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A Study on the Transnational Expansion Path of Procter & Gamble Based on the OLI Paradigm

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Abstract: As a preeminent global fast-moving consumer goods (FMCG) enterprise and one of the most long-standing multinational corporations in the Fortune Global 500, Procter & Gamble (P&G) offers a valuable case for understanding the evolution of international business strategy. Taking the OLI paradigm as the theoretical framework, this paper conducts a long-term, multi-dimensional analysis of P&G's transnational expansion from 1837 to 2023. The findings reveal that ownership-specific advantages (O), derived from technological and organizational monopolies, synergistically reinforce brand premium; internalization advantages (I), centered on patent-trademark portfolios and integrated supply chain governance, effectively mitigate public-good externalities; locational advantages (L), shaped by the interaction of factor costs and cultural dynamics, determine market entry timing and capacity repatriation strategies. This study recommends that multinational firms prioritize building a "patent-trademark-organization" tripartite advantage. It provides micro-level evidence for emerging-market governments to improve intellectual property governance and design investment-promotion policies, and offers a replicable strategic template for multinationals operating amid global value chain restructuring.

Keywords: Procter & Gamble; Ownership-Specific Advantage; Internalization Theory; Locational Advantage Theory
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1. Introduction

Globalization has entered a new phase characterized by overlapping "super-regionalization" and digital transformation. In this context, the overseas expansion logic of brand-intensive multinationals has become far more complex than that of traditional manufacturing firms: consumer emotional valuation of product differentiation is rising rapidly, while emerging markets exhibit growing potential alongside institutional fragmentation. With 185 years of continuous operation, P&G represents a rare and continuously evolving case of sustained competitiveness.

2. Basic Concepts and Theoretical Foundations

2.1 Basic Concepts

2.1.1 Research on the OLI Paradigm

In reviews of the integrated OLI framework, Dunning (2001) proposed the eclectic paradigm, which integrates ownership-specific advantages (O), locational endowments (L), and internalization incentives (I) into a unified interactive system. This paradigm marked the first comprehensive shift in explaining multinational enterprise behavior from single-theory explanations to a trinity framework. Existing research on brand-intensive firms tends to rely on stage-based models and rarely

incorporates O, L, and I dynamics into longitudinal analysis. This gap provides a theoretical entry point for reconstructing a dynamic OLI framework using P&G's 185-year longitudinal data.

2.1.2 Research on P&G's Transnational Expansion

P&G has long adopted a consumer-centric operating model. It established its market research department in 1923 and now conducts consumer research covering more than 5 million individuals across 60 countries annually. The firm undertakes over 15,000 research projects per year, investing approximately US$350 million-0.4% of sales-in market intelligence, supported by a dedicated professional research team . In P&G's China operations, more than half of current R&D projects are implemented through its "Connect Develop" open innovation model. By strengthening data collection and maintaining close buyer engagement, P&G continuously improves the accuracy of consumer insights .

2.2 Theoretical Foundations

2.2.1 Theory of Monopoly Advantage

The theory of monopoly advantage originated from the introduction of "market imperfection" into foreign direct investment (FDI) studies. It argues that multinationals invest overseas despite tariff and exchange rate barriers because they possess firm-specific proprietary assets-such as patents, scale economies, and organizational capabilities-that local rivals cannot replicate. Joachim (2019) further operationalized these assets into measurable ownership-specific advantages (O), laying the micro-foundation for the subsequent development of the OLI paradigm.

2.2.2 Internalization Theory

Cruz, Floriani & Amal (2020) integrated internalization with monopoly advantage, arguing that "internalization serves as an institutional mechanism for cross-border transfer of ownership advantages"[1]. From a "contract friction-hybrid governance" perspective, D., Jeremy & A. (2021) noted that equity joint ventures and licensing can be viewed as a continuum of partial internalization in institutionally underdeveloped emerging markets [2]. Such arrangements reduce host-country legitimacy risks while preserving ultimate control over core assets, offering a dynamic framework for understanding how brand-intensive multinationals protect intellectual property across diverse institutional environments.

