1973 provided a boost for Canadian mills unaffected by the labor conflict, including Kapuskasing as well as U.S. mills. Newsprint profitability started to decline in the second half of the decade, though. In 1975 the Kapuskasing mill was shut down by a six-week strike. Stricter enforcement of federal and state regulations compelled Kimberly-Clark to implement a $42 million environmental improvement program at the Coosa Pines mill, followed by similar investments in the 1980s. At the same time, the company scaled back other plant improvements at Coosa Pines, concentrating its newsprint capital investments on the Kapuskasing mill. The latter added modern thermomechanical pulping facilities that doubled the amount of
pulp derived from logs, and in 1985 it launched a $26 million general plant development program. When the recession of 1990 resulted in significant losses, however, Kimberly-Clark and The New York Times Company grew increasingly desperate to dispose of the mill, offering it for free to the 1,420 workers it employed. The deal went through in 1991, when Kapuskasing became an employee-owned mill which struggled for survival for the remainder of the decade. Insufficient investments into the Coosa Pines mill, combined with market problems, meanwhile resulted in quality problems and a deteriorating cost structure. Smith acknowledged as much in 1989, when he told mill workers that Coosa Pines newsprint was “considered among the worst in the industry.” A $200 million mill and quality improvement program conducted in cooperation with unions during the late 1980s and early 1990s provided only a temporary reprieve. In 1997 the company sold the Coosa Pines mill to Montreal-based Alliance Forest Products Incorporated for $600 million.

In retrospect, Kimberly-Clark’s continued presence in newsprint created more problems than it solved. In the 1970s the South was the only newsprint market that posted strong gains, in contrast to northeastern markets served by the Kapuskasing mill. To supply southern markets, Weyerhaeuser, Georgia-Pacific, and Crown-Zellerbach embarked upon large-scale facility-improvement and facility-expansion programs at the end of the decade. These projects contributed to excess capacity and falling prices in the early 1980s. They also presented smaller newsprint companies with the uncomfortable choice of either losing profits and market share or investing into their southern plants to catch up with the productivity gains that industry leaders derived from more modern mills and technology. Kimberly-Clark opted for the former, costing it dearly in the early 1980s, when severe price declines ravaged the newsprint industry. The operating profits of Kimberly-Clark’s newsprint business fell 40 percent in 1982, followed by an even larger decline the next year. Some of these problems could have been avoided if Smith had included both newsprint mills in Minard’s asset liquidations of the early 1970s.

While the company’s half-hearted commitment to newsprint produced disappointing results, Smith’s decision to keep the Anderson, California, timberlands proved highly beneficial. Instead of selling the 323,000-acre property as part of the Anderson mill liquidation, as the Sherrin committee had contemplated, Kimberly-Clark built a sawmill on the property. Once it had completed a difficult startup in 1972, the sawmill employed more than 670 people and produced building lum-
ber. With housing starts reaching record levels of more than 2 million units annually in the early 1970s, and with lumber prices rising as much as 70 percent in some markets, the Anderson lumber operation contributed healthy profits to the newsprint, pulp, and forest products division.

Home construction and prices fell off in the 1973 recession, declined dramatically for two years, and started to rebound in late 1976. Housing starts again reached 2 million units in 1977 and remained on an upward trajectory the next year, leading to a sharp appreciation of timberland assets. Smith, eyeing a way to raise cash for the Huggies diaper program, contemplated selling the forestlands in early 1979. Arguing that the Northern California property was “neither a wood source for any of our pulp mills nor intended to support the long-range fiber needs of our other principal businesses,” he sold the property to Oregon-based Roseberg Lumber Company in September 1979.25 The transaction was remarkable for two reasons. First, the forestlands fetched $262 million, a 1,000 percent inflation-adjusted increase over what Kimberly-Clark had paid for the property in 1961. Second, Smith concluded negotiations with Roseberg in the nick of time, shortly before the onset of the economic recession of 1979 precipitated a 20 percent decrease in new home construction and a sharp drop in timberland prices in the following months. The liquidation of John R. Kimberly’s venture into Northern California provided a welcome infusion of cash for the consumer products business.26

II.

Feminine care products were a key area in which Kimberly-Clark sought to expand its consumer nondurables business in the 1970s and 1980s. Initiated by Minard, the strategy complemented the liquidation of the coated paper business, whose proceeds were earmarked for major investments into diapers, sanitary napkins, tampons, and a variety of other consumer products. The plan seemed to have considerable merits when Minard first formulated it in 1971. Demand for feminine care products bounced back quickly after the 1970 recession, producing healthy profits as early as spring 1971. Setbacks in previous decades notwithstanding, Kimberly-Clark was still the nation’s largest feminine care products company of the early 1970s with more than 40 percent market share overall, trailed by Johnson & Johnson, a distant second with 25 percent. However, Kimberly-Clark’s
TABLE 5.1
Feminine care products market shares, 1970–1986
position deteriorated during the ensuing years. In 1976 it was briefly eclipsed by tampon giant Tambrands. A year later Johnson & Johnson became the nation’s largest producer of feminine care products, a position it retained in subsequent years (table 5.1.)

Kimberly-Clark’s problems in feminine care products were the result of seismic technology and market shifts. Product technology changed fundamentally in 1969, when Johnson & Johnson introduced a tableless pad that gained increased popularity with consumers. Fighting to stay competitive, Kimberly-Clark’s feminine care division scrambled to develop comparable designs but was unable to close the market share gap with Johnson & Johnson. The resulting decline in financial performance was partly offset by the success of the Kotex panty liner, which accounted for the bulk of the company’s profits in feminine care products during the 1980s.

Although losing market share was painful in each consumer segment, Kimberly-Clark’s greatest disappointment came in sanitary napkins, where the Kotex brand underwent a swift decline from more than 50 percent market share in 1970 to 15 percent in 1986 (table 5.2). Overall pad output had stagnated during the 1960s because consumers exhibited a growing preference for tampons, which by 1970 accounted for more than one-third of all menstrual care products sold in the United States.

Consumer surveys indicated that younger women viewed sanitary napkins as old-fashioned and cumbersome because they required sanitary belts or pins to hold tabbed pads in place. Kimberly-Clark, despite being aware of these changes in consumer preference, was reluctant to rock the boat with new products, partly because sanitary belts represented a sizable and profitable part of its feminine care business. This failure to act created an opportunity for Johnson & Johnson, which launched a product development initiative in the late 1960s to develop the Stayfree tableless sanitary napkin. Stayfree was successfully test-marketed in 1969 and introduced nationwide two years later. The Stayfree Mini-Pad consisted of a narrow piece of absorbent material with an adhesive strip that enabled women to attach the pad to their underwear. Although the new design did not entirely eliminate chafing—a source of frequent consumer complaints since the 1920s—the adhesive strip reduced it by keeping the pad securely in place, resulting in a product advantage that proved unbeatable. With the Stayfree pad, Johnson & Johnson had created a new market segment in the feminine care products business. By 1976 the market share of tableless sanitary napkins exceeded that of tabbed ones, which later almost disappeared (table 5.3).
Kimberly-Clark and other pad makers were slow to realize that Johnson & Johnson had not simply added a new feature to an existing product but had actually created an entirely new product that would replace its predecessor. Kimberly-Clark’s initial response to the introduction of tabless pads echoed its handling of previous challenges to Kotex’s market dominance. As in the late 1950s, when it introduced a softer pad cover to fend off Johnson & Johnson’s attempt to gain market share with its improved Modess design, Kimberly-Clark launched its own tabless pad only six months after Johnson & Johnson had introduced Stayfree nationwide. However, inept product positioning overshadowed this research and development achievement. Instead of immediately redesigning Kotex as a tabless pad, Kimberly-Clark first introduced the new design nationwide under the separate New Freedom label in 1972. This two-brand strategy amounted to a replay of the largely unsuccessful attempt to halt the decline in Kotex’s market share during the 1960s with the introduction of the Fems specialty pad brand. Although New Freedom steadily gained market share in the 1970s, it was unable to offset the losses accrued by the Kotex brand, whose design as a tabbed pad remained unchanged until the mid-1970s."
The competitive disadvantage resulting from Kotex’s obsolete design was confounded by the rise of television advertising for feminine care products in the 1970s. At the beginning of the decade the National Association of Broadcasters (NAB) relaxed its long-standing restrictions on tampon and sanitary pad advertising, enabling Johnson & Johnson, International Playtex Corporation, and other companies willing to spend money on expensive commercials to increase their market shares. Kimberly-Clark initially resisted the trend, refusing in 1972 to join other feminine care products companies in their effort to lobby for the NAB policy change. Arthur Schulz, chairman of Foote, Cone & Belden, the ad agency responsible for Kotex marketing, explained that Kimberly-Clark took “a stand in opposition to the lifting of the television ban despite the clear advantage it would give them. To this date, they have prevailed, and I hope they will continue to. This was a decision based on good taste and respect for consumer attitudes, rather than on sales and profits alone.”

