Kotex, Kleenex, Huggies
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THE HISTORY OF Kimberly-Clark is a chapter in the rise of the large, diversified, multinational corporations that emerged in the first half of the twentieth century when single-product companies branched out into new product lines. Diversification was triggered by a variety of factors. In many instances companies whose extant product lines approached their growth limits diversified to achieve a higher return on investment. Others sought to supplement their existing business with closely related, high-profit product lines that required preexisting organizational capabilities in manufacturing, research, development, and marketing. Changes in public policy also played a significant role. The Clayton Antitrust Act of 1914, for example, limited the corporation’s ability to grow through mergers and acquisitions. DuPont, widely regarded as a pioneer of product diversification among single-product firms, became the target of an antitrust investigation in 1916, precipitating attempts to branch out from gunpowder to chemicals and paints during subsequent years. The Celler-Kefauver Act of 1950, which rendered horizontal and vertical integration more difficult, had similar effects, contributing to a new wave of diversification and the formation of conglomerates.

Changes in tariff policy also encouraged companies to diversify, particularly in industries that found it difficult to compete with inexpensive imports. Like the steel, textile, shoemaking, and other com-
modities industries of later decades, the newsprint industry of the early twentieth century was vulnerable to foreign competition as a result of high domestic raw material and labor costs. When the Underwood Tariff Act of 1913 opened U.S. markets to Canadian imports, many U.S. firms branched out into non-newsprint products, including book paper, linerboard, and hydroelectric power. Some U.S. producers also responded to the elimination of the newsprint tariff by building up manufacturing operations in Canada, turning International Paper (IP), Crown-Zellerbach, and Kimberly-Clark into budding multinationals. Canadian operations became a basis for expansion into British markets, which—in Kimberly-Clark’s case—became a springboard into Western European markets after World War II.¹

Like many other diversifiers, Kimberly-Clark developed specialized manufacturing, marketing, and research and development capabilities to compete in new markets. After the passage of the Underwood Tariff Act, the firm quickly phased out its U.S. newsprint to concentrate on magazine and specialty paper. To buttress the latter, Kimberly-Clark established one of the first research and development programs in the U.S. pulp and paper industry, which later served as a launching pad for diversification into consumer nondurables. Highlighting the prominent role of research and development during the 1920s, the company’s chief research scientist, Ernst Mahler, joined the company’s senior management and became a key figure in the development of both Kotex and Kleenex.

Redeploying some of its existing research, development, and manufacturing capabilities, Kimberly-Clark entered the sanitary napkin market after World War I amidst a seismic shift in U.S. manufacturing from industrial to consumer goods. Facilitated by technological innovations, the rise of professional marketing, changing consumer habits, growing disposable income during the 1920s, installment buying, and a variety of other factors, this development transformed the nation’s economic and social structures during the interwar period. In some instances, moves into consumer products were the result of carefully formulated strategies, but one should resist the temptation to over-rationalize these strategies ex post. Rational choice theories can perhaps explain product diversification in cases like DuPont, General Electric, and Westinghouse, but some of the most successful attempts to develop new product lines were the result of happenstance. Kimberly-Clark decided to develop the Kotex sanitary napkin in September 1919 because Walter Luecke, a sales professional hired only a few months earlier, persistently argued the case for the new
product to reluctant company executives. Without the benefit of either consumer surveys to back up his argument or elaborate proposals to connect the product to Kimberly-Clark’s extant capabilities, Luecke based his case on a vague guess that the product was technologically and economically viable. More often than not during this era in American business history, successful product diversification was a leap into the unknown that cannot be explained in terms of rational choice.2

Corporate strategy became more deliberate once executives recognized the long-term potential of new product lines. The spectacular financial results of the late 1920s, which were largely attributable to Kotex and Kleenex, convinced Kimberly-Clark’s management to launch new research programs, invest heavily into new ad campaigns, and expand the firm’s manufacturing operations in consumer nondurables. During the 1930s executives also learned from their mistakes, notably the debilitating price war in sanitary napkins, returning to more financially rewarding attempts to compete on the basis of product quality. These strategies, which turned Kimberly-Clark into one of the nation’s most profitable pulp and paper companies, distinguished the firm from the industry mainstream, where large firms engaged in destructive price wars for years, largely ignored the strategic potential of consumer nondurables, and neglected investments into research, development, and advertising. Based on the move into consumer products, Kimberly-Clark differentiated itself from its competitors and established the foundation that would carry the company in subsequent years.

