

# Growing Through Innovation

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Product innovation is a vital aspect of Clorox's growth strategy. One key to success in this area is getting closer to consumers earlier in the product-development process, and then applying what is learned to drive improvements.

A great example of the company's focus on growing through innovation is the Armor All new-products team, which was formed in fiscal 2003. Team members from marketing and R&D relocated to Clorox's Walnut Creek, Calif., facility to streamline decision making and give our scientists and technical researchers better consumer insights. Led by Alexis Limberakis, marketing manager, the group adopted the practice of "rapid prototyping" to better gauge earlier in the development process how consumers would react to an idea. This method has allowed the team to make concept improvements faster and more frequently.

Participants in Armor All new-product tests are provided through Clorox's consumer testing program. To reduce research costs, the market intelligence department's "early product guidance" team established a database of local consumers who would visit our labs to test new concepts. Led by Lisa Thompson, market intelligence senior manager, the program started out with a few hundred consumers and one or two tests per month. By the end of fiscal 2003, Kevin Williams, consumer panel coordinator, had expanded the database to more than 2,000 consumers, and the team was conducting weekly tests on a broad range of products throughout the company. Products launched in fiscal 2003 that were tested through the program include the groundbreaking Clorox bathroom cleaners with Teflon®, as well as Formula 409® wipes, Don't Mop With Dirty Water Again!™ Pine-Sol® cleaner, and K C Masterpiece Dip & Top sauces.

"The program gives us valuable consumer insights faster than working through an outside supplier, and at a fraction of the cost," Lisa says. "By getting an earlier read on consumer needs, we can more quickly and effectively develop products that meet those needs."

Lisa's group has also started training R&D product developers across the company in qualitative research methods, such as conducting post-test interviews with consumers. Through more direct contact with consumers during the development process, Clorox scientists and technical researchers will be able to react more quickly along the way.

The company's focus on driving growth through innovation is beginning to pay off. In fiscal 2003, 80 percent of the products tested through the consumer testing program met the company's standards for product performance and were approved for larger-scale studies. The Armor All team doubled its targeted number of "winning" concepts during the year, and created a number of feasible prototypes. The team is now shifting its focus to commercializing these ideas.

"We are focused on growing our business by better understanding and delivering on consumer needs, making sure we have the right technology, launching more — and better — products, and pulling everything together through disciplined execution," says George Roeth, vice president — growth and marketing.





## Spending More Effectively

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Clorox's strategy to cut costs everywhere isn't just about spending less — it's also about spending smarter, and strategically investing savings back into the business to drive growth and make the company more profitable.

The company's customer capability team is putting this strategy into action through a long-term initiative to boost the effectiveness of our investment with customers, including in-store product displays, temporary price reductions and consumer marketing events. Led by Tom Britanik, vice president – customer capability development, the team analyzed more than 1,300 promotions, and then rolled out enhanced guidelines to help the sales organization plan more effective promotions.

The effort is starting to pay off in a big way. In fiscal 2003 alone, the company improved the return on its trade-promotion spending by more than \$14 million among U.S. food, drug and mass-merchandise retail outlets. This benefit was largely the result of driving more sales with about the same amount of investment by shifting funds from less profitable promotional events into more effective ones.

"It's very exciting to see the results the field sales organization is achieving by applying the spending guidelines and gaining a deeper understanding of what events work best for a particular product and retailer," says Ray McGee, manager of trade funds.

In January 2003, Clorox also piloted a concept called "planning centers," in-depth regional planning meetings with sales and broker teams across the country. Conducted by customer capability team members and regional sales managers, the sessions were designed to communicate the trade-promotion guidelines and provide hands-on training. During the sessions, participants input actual customer plans for the first half of fiscal 2004.

"The regional planning centers have been very successful," says Kimberly Brown, director of sales for regional grocery customer teams in the western half of the United States. "The sales organization is focusing more on the return on investment of trade dollars now because our tools are more sophisticated. We are engaging our customers in the strategic planning process. By sharing this type of data, we're able to make better decisions."

As a result, Kimberly says, her team is able to collaborate with a broader group of customers to develop more efficient annual promotion plans as a whole, rather than planning by individual event.

And that's just the beginning. The company is targeting significantly greater trade-spending improvement over the next three to five years. "It all comes down to making better decisions that generate more value from every dollar we spend," Ray says. "When we accomplish that goal, everyone wins."





