

A. G. Lafley: Innovating P&G's Innovations

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Innovation is our lifeblood. Innovation is a prerequisite of growth at P&G. Invention is one thing—and it's necessary. But innovation is what counts. Turning invention into an idea that you can commercialize is innovation.¹

— Alan George Lafley, chairman and
CEO, Procter & Gamble Co.

INTRODUCTION

Cincinnati-based Procter & Gamble Co. (P&G), one of the world's largest consumer products companies, registered global sales of \$51.4 billion in the fiscal year 2004. The company had a significant presence in five product categories such as fabric & home care, beauty care, baby & family care, healthcare, and snacks & beverages (Exhibit 1). Since the 1940s the company had doubled its sales in each decade. However, in the 1990s, the company experienced slow growth rates that stood at around 1 percent. By all accounts, the then CEO of P&G, Durk I. Jager, had tried to implement too many changes too quickly (which was admitted by Jager later).² In 1999, he initiated the Organization 2005 program, which was intended to boost sales and profits by introducing an array of new products, closing some unprofitable businesses, and eliminating jobs.³ Analysts opined that with most of the company's resources and best people focused on developing the next blockbuster new product, sales for the established brands were stagnating, market share was eroding, and morale was sliding.⁴ Between January and June 2000, the company's stock slid by 43 percent and the profit margins on the company's biggest brands such as

Pampers, Tide, and Crest began to shrink.⁵ Jager was ousted after only 17 months at the top—the shortest tenure of a CEO ever at P&G.⁶

In June 2000, Alan George Lafley, a 23-year P&G veteran, took over the reins of the company. In contrast to Jager, Lafley enhanced the company's focus on innovating the established brands such as Pampers, Crest, and Tide. He adopted strategies like “connect and develop” (reaching outside for ideas) and “360-degree innovation” (differentiating products not just by formulation but also by design) to accelerate the innovation process. Analysts believed that in a company that had boasted for more than a century of its powers of innovation, this was the newest idea. Under the leadership of Lafley, P&G updated all of its 200 brands and created whole new product categories such as Crest's battery-powered SpinBrush toothbrushes and Crest Whitestrips tooth whiteners, which helped improve the sales and profits of the company. By all accounts, Lafley's focus on innovation helped in turning around the fortunes of the 167-year-old consumer-products giant.

THE EARLY INNOVATIONS

William Procter, an immigrant from England, and James Gamble, an immigrant from Ireland, had settled down at Cincinnati as a candlemaker and soapmaker respectively. When they married the Norris sisters, their father-in-law Alexander Norris encouraged them to become business partners and consequently they founded P&G in 1837.⁷ The company started gaining popularity during the Civil War in 1862, when it was given several contracts to supply soap and candles to

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Global Business Unit	Product Lines	Key Brands
Fabric and Home care	Laundry detergent, fabric conditioners, dish care, household cleaners, fabric refreshers, bleach, and care for special fabrics	Tide, Ariel, Downy, Lenor, Dawn, Fairy, Joy, Gain, Ace Laundry and Bleach, Swiffer, Bold, Cascade, Dash, Cheer, Bounce, Febreze, Mr. Clean/Proper, Era, Bonux, Dreft, Daz, Vizir, Flash, Salvo, Viakal, Rindex, Alomatik, Dryel, Myth, Maestro Limpio, Ivory Dish, Hi Wash, Lang
Beauty Care	Hair care/hair color, skin care and cleansing, cosmetics, fragrances, and antiperspirants/deodorants	Pantene, Olay, Head & Shoulders, Cover Girl, Clairol's Herbal Essences, Nice 'n Easy, Natural Instincts and Hydrience, SK-II, Max Factor, Hugo Boss, Secret, Zest, Old Spice, Safeguard, Rejoice, Vidal Sassoon, Pert, Ivory Personal Care, Aussie, Lacoste, Infusion 23, Noxzema, Camay, Sure, Physique, Infasil, Laura Biagiotti, Muse, Wash&Go, Giorgio, Mum
Baby and Family Care	Feminine protection pads, tampons and pantliners, baby diapers, baby and toddler wipes, baby bibs, baby change and bed mats, paper towels, toilet tissue, and facial tissue	Always, Whisper, Tampax, Lines Feminine Care, Naturella, Evax, Ausonia, Orkid Pampers, Luvs, Kandoo, Dodot
Health Care	Oral care, pet health and nutrition, pharmaceuticals, and personal health care	Charmin, Bounty, Puffs, Tempo, Codi Crest, Iams, Eukanuba, Vicks, Actonel, Asacol, Metamucil, Fixodent, PUR, Scope, Pepto-Bismol, Macrobid, Didronel, ThermaCare
Snacks and Beverages	Snacks and beverages	Pringles, Folgers, Millstone, Torengos, Sunny Delight, Punica