The decision, a reversal of the company’s decades-long attempts to enhance the advertisability of sanitary napkins, made more business sense than Schulz gave Kimberly-Clark credit for. Expensive television
advertising was likely to reduce the profitability of long-established labels like Kotex and Tampax tampons. Similar considerations probably motivated Tampax Incorporated to resist television advertising, enabling its bolder competitor, International Playtex Corporation, to launch the nation’s first tampon television commercials in the early 1970s and to erode Tampax’s market share. Kimberly-Clark likewise postponed Kotex television advertising until 1974, whereas Johnson & Johnson took advantage of the NAB policy change immediately after it was announced. Delayed entry into television advertising safeguarded Kotex’s operating profits, which exceeded 30 percent before the launch of the first Kotex commercials in 1974 and then dropped by half.²⁹

Kimberly-Clark meanwhile sought to defend Kotex’s position with incremental product changes and new print ads. In the early 1970s, researchers developed a new Kotex cover (trademarked as Air Weave) and a new, superabsorbent filler for the pad. An ad campaign headlined “Kotex invents the Dry Napkin” claimed that “the Air Weave surface stays drier. And you stay drier. And fresher feeling than you can imagine. And really, isn’t that the way you like to feel?”³⁰ Unfortunately for Kimberly-Clark, this new advertising and product improvement hardly amounted to a strategic boost for Kotex. Although the new cover and filler were quite innovative, the redesign failed to turn Kotex into a tabless pad. Moreover, the ad depicted a woman in loose-fitting pants standing far away from the camera, in contrast to recent Johnson & Johnson ads that showed close-up shots of women in tight clothes to illustrate that new pads were barely visible. The claim that “there’s never been anything like it,” combined with the explanation that “the fluff draws wetness away from you, and deep into the napkin center” was debatable.³¹ In truth, there was nothing innovative about a high-absorbency pad core that soaked up menstrual discharge—this was simply how pads had worked for decades.

Product obsolescence and inadequate marketing were the chief factors behind a 20 percent decline in inflation-adjusted Kotex net sales from 1971 to 1974. In February 1974 Sherrin—acutely aware of “the very rapid increase in market share attained by the tabless napkin in the last three years”—acknowledged the inadequacy of Kimberly-Clark’s response, chiding the company for the “slowness in entering this segment of the market, and the resulting loss in market share.”³² An industry observer later remarked more bluntly that Kimberly-Clark “has had a firm grip on the dying end of the business.”³³
Sherrin recommended a crash product development and marketing initiative in feminine care products to reverse these trends. Kotex was successfully redesigned as a tableless pad in 1975, but advertising remained a consistent problem. To sustain Kotex’s 35.5 percent market share in sanitary napkins in 1975, Kimberly-Clark expended less than 15 percent of the total advertising dollars spent by the nation’s pad makers in that year. Johnson & Johnson, by contrast, controlled 46 percent of the pad market in 1975 but expended 48 percent of all advertising dollars spent on sanitary napkins. These statistics illustrated long-term trends. Kotex’s share in total advertising expenditures consistently lagged behind its market share during the 1970s and 1980s (table 5.4), in contrast to Johnson & Johnson in pads (table 5.5) and International Playtex in tampons. The Kotex brand, already bruised by the delayed switch to a tableless design, continued its fall largely as a result of inadequate advertising.34

Kotex’s decline was partly attributable to Kimberly-Clark’s two-brand strategy that required major advertising to establish name recognition for the New Freedom label. Like the Boutique brand, whose introduction in the late 1960s emasculated Kleenex’s advertising budget, New Freedom received a disproportionate share of Kimberly-Clark’s pad advertising dollars. In the first three years of its launch, New Freedom accounted for 62 percent of the company’s pad advertising budget but only 12 percent of net pad sales (table 5.6). Like Playtex in tampons, New Freedom’s share in the pad industry’s advertising expenditures remained ahead of its market share until 1984, underwriting the brand’s continuous growth.35

New Freedom also marked a departure in terms of ad content. Building on the tableless design, advertisements developed by Foote, Cone & Belding (FCB) in the early 1970s stressed that the pad featured “no belts, no pins,” which positioned the brand for competition with tampons. In a way, Kimberly-Clark had finally found an answer to Tampax’s 1942 claim that tampon use involved “No Belts, No Pins, No Pads, No Odor.” An ad series released in 1974, headlined “New Freedom ‘Small Pads’—No pins. No belts. No doubts!” explained that the brand was a “highly absorbent little napkin, so slim and lightweight, you hardly know you’re wearing anything.”36 Borrowing from Fibs tampon marketing of the 1930s, the ad recommended New Freedom for days when the consumer experienced lighter flow, claiming that the pad was “just what you need for your tapering on and tapering off days.” It then went on to pitch “New Freedom Full-Size Pads, too, for your regular and high flow days.”37
TABLE 5.4
Kotex market share and advertising, 1970–1986

TABLE 5.5
Johnson & Johnson pad market share and advertising, 1970–1986
Meanwhile, FCB worked on television advertisements for New Freedom, including a thirty-second commercial developed in 1974. It began with a woman in her mid-twenties who proclaimed, “Sure I’m sure. It’s all I ever need,” followed by a freckled teenager, who opined, “I call it terrific. Yup, really terrific.” An announcer then declared, “New Freedom Mini Pads. Better for the way you live today.” (This segment was later revised to define the product’s performance advantages more clearly, stating: “New Freedom Mini Pads. The most absorbent, most comfortable, most protective mini pads you can buy.”) The commercial then continued with a shot of a mother in her early twenties watching her baby on a swing in the park, who chimed in, “Some days, there’s just nothing better.” This contradicted the first woman’s claim that the New Freedom mini pad was “all I ever need,” ruining the commercial’s message.

Although documentary evidence is unavailable, one may speculate that the poorly designed pad commercials may have contributed to Kimberly-Clark’s decision to reassign New Freedom television advertising from FCB to Kelly Nason, an innovative ad agency which later gained responsibility for print advertising as well. In 1975 Kimberly-Clark terminated its fifty-two-year association with FCB, citing...
“irreconcilable differences.” This drastic move set New Freedom marketing adrift for the next several years. Kelly Nason, known as something of a rabble-rouser in the marketing industry, also fared poorly and quickly lost the New Freedom account to the Chicago-based Leo Burnett agency. The latter developed a variety of New Freedom marketing programs, including several aimed at Hispanic consumers and other ethnic minorities, which helped double the brand’s market share in the late 1970s and early 1980s. Leo Burnett’s association with Kimberly-Clark ended in 1983, however, when New Freedom was reassigned to the renowned New York advertising agency Ogilvy & Mather, already in charge of most other Kimberly-Clark consumer products (see below).

While experimenting with new marketing formats and strategies, Kimberly-Clark supported New Freedom with product development. After launching the product as a tableless maxi pad, it added a mini pad version to compete head-on with Johnson & Johnson’s Stayfree brand. A redesign of the maxi pad in 1978 added rounded ends and dimple embossing to improve comfort and reduce the pad’s visibility. Intended to boost Kimberly-Clark’s market share in maxi pads to more than 40 percent, the redesign failed to enhance product differentiation. By 1981, Kimberly-Clark’s maxi pad market share had declined to 31 percent.