These findings confirm revisionist analyses of interwar economic development. Revisionist historians challenge the orthodox view of the Depression as a failure of internally generated accumulation, recovery from which presumably required external stimuli—foreign market expansion and major increases in federal spending, for example. Revisionists, by contrast, distinguish between technologically mature industries like cotton textiles and steel (we would add newsprint to the list), whose markets yielded marginal returns, and dynamic industries specializing in more profitable consumer services, innovative consumer durables, and nondurable consumer items (disposable handkerchiefs, for example).3 The interwar U.S. economy was beginning to shift from technologically mature to dynamic industries when the former slumped in the late 1920s. A secular downturn turned into economic collapse because firms (like Kimberly-Clark) that were “located in the dynamic sectors of the economy were sim-
ply not present in sufficient numbers to lead a general economic recovery.\textsuperscript{4}

A new generation of executives who took control of Kimberly-Clark in the 1940s and 1950 developed more conventional corporate strategies than their predecessors. Convinced that the company’s successful line of consumer nondurables required little new research and development, they concentrated on plant networking, industrial products, acquisitions-based product diversification, and multinational expansion. This reflected a widespread trend during the postwar era, when executives in the textile, steel, agricultural machinery, and rubber industries focused primarily on managing growth instead of improving core product lines.

In Kimberly-Clark’s case, postwar corporate growth strategies often produced unsatisfactory results. Plant networking, far from producing anticipated efficiency gains, often resulted in higher costs. Heavy investments into industrial products, especially newsprint and magazine paper, failed to generate returns in the 1960s and had to be abandoned in the early 1970s. While some acquisitions, notably Schweitzer, produced healthy financial returns, Munising Paper, Blake, Moffitt & Towne, and others were outright failures. Multinational expansion created profitable business in Britain, France, and Mexico but failed to compensate for the increasingly problematic performance of domestic operations. By the end of the 1960s disappointing financial results raised doubts about the long-term viability of conventional growth management.\textsuperscript{5}

Slackening investments into core organizational capabilities meanwhile undermined Kimberly-Clark’s competitive advantage in consumer nondurables. Inadequate market research capabilities had been an Achilles’ heel since the Fibs tampon debacle of the 1930s, when Kimberly-Clark and Lord & Thomas—unwilling or unable to question the company’s commitment to sanitary napkins—used flawed market research techniques to determine consumer preferences. Although statistical methods improved in the postwar era, company researchers repeatedly misinterpreted their data. Research and development in sanitary napkins and disposable handkerchiefs meanwhile suffered neglect, enabling more resourceful competitors to make deep inroads into markets that had traditionally been dominated by Kimberly-Clark. This reflected a widespread problem of corporate strategy in the 1960s and 1970s, when leading firms in what Alfred Chandler has categorized as “stable-tech” industries focused on mergers and acquisitions, while neglecting or misallocating investments into
organizational capabilities. In the consumer electronics industry, for example, this created strategic opportunities for foreign competitors that eroded the market dominance of U.S. firms with incremental product improvement, better quality, and superior marketing. As Carliss Baldwin and Kim Clark have shown, formal capital budgeting often failed to address the problem of inadequate or misdirected investments. “In many U.S. companies,” they argue, “internal systems for profit planning and capital budgeting tended to work against attempts to invest in the organizational capabilities needed for long-term survival. To middle managers proposing such investments, it often appeared that top managers (and the capital markets they claimed to represent) were over-focused on short-term financial results.”

Kimberly-Clark’s dramatic turnaround was largely the result of the strategic repositioning initiatives implemented in the early 1970s. Keenly aware of the company’s structural deficiencies in R&D and market research, Darwin Smith and his team of young executives and middle managers embarked upon a strategic review of past product development and investment initiatives, sometimes reaching back as far as the 1930s to determine what had worked and what had not. Prodded by Smith, product managers conducted detailed reviews of product testing, statistical data, marketing campaigns, and corporate financial data from the 1950s and 1960s. Remarkable for their sheer scope and historical depth, these reviews precipitated the liquidation of most of Kimberly-Clark’s magazine paper business and ancillary industrial products, a large-scale reorganization of research and development capabilities, plant reconfigurations, and major departures in marketing and advertising.

Smith’s reorganization program, though controversial both within the company and among industry analysts at the time, laid the groundwork for the company’s subsequent success in diapers. Deploying product development and marketing strategies that had turned Kotex into a success during the interwar period, Kimberly-Clark positioned Huggies as a design-intensive, premium-priced product that set quality benchmarks for the entire industry.

Smith’s strategic repositioning program, precipitated by the severe crisis that befell the company in the late 1960s, turned Kimberly-Clark into one of the most innovative and profitable consumer products companies of the 1970s and 1980s. Longtime competitors—notably International Paper, Johnson & Johnson, and Procter & Gamble—pursued less aggressive departures from past corporate
strategies, partly because they survived the 1960s in better financial shape than Kimberly-Clark, rendering repositioning less urgent. Only the prolonged economic crisis of the 1970s and early 1980s convinced executives of the necessity to scale back product diversification, develop new organizational capabilities for their respective core businesses, and launch research and development initiatives along the lines of Smith’s “new departure.” In more ways than one, the latter foreshadowed the transformation of “stable-tech” industries at the end of the twentieth century.