Source: www.pg.com

the armies. Later, the founders' sons took over the reins of the company. James Norris Gamble developed Ivory, a white soap, which was P&G's first popular product. Harley Procter, William Procter's son, brought up the idea of advertising Ivory nationally. In 1882, for the first time, Ivory's qualities, mildness, purity, floating capability, and durability were advertised in a weekly newspaper called the *Independent*. In the early 1920s, the company became one of the first companies to exploit the growing popularity of the radio medium by sponsoring cooking shows on radio to promote its all-vegetable cooking medium. In the early 1930s, its radio soap opera, *Ma Perkins*, achieved nationwide popularity, getting people hooked to more of its soap operas. In 1935, just after five months of

the introduction of television in the United States, the company aired its first commercial during the first major league baseball game telecast on television.

Analysts opined that P&G's advertising acquired a strong sense of direction in 1931, after Neil McElroy, the company's promotion department manager, introduced a new business technique called brand management. McElroy joined P&G in 1925 after graduating from Harvard College. While he was working on an advertisement campaign for Camay soap, he found that Camay was not only competing with brands from Unilever and Palmolive (P&G's competitors), but also with P&G's own brands. In a three-page note, he enunciated his branding principles. He felt that individual teams should manage each brand of the company, and every team member

should have a well-defined role. The team should concentrate on developing and marketing only that brand. The point McElroy wanted to convey was that each brand should be managed like an individual business, and also that each brand should have its own target consumer segment in order to minimize inter-brand competition. McElroy's principles were well received by the management and implemented. McElroy went on to become the CEO of P&G and became one of the most respected CEOs of the company. McElroy's formula for P&G's success was: "Find out what the consumers want and give it to them."⁸

P&G was also one of the first companies to form full-fledged product and market research teams. Its product research laboratory was set up in 1890, when it was selling more than 30 types of soaps. But D. Paul Smelser, a Ph.D. in economics from John Hopkins, created P&G's market research department in 1925. Smelser had joined one of P&G's newly formed units that was to analyze the markets for commodities like cottonseed oil. But he often went to senior executives of the company and asked them product-related questions like what percentage of Ivory consumers used it for cleansing hands and what percentage used it for dishwashing.⁹ Smelser then made them realize how ignorant they were of product data and how that was impeding their marketing efforts. The market research team expanded and used some of the most sophisticated tools to calculate the numerical information for the company's use. Smelser initiated several innovative data-collection techniques, one of which was door-to-door interviews. Young women were groomed and sent to neighborhoods all over the country. They visited homes and asked homemakers detailed questions about every activity for which P&G products were used. This data was provided to the corresponding departments.¹⁰

P&G's Tide, the "washing miracle," was introduced in 1946; Crest, the first toothpaste with fluoride, in 1955, and Pampers diapers in 1961. Through the decades, P&G strengthened its position in several product segments—laundry & cleaning (Tide, Cascade, Dawn), paper goods (Charmin, Pampers), beauty care (Olay, Pantene), food & beverages (Folgers, Pringles), and healthcare (Crest, Scope). It expanded its product and brand categories while increasing the scale of its global operations.

By the 1970s, due to the availability of inexpensive long-distance telephone facilities, the company abandoned door-to-door interviews and adopted tele-surveys and mail-in interviews. The company also adopted the "Day after Recall" method for measuring the impact and memorability of TV commercials. With the help of advertising agencies, the company used

focus groups and other kinds of opinion-sampling techniques to adapt its products to changing needs and tastes and sharpen its commercial messages.¹¹ By the late 1980s, the company was able to build some of the billion-dollar brands—Tide, Crest, Charmin, Downy, Pampers, Folgers, Bounty, Ariel, Pringles, Always, and Pantene.

However, between 1990 and 2000, the company failed to double its sales—a goal that it had met in each decade since 1940.¹² Analysts cited aging brands and lack of innovation as the main reasons. The company had not introduced any new and improved versions of classic brands like Tide and Charmin, a practice that it had followed since the 1940s. Sales of most of its top brands had slowed down and the company had lost its leadership position on some of its classic brands (Pampers lost its leadership position to Kimberly-Clark Corp. for toddlers' training pants, and Crest lost its leadership position to Colgate-Palmolive Co.'s Colgate brand for teeth-whitening and breath-freshening toothpastes). Analysts opined that Kimberly-Clark Corp. and Colgate-Palmolive Co. had innovated more aggressively than P&G did.¹³