This setback notwithstanding, inflation-adjusted New Freedom net sales jumped almost 80 percent from 1980 to 1983. The cause was menstrual toxic shock syndrome (TSS) associated with superabsorbent tampons. TSS killed more than 100 women in the early 1980s and made thousands of tampon users ill. TSS is triggered by *Staphylococcus aureus*, a bacterium that causes the human body to start an immunological self-assault resulting in fever, vomiting, diarrhea, dangerously low blood pressure, and in some instances the cutting off of the blood flow to the brain and death. Menstrual TSS, first reported in 1978, occurred in 1,066 cases in 1980. The Centers for Disease Control and Prevention (CDC) alerted the public in May 1980 that menstrual TSS was strongly correlated with tampon use, followed in September by an announcement that 70 percent of menstrual TSS victims surveyed in a CDC study had used Procter & Gamble’s Rely tampon. Procter & Gamble immediately challenged the findings, claiming that the CDC test was “too limited and fragmentary for any conclusions to be drawn.” The company then suspended Rely production and distribution, offered customers refunds “for unused supplies,” and continued to insist that the Rely tampon
was safe. A business magazine later called these moves “one of the worst examples of crisis management” in the late twentieth century.42

In contrast, Kimberly-Clark, which had largely abandoned attempts to market its Kotex stick tampon but continued to sell it, was the first tampon producer to implement a campaign to inform consumers and physicians about menstrual TSS and ways to prevent it. The Rely withdrawal meanwhile cost Procter & Gamble a $75 million write-off that did not even include legal fees and settlements with some of the 300 claimants who sued the company for damages. Since CDC studies also implicated other tampon brands, the menstrual TSS scandal precipitated a massive drop in overall tampon sales, creating a major opportunity for pad makers to reclaim lost ground.43

Industry analysts doubted that Kimberly-Clark’s pad business would reap strategic benefits from menstrual TSS. Forbes magazine noted as early November 1980, “Given Kimberly-Clark’s record in the napkin market . . . it seems unlikely that the Wisconsin-based company can maximize any potential stemming from toxic shock.”44 Its share in the feminine care products market actually increased slightly in 1981 and 1982 but then resumed its long-term decline. Part of the problem was that Procter & Gamble launched a well-financed product development and marketing effort for its Always brand of sanitary pads. The product was test marketed in 1983 in the Minneapolis–St. Paul area with such deep discounts that one observer quipped, “If anyone wanted to buy a sanitary napkin, he should have gone to Minneapolis. They were practically giving them away.”45 The campaign foreshadowed Procter & Gamble’s $18 million advertising campaign to introduce the product nationally in 1984, followed by even larger ad and promotional budgets over the next several years. This massive assault, which captured a 16.8 percent share for Always in the pad market just two years after its national introduction, came largely at the expense of established market leaders. Kimberly-Clark’s New Freedom brand, which had slowly chipped away at Johnson & Johnson’s market leadership in the 1970s until it reached 17 percent in 1981, slipped to 12.2 percent in 1986. From 1983 to 1986, Johnson & Johnson’s and Kimberly-Clark’s overall shares in the pad market fell by 23 percent each as Procter & Gamble emerged as the leading beneficiary of the menstrual TSS crisis.46

The introduction of tabless pads revolutionized the feminine care market as no other product had since the invention of the tampon. Johnson & Johnson invented a genuinely new product—much as Kimberly-Clark had with tabbed sanitary napkins in the 1920s and as
Procter & Gamble had with disposable diapers in the 1960s. As the feminine care products market entered a new era, Kimberly-Clark wasted valuable time defending an obsolete product, but it also brought its own tabless pad to market shortly after Johnson & Johnson launched Stayfree. Historically speaking, challenging a prime mover shortly after it had created a new market was no small feat. Kotex had enjoyed a quasi monopoly for almost a decade, as had Pampers. Kimberly-Clark’s real problems in the tabless pad market were the result of poor marketing. An internal company study concluded in 1987, “We were second into the product segment, our brands were not sufficiently differentiated as to product performance benefits, we were consistently outspent by Johnson & Johnson in advertising support to establish and grow the new product forms and our advertising campaigns were intermittent and of inconsistent persuasive quality.” As a result, Kimberly-Clark was unable to stake a major claim in the new pad market, leaving the task of mounting the first decisive challenge to Johnson & Johnson’s dominance to Procter & Gamble.

Kimberly-Clark turned the table in 1975 with the launch of the Kotex Lightdays Panty Liner, which established another new market segment in the increasingly differentiated feminine care business. Developed in the early 1970s by a Kotex product team at the Neenah research center, the design featured a bonded, carded web as a cover, a fiber substructure, a nonwoven baffle as an absorbent, and an adhesive strip to attach the liner to the panty. As the brand name indicated, it provided protection against light menstrual flow, could be used in combination with tampons, and prevented staining of underwear by intermenstrual discharge (experienced by one-third of all women under the age of 34). Smaller and more lightweight than mini pads, the Kotex Panty Liner was designed to compete with the Stayfree brand. It did so quite successfully, as Johnson & Johnson effectively recognized when it introduced its own panty liner under the new Carefree label in 1976, scrambling to catch up with Kimberly-Clark with a heavily financed advertising and promotion campaign. The campaign succeeded in capturing more than half of the rapidly growing panty liner market in the late 1970s, partly because the Kimberly-Clark product derived no benefits from its marketing under the Kotex brand. Kimberly-Clark responded in 1980 by adding the New Freedom panty liner, which—combined with incremental product improvements—helped boost its overall market share to 55 percent in the early 1980s, at Johnson & Johnson’s expense. Procter & Gam-
ble’s entry into the market in 1984, when it introduced its own product as part of its Always rollout, cost both Johnson & Johnson and Kimberly-Clark substantial market share. Despite its inability to remain a market leader in a product category it had established, Kimberly-Clark continued to reap substantial benefits as a result of the rapid overall growth of the panty liner market (by 1987 the product accounted for 20 percent of all feminine care products sold in the United States). Production increased fourfold from 1976 to 1986, at a surprisingly modest cost of approximately $5 million in capital investments to purchase machinery for the Lakeview mill in Neenah and the Conway, Arkansas, mill. By the mid-1980s, panty liners accounted for a quarter of the company’s feminine care business by volume and generated up to half of its total operating profits in feminine hygiene products.48

The introduction of new products and the decline of old ones required mill reconfigurations and the introduction of new technologies. In the early 1970s, manufacturing involved only two base technologies for tabbed pads and stick tampons, with the latter accounting for only 10 percent of total output. Production involved six mills: Memphis, the largest consumer products mill, manufactured Kotex pads in various sizes, as did the slightly smaller mills in Fullerton, California, and Lakeview, Wisconsin. Tampons were produced at the old Berkeley, North Carolina, mill and at a new facility in Conway.

The proliferation of feminine care products developed in subsequent years required the addition of six new base technologies for tabless maxi pads, tabless mini pads, panty liners, and several minor products, at a cost of more than $40 million from 1970 to 1980. Almost half of these capital expenditures went to the Conway mill, completed in 1969 specifically to manufacture tampons. When the latter product failed to gain significant market share in the 1970s, Kimberly-Clark retooled the mill extensively to produce New Freedom panty liners. The remaining expenditures were largely used on new equipment for the Memphis and New Milford mills, which switched from tabbed pads to tabless ones, and on the Lakeview mill to start up panty liner production. Although detailed information on capital expenditures and proprietary production technology remains confidential, it can be said that the plant reconfigurations of the 1970s were largely successful in increasing the operating profitability of the mills. Overall, however, these gains were not sufficient to offset skyrocketing marketing costs in the highly differentiated and competitive
feminine care markets. As a result, the operating profitability of Kimberly-Clark’s feminine care products business fell, creating a modest drag on operating profits in the consumer products division. Fortunately for Kimberly-Clark, the growing profitability of its diaper business eventually more than compensated for the downward trend in feminine care products.49

III.

The competitive dynamics of the disposable diaper market differed markedly from those of feminine care products, owing largely to product characteristics. Far bulkier than sanitary napkins or tampons, diapers were a retailer’s nightmare because they consumed vast amounts of shelf space. In the 1970s most supermarkets and drugstores opted to carry only two diaper labels, sometimes supplemented by a store brand. Given Procter & Gamble’s formidable lead as the prime mover that had invented the product, the company enjoyed high brand loyalty and controlled at least 80 percent of the market until the mid-1970s. The main task facing any new entrant was to crowd out other secondary producers. Entry into the disposable diaper market was a high-stakes gamble. Unless a diaper maker succeeded in establishing its brand as the second largest, it was doomed because there was literally no room for a third or fourth largest brand. This market dynamic explains abrupt decisions by Scott, Johnson & Johnson, International Paper, and others to abandon diapers after failing to establish their brands as one of the top two. Simultaneously, the potential rewards were enormous because disposable diapers were among the most profitable consumer nondurables of the 1970s. Rapid acceptance of the product, combined with continued population growth, turned disposable diapers into a $1 billion market by the mid-1970s. Any diaper maker that carved out a modest market share against Pampers and simply hung on to it without making further gains against Procter & Gamble could expect sales to triple as a result of sheer market growth.50