The 1990s brought a series of new challenges that precipitated a shift in corporate strategy under Wayne Sanders, who succeeded Smith in 1992. Huggies sales grew at a more leisurely pace than in the previous decade, partly because secondary diaper labels started to make inroads against Kimberly-Clark and Procter & Gamble in U.S. markets. Sanders responded by looking for growth opportunities overseas, particularly in Europe, where economic integration reached a new level with the 1992 Common Market reforms which further reduced tariff barriers. Although Kimberly-Clark’s Western European presence dated to the postwar era, it lagged far behind that of Procter & Gamble, Scott Paper, and James River Corporation, which dominated the diaper and toilet paper markets. Sanders admitted as much at the beginning of his tenure, stating, “[W]e’re playing catch-up in Europe. We’ve got a big building job to do.” The same could be said for Southeast Asia, where Kimberly-Clark had maintained a budding presence since the postwar era with marketing and production operations in Australia, the Philippines, Japan, and Korea that were dwarfed by Scott’s and Procter & Gamble’s formidable presence in the region.

Sanders, building on initiatives launched during the final years of the Smith administration, pursued two distinct strategies for overseas expansion. First, Kimberly-Clark developed existing capabilities in research, production, and marketing by expanding its established European and Southeast Asian operations. From 1988 to 1991 the company invested $500 million in Western Europe alone. In Germany it teamed up with tissue manufacturer VP-Schickedanz AG to market diapers. In the early 1990s Kimberly-Clark brought a £100 million diaper plant onstream at Barton-upon-Humber, in addition to a consumer products plant in Korea, a tissue mill in Thailand, and a pulp mill in Australia. Predictably, Sanders’s spending spree was not well received by competitors. One executive exclaimed, “I’m appalled at the arrogance of Kimberly-Clark, thinking they can come in and put
a plant up in the face of all the competition." Expanding the firm’s overseas presence indeed proved tougher than anticipated, partly because Kimberly-Clark lacked sufficient country-specific marketing expertise and distribution networks. As a result, Sanders started to eye another option: buying his way into the market through the acquisition of a competitor with extensive experience in European and Asian markets. After contemplating several possible targets, Sanders zoomed in on an old rival. In 1995 Kimberly-Clark acquired Scott Paper for $9.4 billion.

The transaction came none too soon for Scott, which had for years flirted with disaster. CEO Philip Lippincott had initiated a turnaround in the 1980s that was partly based on Scott’s strong position in European and Asian markets. Simultaneously, however, he neglected to liquidate the S. D. Warren printing paper business that had been a source of trouble since its acquisition in 1967. At the end of the 1980s S. D. Warren’s losses were once again responsible for a downturn in overall net earnings. A food-service container business acquired at the beginning of the decade also performed poorly, draining profits from the paper towel business which continued to enjoy high operating profitability. Scott continued to slide, reporting a $70 million net loss in 1991 alone. The following year Lippincott finally liquidated the food-service container division but was unable to sell S. D. Warren for lack of a buyer. Sales in 1993 fell 7 percent to $4.7 billion as a result of unfavorable European foreign exchange rates, contributing to a $277 million net loss. The company’s restructuring charge (severance packages, shutting down plants, and other costs associated with laying employees off) was $381 million in 1993 after Scott cut 25 percent of its workforce. In 1994 Lippincott was succeeded as CEO by Albert J. Dunlap. True to his nickname “Chainsaw Al,” Dunlap immediately cut what he called Scott’s “bloated corporate structure,” reducing the research and development budget by half, slashing expenses, selling assets, and paring debt. Along the way, Dunlap eliminated more than 11,200 total jobs equaling 35 percent of the Scott payroll. He then sold off S. D. Warren; a Mobile, Alabama, power plant; and the company’s corporate headquarters in Philadelphia. Dunlap also began looking for a buyer for the company. By December 1994 Salomon Brothers had already identified twenty-four potential buyers, including Kimberly-Clark.

As a result of the merger, Kimberly-Clark had to undergo a difficult restructuring program in the mid-1990s, including 11,000 layoffs and market share losses among Scott products. Scott had oversold
both its manufacturing capabilities and its new product pipeline. Kimberly-Clark found that it had to invest much more time and energy into these areas than anticipated. The long-term efficiencies existed—it would just take longer to get the two companies up to speed, Sanders argued. As a matter of fact, Kimberly-Clark’s own lack of expertise in engineering large mergers contributed to the stumble. Throughout its history Kimberly-Clark’s leaders chose to grow from within and never aggressively pursued an initiative of buying into market leadership. Unfortunately, the merger also coincided with sharp price drops for consumer goods in the United States and Europe, which affected the overall financial picture. On the positive side, however, Kimberly-Clark used the next several years to improve internal efficiencies and reinvest cash flow from those efforts back into branding campaigns. By late 1999 Kimberly-Clark introduced product improvements to its Scott tissue products and began running the first Scott bath tissue and paper towel TV spots in more than a decade.

While the rest of the world warped through dot-com fever in 2000, the Scott merger began paying off for Kimberly-Clark. The company posted all-time records in sales (nearly $14 billion) and earnings per share ($3.31) for the year. Despite rising raw material and energy costs and declining currencies, revenue grew 7.5 percent, besting all of Kimberly-Clark’s competitors in the consumer products industry.