The problem with Crest was that it had not added any new features to its products since its inception. The company continued with the same packaging (red, white, and blue box) and the same tagline ("Look, Ma. . .no cavities") over the years. Meanwhile, the consumers had developed concerns beyond cavities—yellowing teeth, sensitive gums, and bad breath. Crest continued with its cavity fighter aspect, while other toothpaste makers had started catering to the changing needs of customers: Arm & Hammer had launched baking-soda toothpaste; Rembrandt had introduced anti-aging and whitening formulas; Tom's of Maine had rolled out natural toothpaste. Consequently, between 1987 and 1997, Crest's market share slipped from 39 percent to 25 percent. The company's problems compounded in late 1997 when Colgate came out with a toothpaste that fought everything: cavities, tartar, plaque, bad breath, and, most important, gingivitis. By the end of 1998, Colgate overtook Crest by grabbing a market share of 30 percent in the toothpaste market, leaving Crest with a market share of 26 percent.¹⁴ In addition, Pampers, (which had once a market share of 70 percent of the disposable-diaper market) had lost nearly half of its market share over the past 20 years. Ivory had lost its leadership position to Unilever's Dove in the soap market. Ivory had a market share of 5 percent, whereas Unilever's Dove had a market share of 20 percent.¹⁵ Charmin, the toilet paper leader for decades, tumbled to No. 2 position.

In January 1999, Jager, a P&G veteran, took over the reins of the company and initiated efforts to boost

PRODUCT	2000 MARKET SHARE (%)	PERCENT CHANGE VS. 1999
Always (Feminine-protection pads)	38.6	-1.1
Tide (Laundry detergent)	38.3	10
Bounty (Paper towels)	39.0	-1.8
Charmin (Toilet tissue)	29.4	-0.3
Downy (Fabric softener)	46.4	-0.1
Folgers (Coffee)	33.0	-0.1
Pampers (Disposable diapers)	24.5	-0.7
Pantene (Hair-care products)	13.1	+0.2
Pringles (Potato crisps)	5.4	-0.9

Source: Robert Berner, "Can Procter & Gamble Clean Up Its Act?" www.businessweek.com, March 12, 2001.

the sales growth. As part of a new strategy to streamline management, boost sales growth, and accelerate new product development, Jager unveiled the Organization 2005 plan, which focused on research and development rather than on geographical expansion. As part of the \$1.9 billion global restructuring program that came into effect on July 1, 1999, P&G planned to eliminate about 15,000 jobs worldwide over six years—approximately 13 percent of its workforce—and close 10 plants.¹⁶ Jager also had an aggressive plan: Launch a slew of new products in the hope of finding the next big billion-dollar product, like Tide or Pampers.¹⁷

Jager invested about \$200 million—15 percent of the company's R&D budget—to develop entirely new product categories. The company introduced products such as Febreze, a spray-on odor eliminator; Swiffer, a dry mop; Dryel, a home dry-cleaning product; Thermacare, a heat wrap; Fit, an antibacterial food spray; and Impress, a high-tech plastic wrap.¹⁸ But most of these products failed in the market. Industry experts were of the opinion that Dryel flopped because consumers felt that it was basically a freshening process and involved no actual cleaning. The product was supposed to be a substitute for drycleaning, but it did not serve the purpose.¹⁹ P&G sources said that the new introductions were the results of consumer feedback, but some industry observers opined that it was a move to gain shelf space.²⁰ By all accounts, Jager had overspent on launching new products and he had introduced too many new products too quickly. Moreover, Jager's other ambitious initiatives backfired. In an effort to globalize P&G's brands, Jager decided to sell a particular product under the same name all around the world. So in Germany, the name of the company's dishwashing liquid was changed from Fairy to Dawn (the name under which it was sold in the United

States). But since no one in Germany knew what Dawn was, P&G's sales for the brand plummeted.²¹

Analysts mentioned that Jager had introduced expensive new products that never caught on while letting existing brands drift. While most of the company's resources and best people focused on developing the next blockbuster new product, sales for the established brands were stagnating and market share was declining (Exhibit 2). In his first and last full fiscal year, earnings per share rose by just 3.5 percent compared to an estimated 13 percent. And during that time, the share price slid by 52 percent and the market capitalization of the company declined by \$85 billion.²² Industry experts felt that Jager, during his tenure of 17 months, had grown one thing: costs. In June 2000, Jager was ousted from his post following the poor financial performance of the company. When Lafley took over from Jager as CEO in June 2000, the company was, according to analysts, in bad shape. Share price had fallen by 43 percent and P&G's market value had diminished by \$70 billion during the last six months of Jager's leadership.²³ Profit margins on P&G's biggest brands, Pampers, Tide, and Crest, had gone down.

LAFLEY AND "THE INNOVATION FOCUS"

Lafley, who had been with P&G for the past 23 years in various positions, was part of the campaigns that had both succeeded (Liquid Tide) and failed (Physique, a high-end shampoo). From his experience, he realized that the company needed a complete makeover, but with a back-to-basics approach. Lafley chose P&G's ten bestselling brands that each generated sales of over \$1 billion annually and refocused the company's attention on them (Exhibit 3). They were allotted the bulk of the company's resources, its manpower, and its