Kimberly-Clark’s entry into the diaper market started in 1966, five years after Procter & Gamble first test marketed Pampers. At the time, Pampers had reached 50 percent of the national market share. In 1966 Scott Paper test marketed BabyScotts in Denver, Colorado, to compete at the lower end of the market with a product featuring a flushable pad in a reusable panty priced 40 percent below Pampers.
BabyScotts had considerable environmental merits because the flushable pad did not contribute to solid waste, but consumers rejected it, citing its inconvenience compared to one-piece diapers, dooming the innovative design. To this day, most diapers are based on a three-layer construction featuring a fluid-pervious sheet covering the baby’s bottom, an absorbent pad, and a plastic-based backing sheet to prevent moisture leakage from the pad. The design’s environmental impact is monumental because tissue pads are firmly glued to plastic-based covers and backing sheets, making it nearly impossible to extract recyclable pad tissue. Moreover, ignoring strong objections from environmentalists, most diaper makers have replaced cellulose pads with polypropylene-based superabsorbent fillers that are not recyclable.51
The design of what later became the Kimbies diaper added a variety of new features developed by Kimberly-Clark scientist Frederick Hrubecky, who experimented with diaper technology in the early 1960s. His key contributions included a new folding pattern that provided a better fit with body contours than the standard fold, or so Hrubecky claimed (figure 5.1). Early consumer tests conducted in 1966, in which the Hrubecky fold was tested against the standard Pampers fold, actually determined that consumers preferred the latter, partly because the Hrubecky fold resulted in more leakage. Product managers, counseled by Foote, Cone & Belding, responsible for Kimbies marketing, were keen on introducing a uniquely shaped diaper and hence favored the Hrubecky fold, which was adopted as the base design. Even before Kimbies went into extended test marketing, Kimberly-Clark installed $1 million worth of Hrubecky-fold production equipment, including the first experimental folding machine, which went into production at the Memphis mill in 1968.52

More important from both a technology and a consumer standpoint, Hrubecky incorporated into the diaper adhesive tapes that replaced pins as fasteners. Developing an appropriate adhesive tape proved rather difficult, and Hrubecky reported that ordinary pressure-sensitive tapes “do not have a sufficiently aggressive adhesive to remain adhered to the surface of [the polyethylene-based diaper backing sheet] . . . When tack is increased to overcome . . . premature detachment problems, another problem arises in trying to provide a suitable protective release sheet for temporarily covering the adhesive.”53 Experimenting with a variety of pressure-sensitive tapes, Hrubecky settled on one with sufficient tack strength to stick to the backing’s polyethylene surface when the baby moved around, without making it too difficult for the parent to remove the protective tape cover. Consumer tests conducted in 1968 in Denver and Salt Lake City determined that the replacement of pins with tapes were Kimbies’ most attractive feature, forcing a redesign of Pampers in 1969, the same year Procter & Gamble had achieved national distribution of its diaper.54

Off to a promising start, the Kimbies program came unglued in the early 1970s. By 1969 the pilot production line at the Memphis mill was unable to keep up with orders pouring in from test markets, convincing Kimberly-Clark to install full-scale production lines at the new Beech Island consumer products mills in South Carolina and at the Memphis mill. Disaster struck in 1970, however, when a wage strike shut down the Memphis mill for two months, just as the Kim-
bies production line entered its startup phase. This threw off Kimberly-Clark’s diaper test marketing program in the Southwest, effectively rendering its results useless. Moreover, poor financial results in 1970 and 1971 resulted in cutbacks in Kimbies research and engineering at the exact time when the product required more money to work out design kinks and keep up with the competition. Leakage resulting from the Hrubecky fold remained a persistent problem, and the product’s cover softness and pad absorbency compared unfavorably to those of Pampers and BabyScotts. New entrants were launching a variety of diaper development programs, including International Paper, American Can, Union Carbide, and Dow Chemical. Johnson & Johnson, the most important new entrant, brought out a diaper with a fastenable tape, wiping out Kimbies’ only major product advantage among secondary brands. Kimberly-Clark, however, appropriated only 5 percent of its total budget for consumer products research and engineering for the diaper program. Faced with the poor financial results of 1971, management insisted that only three-quarters of this paltry sum actually be spent, making it difficult for the handful of scientists assigned to diapers to develop substantial product improvements.55

Conditions later improved temporarily, but the program continued to face major difficulties. As early as June 1971, shortly before the decision to liquidate most of the company’s coated paper business, the board approved $17 million in appropriations for the Kimbies program at Minard’s urging. The bulk was spent on volume capacity at the Memphis and Beech Island mills, which started six new diaper machines in 1971 and 1972, with each machine producing 200 diapers per minute. This brought annual production capacity to one billion units in 1973, enabling Kimberly-Clark to expand distribution to more than 60 percent of the national market. By 1974 Kimbies started to produce a modest operating profit, but the product remained marred by continued marketing and design problems. After Procter & Gamble and Johnson & Johnson had switched to fastenable tapes, Foote, Cone & Belding recommended emphasizing the diaper’s unique triangular shape in Kimbies marketing, even though there was no indication that consumers cared much about the product shape. Researchers, unaware of this change as a result of insufficient coordination with marketers, meanwhile started to tinker with the glue attaching the cover lining to the pad core, despite the fact that consumer testing indicated little consumer dissatisfaction with this element of the Kimbies design. In 1974 they replaced a plastisol adhesive
with latex adhesive. Driven by cost considerations—plastisol prices had recently increased—the switch proved disastrous because latex glue was weaker and less durable. Consumer complaints about diapers that arrived unglued or that disintegrated during use skyrocketed immediately following the switch to latex glue. As a result, Kimbies net unit sales dropped by 25 percent from 1974 to 1975. Attempts to correct the mistake came too late to maintain Kimbies as the nation’s second largest diaper brand, a position it relinquished to Johnson & Johnson in 1975. In October of that year, Kimberly-Clark yanked the Kimbies account from FCB without immediately appointing a successor agency, effectively recognizing that the diaper program had reached a strategic dead end.56

A project review conducted in 1975 attributed the failure of the Kimbies program to five main factors. First, the decision to use the Hrubecky fold as a basic design resulted in leakage problems without providing a distinct marketing advantage. Second, the unfortunate timing of the Memphis mill strike in 1970 derailed test marketing, with serious consequences for subsequent brand positioning. Third, the company invested too little into research and engineering, contributing to the failure to position Kimberly-Clark for successful competition against Johnson & Johnson for the critical second place standing among diaper producers. Fourth, a considerable share of the inadequate research budget of the early 1970s was wasted on the development of latex glue that sent the product into a tailspin. Fifth, market research failed to discern critical trends in consumer preference, resulting in poorly conceived marketing strategies.57

At this critical moment most company executives were ready to terminate Kimberly-Clark’s foray into disposable diapers. Smith, although disappointed with the results of a project he had inherited from his predecessor, made the decisive decision to give diapers another shot. After reading the Kimbies review closely, he ordered the consumer products division to develop an entirely new product and concurrent marketing plan that incorporated the lessons of the Kimbies debacle. The new diaper initiative was to be based on market research that took a hard look at actual consumer preferences, a shift from the previous strategy of telling consumers what they should want. In another departure from the Kimbies program, Smith willingly authorized significant amounts of money for research and engineering to develop a design-intensive product, channeling most of the proceeds of the $14.5 million Kimberly mill sale in 1975 into the new diaper program. Smith even reduced appropriations for feminine care
products advertising to fund a new marketing offensive in disposable diapers.58

The new initiative, which resulted in the introduction of Huggies diapers in 1977, evolved amidst major changes in the disposable diaper industry. Parents had flocked to Pampers and the secondary brands throughout the early 1970s, but complaints about disposable diapers were widespread. Consumer surveys determined that tape fasteners often came detached, absorbency was unsatisfactory, and liners and backing sheets came unglued. Most important, rectangular diapers like Pampers and Kimbies frequently leaked, despite attempts to solve the problem through new folding patterns. The most comprehensive solution was to design a non-uniformly shaped diaper that conformed to body contours, but most diaper makers shied away from the high research and development costs involved, as well as heavy investments into plant retooling. The only major exception was Procter & Gamble, which in 1976 introduced the Luvs diaper featuring elastic leg gathers and an hourglass shape. To recapture development costs, Procter & Gamble introduced Luvs at a price that was 30 to 50 percent higher than that of Pampers, effectively creating a new market segment for premium diapers. Somewhat reluctant to take business away from its profitable Pampers brand, Procter & Gamble was uncharacteristically slow in taking Luvs into national distribution. This created a strategic, but temporary, advantage for competitors that were willing to spend significant amounts on research, development, and marketing in the new product segment. Time and geography were critical factors. As Procter & Gamble had demonstrated with Pampers in the 1960s, and as subsequent developments in premium diapers confirmed, being first in a regional market created a high degree of brand loyalty that competitors found difficult to overcome. Viewed from this perspective, the premium diaper wars of the late 1970s and early 1980s were attempts to secure as much unclaimed territory as possible, only later followed by head-on collisions between the combatants.59

