

Colgate-Palmolive: Turning capacity into Hill's growth

Internal ID: S&F-STR-159

Topic: Operations Strategy, Growth Strategy, Mergers & Acquisitions

Industry: Household Products

Source: Strategy & Finance

Publication date: 5 October 2026

License: Not specified

Decision date: 28 October 2022

On September 30, Colgate-Palmolive completed its purchase of three dry pet-food plants from Red Collar Pet Foods. The plants-in Orangeburg, South Carolina; Clinton, Oklahoma; and Washington Court House, Ohio-were expected to join Hill's Pet Nutrition's network and make products for Hill's Science Diet and Prescription Diet. The deal included approximately 350 employees involved in dry-food operations. Colgate's August announcement described a planned purchase price of \$700 million; its October 28 quarterly filing reported \$727 million in cash consideration. [1][2]

The acquisition addressed a growth constraint, according to Colgate. In its October 28 prepared commentary, management said capacity limitations had affected Hill's volumes during the third quarter. The additional plants, management expected, would allow Hill's to use existing facilities more fully, increase network capacity, expand geographically, and broaden wellness and therapeutic diet offerings. These were management's expectations; no plant-by-plant capacity or demand data were disclosed. [3]

A transition with two kinds of product

The acquired operations came with an existing private-label dry-food business. Colgate said Red Collar would manage that business for a transition period. In October, management said Colgate would continue producing for Red Collar as capacity shifted over "the next few years." Public materials did not give the agreement's exact term, required volumes, service commitments, or rights to change or end production. [1][3]

The transition created a sequencing choice. Keeping private-label production in place could support continuity while Hill's learns the acquired plants and prepares branded products. Shifting capacity toward Hill's sooner could help address supply constraints and support the company's strategic brands, if the lines, product requirements, and agreement permit it. A third approach would preserve the planned private-label schedule while moving compatible Hill's products out of constrained incumbent lines first, then changing the acquired plants' mix later.

Each path depends on facts Colgate had not made public: plant capacity and utilization, line and recipe compatibility, quality qualification requirements, conversion and start-up costs, and the demand by product and geography that Hill's could not serve. The three transferred locations and approximate employee count are known; the skills, training, and staffing changes needed for a branded transition are not. [1][2]

Growth and margin pressure

Hill's third-quarter net sales were \$872 million, up 3.0%. Price increases of 11.0% were partly offset by a 3.5% volume decline and 4.5% foreign-exchange headwind; organic sales grew 7.5%. Hill's operating profit declined 14%, and its operating margin fell 450 basis points to 23.1%. Colgate attributed the gross-profit pressure mainly to higher raw-material and packaging costs. Management also cited supply limitations and retail inventory reductions as factors affecting volumes. These figures do not isolate the Red Collar plants' economics or establish that the acquisition caused the quarter's margin decline. [2][3]

Management forecast an initial impact of roughly 100 basis points on the **company-wide gross-margin line**, on a run-rate basis in the first 12 months. It expected margins to improve as Hill's grew and Red Collar production transitioned out. Management also said acquiring the plants could unlock Hill's growth faster and at lower cost than building equivalent capacity. These are forecasts and management claims; the public materials do not provide the facility economics or a supporting comparison. [3]

Capacity investment was occurring elsewhere in the category. In 2020, Nestlé Purina announced a planned \$450 million dry-food factory in Eden, North Carolina, citing demand. The release described an announced investment and expected opening, not verified output or utilization by the cutoff. [4]

Research lens

Studies of acquired manufacturing plants suggest that post-acquisition results depend on operating fit and the acquirer's ability to manage the assets. A broad U.S. manufacturing study found substantial plant retention, sale, and closure within three years; its performance results do not identify an optimal pace for changing a food plant's product mix. A historical study of Japanese cotton mills links acquisition-era changes in inventory, utilization, productivity, and profitability, but its market and technology are far removed from pet food. These findings suggest questions to investigate; they do not predict Hill's results. [5][6]

Your assignment

Assume you are advising Hill's leadership on October 28, 2022. Recommend how the company should stage the acquired plants' transition while meeting Red Collar commitments and addressing Hill's capacity constraints. State what should happen first, what evidence should determine later steps, and how you would protect product supply and preserve the capabilities of the transferred workforce.

Consider three hypothetical approaches, subject to the agreement and operational feasibility:

1. **Phase product-line conversion:** maintain private-label production during the transition while qualifying Hill's branded production line by line.
2. **Accelerate the shift:** move more capacity toward Hill's brands earlier, only where permitted by the transition agreement and supported by quality, service, and line-readiness evidence.
3. **Preserve the planned mix first:** keep the private-label schedule and use acquired lines to move compatible Hill's production from constrained incumbent lines; change the acquired plants' mix later in the transition.

What information would you request before committing to a path? Which measures would tell you whether the transition is creating usable capacity and protecting service? Explain how your

recommendation handles the company-wide margin forecast without treating it as a plant-level estimate.

Selected sources

1. Colgate-Palmolive, [Aug. 1, 2022 Red Collar transaction announcement](#), paragraphs 1-5.
2. Colgate-Palmolive, [Form 10-Q for quarter ended Sept. 30, 2022](#), Note 4 (printed p. 10; SEC HTML lines 428-446) and Hill's results (printed p. 40; lines 1444-1455).
3. Colgate-Palmolive, [Third Quarter 2022 Prepared Commentary](#), pp. 2-4 and 7-8 (lines 104-122, 198-210, 243-245).
4. Nestlé Purina, [Sept. 30, 2020 Eden factory announcement](#), release body.
5. V. Maksimovic, G. Phillips, and N. R. Prabhala, "Post-Merger Restructuring and the Boundaries of the Firm," *Journal of Financial Economics* 102(2) (2011), 317-343, [DOI](#), author-hosted in-press PDF, Table 3 and Tables 7-8 (PDF pp. 11, 18-21).
6. S. Braguinsky, A. Ohyama, T. Okazaki, and C. Syverson, "Acquisitions, Productivity, and Profitability: Evidence from the Japanese Cotton Spinning Industry," *American Economic Review* 105(7) (2015), 2086-2119, [DOI](#), 2014 author manuscript, §§4.2-4.4 and Tables 3-6 (PDF pp. 16-22).