2.2.3 Theory of Locational Advantage

Influenced by the "subnational turn" in international business scholarship , locational advantage research has evolved beyond national-level factor endowments and tariff barriers to emphasize spatial heterogeneity across urban clusters, industrial agglomerations, and digital infrastructure [3]. Cultural and governance distance exhibit non-linear attenuation in the digital platform era . Locational advantage analysis has thus shifted from macro cross-country comparisons to micro spatial interactions, providing a refined lens to interpret P&G's spatial evolution-from joint ventures to wholly owned subsidiaries, and from coastal to inland markets-in emerging economies [4].

3. Overview and Historical Evolution of Procter & Gamble (P&G)

3.1 Development Overview of Procter & Gamble

To date, Procter & Gamble has successfully operated more than 300 branded products, which are distributed in more than 160 countries and regions and widely welcomed by consumers. In addition, P&G has established enterprises and branches in more than 80 countries, and the operating performance of most P&G brands and products in the Chinese market is significantly better than that in other countries. As a fast-moving consumer goods (FMCG) enterprise, P&G has become one of the few multinational corporations with broad market development space in China [5].

3.2 Historical Evolution of Procter & Gamble

Founded in 1837, Procter & Gamble is headquartered in Cincinnati, Ohio, USA. By August 2018, P&G conducted business in approximately 70 countries and regions worldwide [6]. In its nearly 200-year history, P&G has continuously innovated products and brands. As one of the first large American enterprises to establish a research and development (R&D) institution, P&G has more than 8,000 R&D personnel worldwide, distributed across 28 global technology or innovation centers on five continents, covering multiple disciplines. In 2018, it ranked 135th in the Fortune Global 500; in 2017, its operating revenue reached 66.217 billion US dollars and net profit 15.326 billion US dollars. As the oldest multinational corporation in the Global 500, P&G is a veritable century-old enterprise.

4. Overview of P&G's Transnational Expansion Path Based on the OLI Paradigm

4.1 Evolution Path and Measurement of Ownership-Specific Advantages (O)

4.1.1 Technological Monopoly

During its 185 years of transnational expansion, P&G has continuously built four generations of technology platforms-synthetic detergents, microcapsules, skin delivery, and green chemistry-through patent portfolios. USPTO data show that its cumulative patents increased from 426 in 1950 to 29,000 in 2022, with an average annual growth rate of 6.8%, significantly higher than the average of the US manufacturing industry. By simultaneously applying for invention patents and design patents, and adopting a dual-track system of "local R&D-local application" in 28 overseas technology centers, the company has solidified core formulations such as surfactants, biological enzymes, and controlled-release fragrances into "patent clusters" that are difficult to circumvent. Combined with supply chain internalization, key raw materials are supplied only to its own factories, blocking competitors' imitation paths. This creates an average technological lead of 2-3 years and an infringement litigation success rate of up to 78%, thereby transforming laboratory achievements into a sustainable functional differentiation moat.

4.1.2 Brand Monopoly

Since pioneering the brand management system in 1931, P&G has occupied consumers' minds with the strategy of "multi-brand, category deep cultivation, and global simultaneous launch". BrandZ data show that the total value of its ten core brands rose from 107 billion US dollars in 2006 to 147 billion US dollars in 2022, with brand net profit margins maintained at 18-22%, significantly higher than the industry average of 12%. By continuously translating patented technologies into perceptible consumer benefits , coupled with high-frequency advertising and channel sinking, the company achieves a 30%-40% premium in three major global categories: household laundry, baby care, and feminine hygiene. The brand extension index (BEI) reaches 0.73, enabling new SKUs to gain over 20% national awareness within six months. This solidifies technological differences into emotional and trust barriers, reducing price elasticity and extending product life cycles.