Consumer surveys conducted in 1975 determined that mothers were primarily interested in three major design and performance characteristics. First, they preferred any product that kept babies’ bottoms dry, confirming the results of the first Pampers surveys of the 1960s which indicated that mothers strongly correlated dryness with baby comfort. Second, they liked diapers that promised a substantial reduction or elimination of leakage, the most frequently cited problem with Pampers and other standard diapers, and they were willing
to pay significantly more for diapers that eliminated the problem.
Third, mothers liked the adhesive tapes introduced in the early 1970s
but complained that extant technology did not permit refastening.\textsuperscript{60}

Huggies incorporated the survey results in a sophisticated product
design (figure 5.2). Taking advantage of a research and engineering
budget that was four times larger than the Kimbies appropriations, a
research team headed by scientists Lin Sun Woon and Dan Endres
developed Huggies in 1975 and early 1976. Reviewing the state of the
art of diaper design, they pointed out three major deficiencies bedev-
iling standard rectangular products. First, in the latter “there is excess
bulk between the legs which may cause discomfort; second, the folds
... are generally linear and the relatively non-conformable structure
of disposable diapers prevents a closely conforming fit at the buttocks
or thighs, often leaving undesirable gaps in those two areas which
permit leaks to occur; and third, when applied to the child the non-
conforming sides of the rectangular diaper tends to pull the waist
down at the sides and thereby cause the diaper to gap at the front of
the waist where leaks can then occur.”\textsuperscript{61} Attempts to reduce bulkiness
between the legs with an hourglass shape had resulted in problems
because it left gaps and reduced absorbency in the narrow section.
Simply adding elastic bands to the entire length of the edges to close

\textbf{FIGURE 5.2}

Huggies diaper design
the gaps provided no solution because it caused excrement and urine to gather at the edges, precipitating skin irritation, and created gaps at the waist. A better solution, Woon and Endres argued, was to incorporate elasticized sections only into the narrow section of the diaper instead of the entire edge, and to thicken the pad slightly at the crotch to create additional absorbency. In their words, “Limiting the elasticized edges to the narrow crotch area foreshortens and provides transverse rugosities in the diaper batt only in the crotch area while minimizing the development of gaps at the waist.”

Developing manufacturing technology for this complicated design posed major challenges. Engineers, working closely with scientists in the product development team, devised a wide array of proprietary machine designs for the core mills in Memphis, Tennessee; Beech Island, South Carolina; and New Milford, Connecticut. A tissue machine combined layers of absorbent padding into sheets of varying thickness to form the wings and the crotch section, which was 15 percent thicker than the edges. Once the sheet had been cut into individual hourglass shapes, the latter received an elastic band at the crotch section and were combined with the cover and backing sheet to form the diaper.

The brand name for the new product had to incorporate the diaper’s performance characteristics, while also appealing to emotional sentiment. Although detailed information on brand name development remains confidential, it can be said that “Huggies” meant to indicate that the new diaper fit snugly, effectively hugging the child. “Kleenex Huggies” sought to associate the diaper brand with the disposable tissue, still Kimberly-Clark’s most well known trademark, and create an association with softness and high absorbency.

Huggies marketing began in December 1977. In contrast to Kimbies, which had made its debut in Denver, Colorado, where the competing Pampers brand was firmly entrenched, Huggies was first introduced in Wisconsin and Northern Michigan. Instead of taking on Procter & Gamble’s Luvs brand directly in its core regions of Missouri and Ohio, Kimberly-Clark first competed with the Johnson & Johnson brand and Pampers, convinced that standard diapers were more vulnerable to direct competition with Huggies than Luvs. While the strategy was risky because it left key questions about Huggies’ competitive performance vis-à-vis Luvs unanswered, it succeeded in beating back Johnson & Johnson, which had recently taken its brand
national. In Milwaukee, Johnson & Johnson lost 29 percent of its market share in the six months after Huggies was introduced; in Denver, 36 percent; and in Seattle, Sacramento, and San Francisco, more than 50 percent. The West Coast, along with the Midwest, quickly became the core regions of Huggies distribution, where the brand gained considerably more market share than Kimberly-Clark had expected. Advertising and promotion cost almost $10 million annually, much of it financed through a war chest Smith had established after the sale of the company’s Northern California timberlands.\(^\text{63}\)

Marketing was handled by the advertising agency Ogilvy & Mather, which was responsible for research and analysis, as well as print and television advertising. Founded in New York in 1948 by British immigrant David Ogilvy, the agency was recognized as an advertising powerhouse that combined hard-nosed research with highly creative marketing initiatives. In the 1950s and 1960s Ogilvy & Mather had developed such renowned campaigns as the Hathaway shirt ads featuring a man with a black eye patch, as well as the luxury car slogan, “At 60 miles an hour, the loudest noise in the new Rolls-Royce comes from the electric clock.” Kimberly-Clark was especially impressed with Ogilvy & Mather’s record in consumer marketing, including its campaigns for General Food’s cereal products as well as Maxwell House coffee. Dissatisfied with Kelly Nason, the maverick agency that had succeeded Foote, Cone & Belding as the lead marketer for feminine care and diaper products in the mid-1970s, Kimberly-Clark moved its entire consumer products account to Ogilvy & Mather later in the decade. The New York agency quickly proved its worth with (still confidential) market research on diaper buying patterns, pricing of premium diapers, and the comparative performance of Huggies, Luvs, Pampers, and other brands. It also developed the Huggies slogan, “Introducing a diaper that helps stop leaking,” variations of which remained a staple of Huggies marketing for the remainder of the century.\(^\text{64}\)

Reflecting the results of market research, the slogan suggested that Huggies assisted mothers in their battle against leakage, instead of assigning all credit to the product itself. Advertisements elaborating on the theme of parental expertise declared, “To anyone who’s ever held a baby, or changed a baby, or changed a baby’s bed clothes, [a diaper that helps stop leakage has] got to be terrific news.”\(^\text{65}\) Making the important link to the disposable handkerchief brand, ads proclaimed that Huggies “are extra absorbent, too. (They’re from Kleenex, aren’t they?).” Direct-mail campaigns developed by Ogilvy
& Mather reinforced the theme, informing mothers about “a brand new type of diaper called ‘Huggies,’ made by the folks at Kleenex (now there’s a name you know you can trust!).”66 Some women wrote unsolicited responses indicating that Kimberly-Clark had hit the right note. One wrote in February 1978, “I have a 1½ year old and he is a heavy wetter and Huggies really take care of him. The Huggies cost a little more but I found because they absorb more I use less.”67 The comment on pricing was somewhat understated because Huggies—like Luvs—were priced 30 percent more than standard diapers to recapture their considerable development and manufacturing cost, but the letter indicated a common perception among consumers. The only major complaint was that Kimberly-Clark had introduced Huggies in only four sizes, neglecting a toddler version that was quickly added in the late 1970s.68

Less than three years after it had been officially launched, the Huggies program achieved an important intermediate objective. In May 1980 Johnson & Johnson fired almost half the workforce at its diaper plant in Skillman, New Jersey, causing rumors “that the $4.2 billion health-care giant was calling it quits.”69 Johnson & Johnson’s attempts to sidestep premium markets earned low marks from industry analysts. Smith Barney vice president John Wilkerson opined, “J&J came out with a Cadillac when everyone else had a Chevy, [then] P&G and Kimberly-Clark came out with a Mercedes.”70 Although Johnson & Johnson initially denied the rumor that it was preparing to pull out of the diaper market, it officially terminated the venture in February 1981. This move, which firmly positioned Kimberly-Clark in the critical number-two spot in the diaper market, was remarkable for its timing amidst the economic recession of the early 1980s. At a time of rampant inflation, declining real wages, and economic uncertainty, consumers flocked from Johnson & Johnson’s moderately priced diapers to the Huggies and Luvs premium brands. This turned observers who had second-guessed Kimberly-Clark’s decision to compete at the upscale end of the diaper market into ardent admirers of Darwin Smith. For the first time since the interwar period, Kimberly-Clark had a new product that deserved the label “recession resistant.”71

Johnson & Johnson’s withdrawal from the market coincided with the completion of Procter & Gamble’s efforts to distribute Luvs nationally. This marked an important milestone because previous episodes in the premium diaper wars had confirmed that being first in a given market was key to a brand’s success. In Denver and Phoenix,
for example, where Huggies had beaten Luvs to the punch, the Kimberly-Clark brand held a 25 percent market share by 1980, compared to Luvs’ 16 percent. The fact that Luvs had achieved national distribution first, coupled with Johnson & Johnson’s withdrawal, precipitated changes in Huggies marketing. The choice was between comparative ad content and aggressive pricing. Following in-depth studies and discussions of the matter, Kimberly-Clark and Ogilvy & Mather decided to offer Huggies at a slightly lower price than Luvs, partly because it was difficult to differentiate the two premium brands on the basis of performance features. Instead of inventing brand differences for comparative advertising, Kimberly-Clark introduced Huggies in markets dominated by Luvs at a 6 percent overall discount, supported by coupon promotion and a $17 million advertising campaign in 1981 and 1982. Although the strategy temporarily reduced Huggies’ profitability, it succeeded in making inroads into Luvs’ share in the latter’s core markets. Procter & Gamble’s response indicated that the Cincinnati consumer products giant had lost some of its legendary surefootedness in diaper marketing. Instead of following suit with aggressive pricing in premium diaper markets or Luvs product improvements, it added refastenable tapes to its Pampers brand, but it then failed to advertise this significant new feature in print and television ads. From spring 1982 to spring 1983, Huggies achieved a 29 percent rise in brand share growth, Luvs gained 3 percent, and Pampers lost 10 percent. In 1983, when Huggies reached national distribution, Kimberly-Clark controlled 21 percent of the diaper market, compared to Luvs’ 21 percent and Pampers’ 40 percent (the remaining 18 percent largely represented store brands).