*"In fiscal 2003, our efforts to cut costs generated \$169 million in savings across the organization. In fiscal 2004, we are targeting an additional \$100 million of savings, and focusing on the productivity of our spending to optimize growth and margins."*

Dan Heinrich, Vice President – Chief Financial Officer



# Building Customers' Businesses with Our Brands

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A big part of Clorox's strategy to get more customer focused is helping key customers build their businesses with our brands. Taking this commitment to heart, Clorox's sales team for Wal-Mart approached the retailer with a plan to drive sales at Wal-Mart Supercenters through a strategic comarketing program with Kingsford charcoal and meat.

The Kingsford business has traditionally been underdeveloped at Wal-Mart, where charcoal is typically sold in the lawn and garden department. However, research from our consumer insights group showed that Wal-Mart shoppers who bought Kingsford charcoal were also more likely to purchase meat — an area of opportunity Wal-Mart has identified in its Supercenters. In spring 2003, a cross-functional team led by Paul Schwartz, director of sales, developed a plan to drive additional sales of meat and Kingsford charcoal by placing a Kingsford product display in the meat aisle. "Wal-Mart realized the potential to strategically leverage the strong Kingsford name in driving meat sales," Paul says. "It was the perfect comarketing opportunity."

Clorox's sales and marketing teams collaborated with Wal-Mart on a series of in-store television spots about grilling to drive traffic to the meat aisle. Kingsford also participated in promotional events Wal-Mart was testing in Supercenter parking lots to increase interest in grilling by educating shoppers about the benefits of using Kingsford charcoal. Inside the stores, stickers on meat packages reinforced the grilling message with barbecue tips and recipes.

The promotion was tested throughout the summer at Wal-Mart Supercenters, where the team set up special product codes to track results. During the first three weeks, sales of Kingsford charcoal displayed in the meat aisle were on average 80 percent higher than sales of the product at Wal-Mart Supercenters during the same period in the prior year.

"We are very pleased with the impact so far of the Kingsford promotion on sales of both meat and Kingsford charcoal," says Joseph Tapper, Wal-Mart vice president – divisional merchandising manager. "Collaborating with the Clorox team has resulted in an all-around win for Kingsford, Wal-Mart and, most importantly, our customers."

Due to the success of the initial promotion, the team worked with Wal-Mart to create an expanded grilling program to be piloted in fall 2003 at 20 Supercenters in the Kansas City area. The promotion features Hidden Valley salad dressings, K C Masterpiece barbecue sauces and Glad food storage products, as well as other popular consumer brands associated with grilling. If successful, the pilot could set the stage for grilling-themed events at Wal-Mart Supercenters nationwide throughout the year.

"I think that, more than ever, our customers view Clorox as a company that works with them as a business partner to drive category growth and sales," says Ed Huber, Clorox's director of sales for Wal-Mart and Sam's Club. "By maintaining more than a traditional buyer-seller relationship, we're able to offer more value to benefit retailers and, ultimately, the consumers who shop in their stores."





*"Clorox is committed to creating a more customer-focused culture across our entire organization. We believe that finding ways to help our customers grow their businesses over the long term will grow our business, too."*

**Frank Tataseo, Senior Vice President – Sales**



# Perfecting the Fundamentals

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Talk about executing with excellence: In fiscal 2003, the Glad trash bags team posted a double-digit volume increase, delivering record full-year volume since Clorox acquired the business in 1999. In the fourth quarter, despite a decline in the overall trash disposal category, sales of Glad trash bags grew in U.S. food, drug and mass-merchandise retail outlets, and the Glad business further widened its lead over the closest branded competitor. So what's the secret to the trash team's success?

"There's nothing magic about it," says Jim Wolfe, who was director of marketing for the trash business before moving to a new business development assignment in spring 2003. "The key was to work hard, stay focused on the fundamentals of our business and really nail the execution."