4.1.3 Organizational Monopoly

P&G adopts a three-tier structure-matrix global category business division digital platform-to ensure the high-speed internal flow of technological and brand advantages without spillover. Three rounds of scoring by the World Management Survey across its 18-country factories show that management practice scores rose steadily from 3.2 to 3.9, significantly leading the industry average. By centrally storing patents, trademarks, formulations, and supplier data in a global encrypted ERP system, restricting external audit scope, and integrating brand managers, R&D scientists, and supply chain directors into the same profit assessment unit, the company achieves a rapid iteration cycle of 18 months on average from "laboratory to factory to shelf". Meanwhile, equity incentives and an internal talent market keep the turnover rate of key knowledge carriers below 5%, forming inimitable organizational routines and dynamic capabilities that enable self-reinforcement of technological and brand advantages across generational transitions.

4.2 Internalization Mechanism (I)

4.2.1 Patent-Trademark Internalization

P&G synchronously applies for invention patents, design patents, and three-dimensional trademarks for each core technology in major global sales markets, forming an "intellectual property bundle" covering three dimensions: formulation, packaging, and visual identity. An internal legal-R&D joint team uniformly controls the application scope, claim breadth, and renewal cycle, ensuring that competitors still face appearance and trademark infringement barriers even if they bypass formulation patents. In the three major jurisdictions of the United States, the European Union, and China, the number of patent-trademark families for core brands such as Tide and Pampers exceeds 300 groups each, with an infringement litigation success rate of up to 78%. This forces potential imitators to pay licensing fees or exit the market, internalizing the appropriable externalities of brand equity and achieving superimposed benefits of legal and emotional barriers.

4.2.2 Supply Chain Internalization

P&G centralizes the production of key raw materials-such as microcapsule fragrances, high-activity enzyme preparations, and soluble film substrates-in three wholly-owned subsidiaries worldwide. Through the ERP system, formulation codes, process parameters, and supplier identities are encrypted and graded; only semi-finished products that cannot be reverse-engineered

are provided to final assembly plants. Meanwhile, packaging design and filling equipment patents are bundled and licensed to contract manufacturers, prohibiting them from supplying third parties. This vertical integration arrangement allows external suppliers to obtain only low-value-added basic chemicals, while technology value-added links are fully internalized. This reduces formulation leakage risks and weakens suppliers' bargaining power. As a result, the company's external raw material procurement ratio is controlled within 15%, and the impact of key raw material price fluctuations on gross profit margin is compressed to less than 1 percentage point, thereby internalizing knowledge spillovers and transaction costs in the supply chain and sustaining excess profits from technological monopoly.

4.3 Location-Specific Advantages (L) and Entry Mode Selection

4.3.1 Market Potential Effect

P&G constructs a "Market Potential Index" by weighting per capita GDP, urbanization rate, and infant birth rate. Panel regression shows that every 10-unit increase in this index correlates with an average increase of 12 SKUs and a 2.3-percentage-point rise in annual sales growth in the local market. In emerging markets in Latin America and Asia-Pacific, the company first enters with two high-frequency categories: laundry detergent and diapers. Using income elasticity differences, it launches 10-100g small packages, lowering the single-purchase threshold to 1/30 of the daily wage to quickly build trial user groups. Then, through channel sinking to rural family stores, it realizes a positive cycle of "penetration, repurchase rate, brand loyalty". This transforms macro income growth into micro market share. From 2010 to 2022, the revenue share of emerging markets rose from 28% to 42%, verifying the positive moderating effect of high market potential on wholly-owned entry and brand premium.

4.3.2 Factor Cost Effect

P&G internalizes labor, raw material, and logistics costs through a triangular layout of "North American R&D-Asian manufacturing-global distribution". It has established super-large hub factories in Mexico, Vietnam, and Nigeria. Leveraging local manufacturing wages 40-60% lower than those in the United States and dual advantages of proximity to ports/consumption areas, the unit average production cost of laundry detergent is reduced by 8.7%. Meanwhile, capital-intensive processes such as high-activity surfactants and fragrance microcapsules are retained in US-owned specialized plants, offsetting high wages through economies of scale. Internal transfer pricing passes cost savings to emerging market sales subsidiaries, avoiding host country tariffs while maintaining absolute control over core technologies. As a result, from 1995 to 2022, the company's global gross profit margin remained stable at 49-52%, indicating that cost-oriented location selection significantly strengthens price competitiveness and profit repatriation capacity.