Kimberly-Clark’s management, carefully analyzing recent market trends, became convinced that premium diapers had the potential of capturing a majority share of the disposable diaper market. Richard Bowers, the company’s manager for infant care products, predicted as much in October 1983, immediately cautioning, “We’re not so naïve to think that P&G won’t defend its products.” Indeed, Procter & Gamble quickly improved Pampers with what it called “stay-dry gathers” to defend the brand against Huggies. However, it introduced the new feature in a somewhat poorly conceived marketing campaign that failed to differentiate sufficiently between Luvs and Pampers, costing both brands market share. In 1984 Procter & Gamble took advantage of a growing trend in marketing that intertwined product promotion with popular children’s movies, sending Muppets dolls to Pampers users who mailed in proofs of purchase during the release of
the film *The Muppets Take Manhattan*. Kimberly-Clark quickly responded with a massive advertising and promotion campaign devised by Ogilvy & Mather that elaborated the “diaper that helps stop leaking” theme. This all-out effort featured hospital promotions, television advertising, direct mailings, and coupon distribution campaigns, each aiming at specific consumer groups ranging from expectant mothers to cloth diaper users. As a result of the $17 million program, Huggies’ market share briefly exceeded Pampers’ in spring 1985. Later that year Kimberly-Clark opened a new front by introducing Huggies in Canada, whose diaper market had previously been completely dominated by Procter & Gamble. In the next six months, Luvs’ market share fell from 18.7 to 11.7 percent, Pampers’ fell from 54.6 to 30 percent, and Huggies’ increased to 30.6 percent.74

The next episode in the diaper wars centered on new performance features, most notably superabsorbent fillers. Diaper scientists at both Kimberly-Clark and Procter & Gamble had experimented with polymer-based superabsorbents since the late 1970s. The key problem was a phenomenon called gel-blocking, described as the swelling of two or more superabsorbent particles into a single dam “which prevents or inhibits water or other fluid from passing through the superabsorber ‘dam’ into the remainder of the absorbent structure.”75 In 1982 Procter & Gamble assembled a research team to propose solutions. Procter & Gamble later claimed that the team, whose senior members reported directly to the company’s CEO, discovered a “revolutionary” technique of preventing gel blockage by densifying a superabsorber-fluff mixture, vastly enhancing absorbency. This finding had significant implications for disposable diaper design and marketing. To improve the absorbency of traditional all-wood-pulp-based fillers, diaper makers had simply increased pulp volume, complemented by product marketing that essentially told consumers that “thicker is better.” The introduction of denser superabsorber-fluff mixtures enabled manufacturers to increase pad absorbency while decreasing pad thickness. Procter & Gamble recognized that the technique, combined with marketing that stressed the physical attractiveness of thinner diapers, could derail Huggies’ swift rise to prominence.76

The result was the swift introduction in 1986 of Luvs Deluxe and Ultra Pampers Plus, whose fillers were based on the new technology. Kimberly-Clark immediately followed suit with Huggies Supertrim that featured denser superabsorber-fluff mixtures, as well as an elastic waistband that ensured a better fit of the diaper. The new Huggies
were introduced under the slogan, “Elastic Waist and Added Absorbency,” developed by Ogilvy & Mather and featured in *Raising Arizona* (“I’ll be taking these Huggies and . . . uh . . . whatever cash you got.”). Procter & Gamble’s attempt to derail the introduction of Huggies Supertrim through a patent infringement suit against Kimberly-Clark ended in a judgment in favor of the defendant. In 1988 Huggies replaced Pampers as the nation’s leading diaper brand.77

Kimberly-Clark solidified its position with the introduction of Huggies Pull-Ups Training Pants, designed for toddler toilet training. Although the combination of diaper technology and cloth underwear that formed the basis for the Pull-Ups design was far from revolutionary, diaper makers hesitated to develop a marketable product because it threatened to reduce conventional diaper use by up to two months. Kimberly-Clark, however, deriving a crucial lesson from its ill-advised reluctance to introduce Kotex tabless pads swiftly in the early 1970s because the new design threatened to erode demand for tabbed napkins, embarked on a secretive, years-long, $12 million development program in the mid-1980s. Product design involved a series of technical challenges, particularly pant elasticity, required to enable toddlers to remove the training pants unassisted. In 1987 the manager of the Pull-Ups program, Wayne Sanders, an engineer by training, proposed using an innovative synthetic fabric that did the trick. Pull-Ups were rolled out in May 1989 after only a few months of hasty test marketing on the West Coast, partly to prevent competitors from developing a comparable design. The strategy worked admirably, according to industry analyst Bruce Kirk, who surmised, “Procter & Gamble has been totally blindsided by Pull-Ups.”78 Business journalist Fara Warner—unable to resist the rich metaphorical potential of the matter—agreed, claiming “Cincinnati [got] caught with its pants down.”79 Huggies Pull-Ups in fact reigned unchallenged for the next three years, capturing 9 percent of the diaper market and generating more than $200 million in annual sales for Kimberly-Clark. (Sanders, the architect of Kimberly-Clark’s Pull-Ups feat, succeeded Smith as CEO in 1991.) Procter & Gamble meanwhile maintained its stunned silence, leaving the task of challenging Huggies Pull-Ups to Drypers Corporation, a joint venture of VMG Enterprises and Veragon Corporation which became the first diaper maker to introduce a comparable product in 1992.80

Industry analysts, trying to explain the remarkable success of the Huggies diaper program, pointed out that Kimberly-Clark had learned crucial lessons from Procter & Gamble. Drexel Burnham
Lambert’s Hercules Segalas (not necessarily an unbiased observer because he was a former Procter & Gamble executive) claimed, “Kimberly-Clark stole a page right out of Procter’s manual of how to succeed: get an excellent product and execute well.” Business Week and The Wall Street Journal concurred, noting that Kimberly-Clark had recruited several former Procter & Gamble marketing managers in the early stages of the Huggies program development. In a slight variation of the same argument, some observers suggested that Procter & Gamble found itself in the midst of a difficult transition period when Kimberly-Clark struck in the early 1980s. In a marked shift from its traditional strategy of developing most of its innovative products in-house, the argument goes, Procter & Gamble sought to strengthen its muscle by acquiring companies like soft-drink maker Crush International, citrus processor Ben Hill Griffin, and Richardson-Vicks, a major producer of cold remedies and skin lotion. Sidetracked by the formidable task of making these acquisitions profitable, Procter & Gamble neglected traditional product lines, creating strategic opportunities for competitors to erode its market shares. This line of reasoning is not without merits, as evidenced by Colgate-Palmolive’s successful attempts to loosen Procter & Gamble’s grip on toothpaste markets. Kimberly-Clark and private brands meanwhile widened the breach in disposable diaper markets, to a point in the early 1990s when Pathmark, Toys “R” Us, Safeway, and other major retailers stopped selling Luvs altogether, precipitating rumors—unfounded, as it turned out—that Procter & Gamble would fold the label into the Pampers brand. The argument can be carried only so far, however, because Procter & Gamble used its still-formidable marketing and product development capabilities to elbow its way into sanitary napkins and panty liners with the Always rollout, which coincided with its defeats in diapers and toothpaste.