The trash bags team concentrated on a few primary areas, including pricing, distribution, advertising, supply chain improvements and close-in product extensions. Focusing on the fastest-growing part of the category — drawstring bags — the team modified package counts to improve consumer value, and achieved a number of significant distribution gains among club, mass merchant and home hardware retailers. They also made a strategic choice to extend the successful Odor Shield™ line, launching 30- and 4-gallon sizes. The team continued to build the brand and increase consumer demand through persuasive advertising, the most efficient lever in the marketing mix for trash bags. A Spanish-language campaign drove a significant increase among Hispanic consumers expressing their "intent to purchase" Glad trash bags. On the manufacturing side, the product supply team rose to the challenge of providing substantially higher volumes, while continuing to improve costs and quality. By standardizing equipment set-ups in the manufacturing process, they got more bags from existing equipment, reduced waste and minimized the need for new capital. In addition, the team focused on quality assurance to reduce product variation, which improves the consumer experience and lowers costs.

An important driver of the ability of the trash team and other groups across the organization to out-execute the competition is Project Delta, our multiyear process and systems initiative. Project Delta reached the most significant milestone to date in December 2002, when Phase 1 went "live." The implementation went very smoothly, due in large part to the tremendous effort of the Delta team and users across the organization. The transition was virtually seamless for Clorox's customers, even though they are directly impacted by Phase 1 processes such as taking orders, ensuring deliveries and collecting payments.

In addition to implementing and stabilizing Phase 1, the company laid the groundwork for Phase 2 processes and systems, which support product supply operations, including manufacturing, materials management, procurement, plant maintenance and regulatory reporting. Phase 2 is set for a fiscal 2004 rollout in three stages, beginning in late 2003.



*"Our ability to out-execute the competition is directly linked with our ability to continually improve the effectiveness of our processes. Moving forward, Project Delta will be an increasingly significant enabler for the organization."*

**Keith Tandowsky, Vice President – Chief Information Officer**



# Investing in Our Future

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Clorox's success is the result of the efforts of talented people around the world. To continue to innovate and grow, the company needs to maintain a strong team of people performing at the top of their game. Through traditional training, Clorox helps employees hone their skills and apply them on the job. The company also believes in developing strong leaders.

That's why Clorox created the Diamond Leadership Institute (DLI). More than just skill-building classes, DLI is a set of programs designed to help employees develop into effective leaders. The core program brings a group of mid-level managers together every two weeks for six months to learn from some of the best in the business: Clorox executives.

"Each module in the core program is designed with considerable input from the company's officers and other senior leaders," says Juliandra Rittmann, who manages the core program. "So every session, whether it's about managing costs or building teams, is tied directly to our business strategies and the company values. Together, they present a very consistent message about what it takes to lead at Clorox."

The involvement of senior leaders goes far beyond developing content — they're also the primary facilitators for the sessions. Course participants frequently cite the commitment of the company's top managers as the key to the program's success.

"A big benefit was the opportunity to interact with the officers in a candid, comfortable environment," says Paul Siedsma, director of manufacturing for Glad and a 2003 DLI graduate. "They shared their personal experiences and in a very genuine way talked about what it takes to be a successful leader."

In addition to creating an interactive forum for officers and managers, DLI also brings together peers from across the company. For Paul, who has had a 10-year career in Clorox manufacturing facilities, participating in DLI put him in touch with peer managers from the company's headquarters and other locations around the world. "It was great to hear other leaders at my level talk honestly about their issues, concerns and successes," he says. "It was very energizing for me."

The leaders who facilitate the sessions often take away as much as the participants. "It's a great way to stay closely connected to what's going on in the organization," says Wayne Delker, vice president – research and development, who has led dozens of sessions over the past three years. "The open, informal dialogue helps us determine how we're really doing as an organization. We do an exercise called 'where do you stand?' in which participants literally stand up and say what's working and what's not in the company."

In just three years, more than 700 people have completed the core program for mid-level managers or the "foundation" program for first-time supervisors. In fiscal 2004, DLI is adding an "essentials" program for professional individual contributors, and a "masters" program to help senior leaders leverage their strengths and maximize their potential.



*"Building a strong 'bench' of talented people who are ready to step into leadership roles is a top priority for Clorox. The development programs offered through the Diamond Leadership Institute are one way we're investing in our people and the company's future."*

**Pam Hewitt, Vice President – Human Resources**



*"Clorox people have more in common than building great consumer brands — we also share strong corporate values. From working together toward common goals to maintaining the highest standards of conduct, our values help us make the right decisions for the company, our customers and our stockholders."*

**Pete Bewley, Senior Vice President – General Counsel and Secretary**