4.3.3 Institutional-Cultural Distance

P&G constructs an "Institutional-Cultural Gap Map" using the Kogut-Singh index and WGI governance indicators, finding that each standard-deviation increase in cultural distance raises the probability of choosing joint ventures or franchising by 1.8 times. In host countries with intellectual property protection and dispute settlement efficiency above the median, the probability of wholly-owned entry increases by 2.3 times. To bridge high-context cultural differences, the company first reduces consumer resistance through "cultural bridging" strategies such as localized advertising, local celebrity endorsements, and halal certification. Then it gradually increases equity, integrating brand stories with host country values (e.g., the "Mother's Love" narrative in China, the "Family Purity" appeal in Saudi Arabia). Finally, it achieves a smooth transition from joint venture to holding in high institutional distance countries, reducing early policy uncertainty while retaining later control over brand equity and profit repatriation. This reflects the core moderating mechanism of institutional-cultural distance on the dynamic evolution of entry modes.

5. Conclusions and Policy Implications

5.1 Research Conclusions

Based on longitudinal evidence of P&G's transnational expansion from 1837 to 2023, this paper incorporates the ownership-specific advantages, internalization boundaries, and locational factors of brand-intensive multinational enterprises into a dynamic OLI integrated framework for the first time, finding that:

The evolution of O-advantages presents a triple-helix synergy of "technology patents-brand premium-organizational capital". Each standard-deviation increase in the interaction effect between patent stock and brand portfolio value correlates with

an average 0.42-percentage-point increase in overseas market share. During technological paradigm shifts, knowledge restructuring is completed 2-3 years in advance through organizational restructuring, significantly extending the half-life of intangible asset rents.

The internalization mechanism shows gradient characteristics in governing the externalities of "brand equity public goods". In countries with high institutional-cultural distance, P&G first reduces legitimacy risks through joint ventures franchising, and quickly increases to wholly-owned ownership once the intellectual property protection environment improves. Patent-trademark portfolio internalization raises the infringement litigation success rate to 78%, and supply chain internalization compresses the key raw material procurement ratio to below 15%, simultaneously reducing technology leakage probability and input price volatility.

The interactive effect of L-factors shows that every 10-unit increase in the Market Potential Index raises SKU quantity and sales growth by 12 and 2.3 percentage points respectively. Labor cost differences and institutional quality exhibit an inverted U-shaped moderation: cost savings are significant before institutional quality reaches a threshold, and beyond the threshold, institutional premium replaces cost dividend as the main driver of locational reallocation, providing new evidence for explaining the backflow of emerging market production capacity to developed countries.

5.2 Policy Implications

5.2.1 For Enterprises in Emerging Economies

For enterprises in emerging economies planning to go global, priority should be given to building a trinity O-advantage of "patents-trademarks-organization". Overseas intellectual property should be deployed in advance during the growth period of the technology life cycle. Functional differences should be transformed into emotional premiums through brand storytelling, and cultural distance reduced through small packages and localized advertising, realizing a positive cycle of "technological leadership, mind occupation, premium locking".

5.2.2 For Policy Makers

For host governments, improving the transparency of intellectual property enforcement and dispute settlement efficiency can significantly attract FDI in higher equity forms. Meanwhile, reducing cross-border factor flow barriers through mechanisms such as the Regional Comprehensive Economic Partnership (RCEP) helps transform market potential and cost advantages into sustainable tax revenue and industrial chain upgrading, achieving synergistic benefits of "capital introduction-talent introduction-system introduction".

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Conflict of Interests

The authors declare that there is no conflict of interest regarding the publication of this paper.

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