There is little doubt that Kimberly-Clark’s consumer products division, instructed by CEO Darwin Smith to knock “the you-know-what out of Cincinnati,” learned much from Procter & Gamble’s successes and failures in disposable diapers. The early test market success of the Luvs brand in 1976, for example, hastened Kimberly-Clark’s decision to introduce Huggies in regional markets as quickly as possible. Analyses that remain focused on Procter & Gamble ignore important lessons that Kimberly-Clark learned by looking at its own failures, however. These failures included not only the Kimbies debacle—extensively reviewed by the consumer products division and by senior corporate executives—but also the strategic mistake of
maintaining Kotex’s obsolescent tabbed pad design for four years in the early 1970s. Internal reviews of these and other episodes offered a variety of product-specific explanations for failure, but most attributed Kimberly-Clark’s lack of success in standard diapers, sanitary napkins, and tampons to the company’s reluctance to vie for market leadership with research- and design-intensive premium products. This helped lay the groundwork for Kimberly-Clark’s success in disposable diapers, which became the company’s biggest profit maker.

IV.

At first glance Kimberly-Clark’s financial performance in the 1970s and 1980s hardly seems particularly noteworthy. Net income as percentage of net sales exclusive of nonrecurring charges more than doubled from 1971 to 1973, reflecting the liquidation of unprofitable coated paper mills (table 5.7), and this figure dropped slightly during the subsequent recession. Profits then climbed above the 7 percent mark in 1976, where they remained until 1981. Once the company had overcome the newsprint crisis of the early 1980s, net income oscillated above the 6 percent mark and started to rise toward the end of the decade. Historically speaking, these trends amounted to something of a replay of the company’s sterling financial performance in the 1950s, followed by the slightly lower earnings of the 1960s, except the drop-off toward the end of the latter decade.

Kimberly-Clark’s earnings statistics, however, look quite impressive when compared to those of other paper companies. Kimberly-Clark, Scott, and International Paper all reported abysmal earnings of less than 4 percent in 1971, but Scott trailed Kimberly-Clark the next year, followed by IP in 1976. Scott’s financial performance became erratic in the late 1970s and 1980, while IP experienced a prolonged drop in the mid-1980s. By the end of the end of the 1980s, earnings divergence had largely disappeared, with all three companies reporting income of more than 7 percent. In short, for almost two decades Kimberly-Clark exhibited a far more stable earnings trend than Scott and IP. Its long-term financial performance was more comparable to that of Johnson & Johnson, whose average earnings from 1971 to 1990 exceeded Kimberly-Clark’s by 2 percent but were similarly stable throughout the period.

The earnings statistics only hint at the high drama of American business history in this era, the most tumultuous since the Great
Depression. The bill came due in the 1970s—especially for companies that were in stable-tech industries and mature markets and that had embarked on international expansion, mergers, acquisitions, and product diversification to compensate for declining return on investment in their domestic core businesses. Weakened by insufficient investments into core product lines, many became soft targets for resourceful domestic and foreign competitors, resulting in lower earnings and dividends. Corporate strategies started to diverge at this critical juncture. Some companies began shedding recent acquisitions and mobilized resources for capital investment programs, with the strategic goal of boosting earnings, dividends, and share prices. These moves contributed to the first great wave of divestitures in the early 1970s. In many other cases, however, management was more interested in maintaining old divisional fiefdoms and creating new ones than in raising what later came to be called “shareholder value.” Exacerbated by macroeconomic trends—high inflation, high unemployment, slow growth, and the crisis of the Bretton Woods system—managerial inertia contributed to a severe crisis in core sectors of the
U.S. economy. It also precipitated the Wall Street revolt of the late 1970s and early 1980s, when investors and their institutional allies tried to force management to improve profitability, dividends, and stock performance.84

Leveraged buyouts (LBOs), pioneered by the merchant bank Kohlberg Kravis Roberts & Company (KKR), created vast corporate debts that compelled companies to shed poorly performing assets and improve the profitability of remaining operations to generate cash flow. Corporate raiders chose the more drastic technique of hostile takeovers of undervalued and poorly performing companies. Based on the assumption that the parts of a company were worth more than the whole, hostile takeovers often resulted in the large-scale dismemberment of corporations, contributing to the second wave of divestitures in the 1980s. Whether LBOs and hostile takeovers succeeded in improving the long-term viability of their target companies remains a matter of debate. But there is little doubt that they contributed to management’s growing willingness to “create” shareholder value through divestiture and investments into core businesses, as well as a renewed emphasis on higher earnings and dividends—even without the immediate threat of a hostile takeover or an LBO.85

International Paper exemplified companies that delayed restructuring until the 1980s. When its earnings suffered in the 1960s, IP had diversified into disposable diapers, a venture it abandoned in the early 1970s. The company also built up a massive overseas presence in Latin America, Asia, and the Caribbean, where it produced mostly kraft paper for liquid packaging containers and corrugated cartons. In the short run, multinational expansion yielded significant benefits, reflected in IP’s impressive earnings gains in the early 1970s. Simultaneously, however, the strategy helped undermine the domestic kraft paper and Canadian newsprint operations, which were hollowed out by insufficient capital investments. Unlike Kimberly-Clark, which abruptly abandoned its prior expansion of coated paper capacity to strengthen its consumer business, IP maintained kraft paper plants and Canadian newsprint mills through much of the 1970s. However, it neglected much-needed capital investments, instead spending $278 million to acquire General Crude Oil Corporation at mid-decade. Billed as an attempt to help the company exploit petroleum resources on IP lands, the transaction did little more than create another management fiefdom while failing to halt the precipitous decline in earnings and dividends. IP’s core business meanwhile continued to deteriorate, forcing management to close a flagship plant at Springhill,
Alabama, and sell a major kraft mill in Panama City, Florida, in the late 1970s. Wall Street, worried about IP’s cost and profitability problems, started to shun the share, whose average annual closing price adjusted for stock splits fell by almost one-half from 1976 to 1980 (table 5.8). *Business Week* noted in 1978 that IP was “regarded on the Street as a plodding giant,” citing management problems and disappointing financial results, as well as the company’s “antiquated paper mill base in the South.”

Attempts to turn the tide in the 1980s led to further turmoil. After selling most of IP’s interest in General Crude Oil, CEO Edwin Gee liquidated the company’s vast newsprint and timberlands empire in Canada for more than $900 million in 1981—a decade after Kimberly-Clark had started to sell off its coated paper mills. The proceeds contributed to a six-year, multibillion-dollar mill reconfiguration program in the southern United States, but the initiative came too late to halt an accelerating decline in net earnings as a result of poor operating profitability at existing mills. Earnings fell continuously from 6 percent in 1980 to less than 3 percent at the height of the Reagan boom. Veteran industry analyst Lawrence Ross warned in 1984, “With operating rates already at a very high level and operating

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TABLE 5.8
IP annual stock closing price adjusted for stock splits, 1971–1990

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[Graph showing stock price from 1971 to 1990]
earnings remaining unimpressive, IP has a long way to go to meet analysts’ expectations.”87 From 1982 to 1986, when the Dow Jones Industrial Average rose 60 percent, the average annual IP share closing advanced by little more than 30 percent, turning the asset-rich company into a potential takeover target. At mid-decade, management tried to fend off uninvited tenders by putting the most valuable holding, seven million acres of timberland, into a limited partnership and by seeking authority to issue new stock. Shareholders balked at these and other management attempts to establish a poison pill against a hostile takeover, creating turmoil at stockholders’ meetings. Management successfully derailed investor revolts, in part by firmly committing itself to boosting the stock price. It followed up almost immediately by allocating a larger share of earnings to dividends. This, combined with the $1.1 billion acquisition of Hammermill Paper in 1986, finally rekindled investor interest in IP stocks, whose price rose by one-third in 1987 alone.88

Scott Paper’s history reflected other problematic aspects of corporate strategy and structure in the 1970s and 1980s. Long one of the paper industry’s marketing and earnings powerhouses that had thrived on consumer nondurables, Scott had acquired the textbook papermaker S. D. Warren in 1967. Not only did the $134 million transaction fail to produce a significant return because the commodity paper market started to stagnate; it also diverted resources from Scott Paper’s battle with Procter & Gamble for market leadership in paper towels and toilet paper.

By the 1970s Scott Paper’s erstwhile quasi monopoly in these markets had shriveled to 40 percent in paper towels and 30 percent in bathroom tissue. The BabyScotts debacle meanwhile ended with nothing to show for it other than a $6.5 million write-off. Scott’s mills, once considered the best equipped in the industry, suffered from neglect because they failed to produce an acceptable return on investment. Adding to company woes, management pushed for diversification into foam products and plastic lawn chairs, even acquiring a furniture company. To strengthen the marketing of its paper product lines, Scott in 1979 filled the position of president and chief operating officer with Morgan Hunter, a former Procter & Gamble executive responsible for Procter & Gamble’s success in towels and toilet paper—and responsible for Scott’s decline. Initially hailed as “a strong-minded executive and a good marketing man,”89 Hunter presided over a 30 percent drop in net earnings. He resigned abruptly in 1981, saying, “They [Scott] made a mistake. I made a mistake.”90
Simultaneously, a decline in share prices attracted Brascan Limited, a Canadian investment company controlled by the Bronfman family, which acquired a 20 percent stake in Scott in 1981. Scrambling to avert an uninvited takeover, Scott CEO Philip Lippincott quickly disposed of the foam division and the furniture business, as well as 240,000 acres of valuable timberlands. Lippincott also committed Scott to rebuilding its dividends and share price by strengthening its paper business with a five-year, $1.6 billion plant improvement program. In contrast to earlier decades, Scott positioned itself for fierce price competition at the low end of the market, abandoning all attempts to enter more design-intensive paper products, such as diapers and feminine care items. Lippincott’s strategy served the company well in the mid- to late 1980s, when new volume capacity came on-line and produced healthier earnings and dividends.91

The list of undervalued paper and consumer products companies that came under severe pressure from raiders could be extended. In pulp and paper, Sir James Goldsmith “arrive[d] with his ax”92 at Crown-Zellerbach, St. Regis, and other asset-rich companies notorious for their poor earnings records and stock performances. Goldsmith proceeded to dismember the companies. In 1986, when Paul Bilzerian preyed on Hammermill, it was “rescued” by IP, which in short order closed down several loss-producing Hammermill plants while trying to capitalize on the acquisition’s paper marketing expertise. In consumer products, Richardson-Vicks Incorporated faced an uninvited bid from Unilever in 1985, with Procter & Gamble intervening as a “white knight” with a successful $1.25 billion cash offer. In 1989 an investor group led by Kohlberg Kravis Roberts & Company took control of R. J. R. Nabisco in an epic struggle with management and other bidders. While it would be gratuitous to attribute corporate restructuring in the 1980s per se to hostile takeovers and LBOs, it is difficult to deny that these transactions—and in many instances the mere threat of a raid—helped trigger divestiture of poorly performing assets and forced companies to develop their core businesses. The question of whether these machinations were successful remains to be answered elsewhere.93

Kimberly-Clark’s transformation long predated the LBO and raider era. The initiative for restructuring in the 1970s came from top management, not takeover artists, LBO wizards, or shareholders disgruntled about poor earnings and stock performance. The timing of the liquidation of the coated paper business was largely attributable to the earnings crisis of the late 1960s and early 1970s, which
company executives viewed as particularly severe in light of the company’s good financial performance in prior years. In retrospect, the recession of the early 1970s was a warning shot that many executives chose to ignore. However, Kimberly-Clark’s management, sensitive to its long-term implications, conducted a strategic review that predicted future market trends in coated papers with considerable accuracy, leading it to the decision to sell underperforming assets. Though not quite as drastic as many observers have suggested, the move spared Kimberly-Clark some of the turmoil that IP, Scott, and many other paper companies suffered over the next decade or so.

Equally important, Smith sought to improve Kimberly-Clark’s stock performance long before “shareholder value” became a core principle of corporate governance in the 1980s. Determined to “[insulate] dividends against inflation and, consistent with longer range capital needs, [provide] a measure of real growth,” he more than doubled quarterly dividends from 1972 to 1978.94 While investors hardly flocked to the stock through much of the 1970s, Smith’s policy contributed to an uneventful stock performance (table 5.9), in contrast to the IP share and similar industrials, whose market value deteriorated over the course of the decade.95

TABLE 5.9
Kimberly-Clark annual stock closing price adjusted for stock splits, 1971–1990
The strengthening of consumer nondurables quickly produced the desired results, enabling management to report healthier profits. Major challenges remained, however, especially in feminine care products, where profits came at the expense of product development and advertising. The exception was panty liners, the only major breakthrough in product development and the area that became responsible for the bulk of the feminine care profits at modest outlays. Given the loss of market share in sanitary pads, combined with higher advertising costs for feminine care products, Kimberly-Clark urgently needed a new source of profits.

For a while it seemed that expansion into foreign consumer products markets could fit the bill. Hoping to turn overseas operations into a significant earnings factor, Kimberly-Clark invested $200 million in Europe, Asia, and Latin America. Major additions included a joint venture with an Australian paper company to expand a consumer products mill near Sidney, a similar project in the Philippines, and new converting equipment for Kimberly-Clark Limited of England. By the mid-1970s almost 20 percent of the company’s assets were located outside North America, with the bulk in Western Europe and Mexico. Unfortunately for Kimberly-Clark, however, profits from its important British operations not only stagnated over the course of the decade but also suffered from sterling devaluation and the long-term slide of the British pound in international currency markets. Kimberly-Clark de Mexico performed well through much of the 1970s, but it became a financial albatross early in the following decade as a result of peso devaluation which reduced the currency’s value by 82 percent in 1981 alone. Combined with the slide of newsprint prices in the same period, the Mexican crisis became the largest drag on overall profits from 1981 to 1983.96

Given the inability of multinational expansion to create sources of robust, long-term growth, the success of the Huggies diaper program became critical for the company’s overall financial performance. As could be expected, high initial development and advertising costs, required in order to position the product, made it difficult for Kimberly-Clark to derive even marginal profits from the diaper program in the late 1970s. By 1981, however, increased unit sales of Huggies began to yield significant operating profits. Three years later, amidst the fierce battle with Procter & Gamble for market leadership, Smith reported, “The highly favorable performance in diapers . . . more than offset a disappointing year for our feminine care products which declined in unit volume due largely to intense competition.”97
remainder of the 1980s, Huggies accounted for the bulk of the company's net earnings.

Wall Street’s love affair with Kimberly-Clark stocks—inevitably dubbed “huggable shares”98—was largely attributable to the breakthrough in diapers. As early as 1980 Kimberly-Clark was, as Forbes magazine speculated, “beginning to draw a following on Wall Street,” partly because the product’s early success fueled expectations that “there is a chance that Huggies will get as much as 20% of the big disposable-diaper market.”99 Average annual stock closing prices in fact advanced 25 percent from 1980 to 1983, despite investor concerns over Kimberly-Clark’s poorly performing newsprint business and despite losses associated with the peso devaluation. When the profit drain subsided in 1983, investors flocked to the stock, whose average annual closing price, adjusted for a two-for-one stock split, doubled over the next three years. The successful introduction of Huggies Supertrim further bolstered the share, which outperformed the leading indexes through much of the decade. Investment analysts were soon gushing with praise. Kimberly-Clark “just knocked the cover off the ball with all [its] products,” one opined. “The company conducts a very impressive capital spending program, without wrecking the balance sheet and borrowing very much. This certainly puts [Kimberly-Clark] in a class by itself. . . . Earnings per share growth of the last five years has [sic] been in excess of 15 percent, even though net income grew at a considerably smaller rate, and pretax [income] grew only around ten percent.” “Kimberly avoided all the pitfalls of the paper industry,” noted another. “The CEO's done a tremendous job managing the consumer operation. . . . Kimberly-Clark always delivers. It's one of the few companies that I follow that usually surprises the Street on the upside.”100

The soaring share price provided a measure of protection against raiders, but Smith took no chances. When takeovers reached a fever pitch, he announced a $300 million share buyback program in January 1987 that brought 6.5 percent of outstanding stocks back into company coffers, immediately boosting share prices by 10 percent. In June 1988, when Revlon CEO Ronald O. Perelman was rumored to contemplate a hostile bid, analysts “scoff[ed] at the idea of Kimberly being taken over.”101 Smith, less certain that a takeover was not in the cards, suggested to his board that Kimberly-Clark should respond by buying paperboard maker Stone Container Corporation for $3 billion to make the company less attractive to Perelman. Rumors that Smith intended to poison the reputed takeover backfired, however, driving
down Kimberly-Clark’s share price 5 percent in a week because investors worried about the effects of a Stone acquisition on Kimberly-Clark’s debt-to-equity ratio. Fortunately for Smith, analysts who had doubted that Perelman seriously considered making a run at Kimberly-Clark were right. Perelman wasn’t heard from again, Smith shelved his proposal to buy Stone, and the company’s stock recovered. More important, the hostile takeover fever that had gripped businesses and financial markets through much of the decade subsided shortly afterwards because KKR’s outlandish $30 billion bid for R. J. R. Nabisco raised doubts about the wisdom of corporate raiding. Kimberly-Clark had weathered one of the most tumultuous episodes in American business history.102