Connect and Develop: Implementing a New R&D Strategy at Procter and Gamble

**by**

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Procter and Gamble has relied on the traditional research and development practices used by most other large corporations, referred to as the “bricks-and-mortar” approach. This means that all technological innovations, new product lines, or process improvements have to come from within the company and nowhere else. Larry Huston and Nabil Sakkab describe this old school and outdated approach to R&D in an article titled “Connect and Develop”; “Most companies are still clinging to what we call the invention model, centered on bricks-and-mortar R&D infrastructure and the idea that their innovation must principally reside within their own four walls.” (Huston & Sakkab, 2006, p. 3) For large companies like Procter and Gamble this traditional R&D model needed to create organic growth of 4% to 6% per year, this was the equivalent of a $4 billion business per year for Procter and Gamble. The lack of this organic growth at Procter and Gamble was quickly eroding their market capital. In fact, by the year 2000 Procter and Gamble saw their market cap fall by more than 50%. Huston and Sakkab describe this steady slide downwards, “Our R&D productivity had leveled off, and our innovation success rate – the percentage of new products that met financial objectives – had stagnated at about 35%. Squeezed by nimble competitors, flattening sales, lackluster new launches and a quarterly earnings miss, we lost more than half our market cap..” (Huston & Sakkab, 2006, p. 3) The year of 2000 also brought a new CEO to Procter and Gamble, A.G. Lafley. Lafley immediately challenged his key executives to change Procter and Gamble’s business model for innovation. Procter and Gamble rose to the challenge and was able to redesign their R&D and reshape the future of their business by collaborating and sharing information with suppliers and other organizations in search of a mutually beneficial outcome.

When Lafley took over as CEO in 2000 he ordered a very specific command to the employees of Procter and Gamble, “Lafley made it our goal to acquire 50% of our innovations outside the company. The strategy wasn’t to replace the capabilities of our 7,500 researchers and support staff, but to better leverage them. Half of our new products, Lafley said, would come from our own labs, and half would come through them.” (Huston & Sakkab, 2006, p. 3) It was through this mandate the *connect and develop* innovation model was born. Procter and Gamble was able to revolutionize the traditional R&D practices by posing open challenges to problems that needed a solution. The obstacle now was how to reach qualified individuals with these questions that needed solving. Procter and Gamble created proprietary and utilized open networks to disseminate their questions and to receive responses. Right away Procter and Gamble recognized the collaboration potential with suppliers; “Our top 15 suppliers have an estimated combined R&D staff of 50,000. As we built connect and develop, it didn’t take us long to realize they represented a huge potential source of innovation. So we created a secure IT platform that would allow us to share technology briefs with our suppliers…Since creating our supplier network, we’ve seen a 30% increase in innovation projects jointly staffed with P&G’s and suppliers’ researchers. In some cases, suppliers’ researchers would come to work in our labs, and in others, we work in theirs – an example of what we call “cocreation,” a type of collaboration that goes well beyond typical joint development.” (Huston & Sakkab, 2006, p. 6) Utilizing open networks proved to be even more fruitful than the proprietary network Procter and Gamble used to communicate with their suppliers. Four open networks were implemented; NineSigma, InnoCentive, YourEncore, and Yet2.com. Procter and Gamble were instrumental in helping to create NineSigma, which is a company that helps science and technology companies with problems to reach other companies, universities, private labs, consultants, and government for possible solutions. Huston and Sakkab demonstrate how useful NineSigma has been for Procter and Gamble, “Any solver can submit a nonconfidential proposal back to NineSigma, which is transmitted to the contracting company. If the company likes the proposal, NineSigma connects the company and solver, and the project proceeds from there. We’ve distributed technology briefs to more than 700,000 people through NineSigma and have as a result completed over 100 projects, with 45% of them leading to agreements for further collaboration.” (Huston & Sakkab, 2006, p. 6) YourEncore is interesting as well because it connects more than 800 high performing scientists who have retired and work on contract. Along with NineSigma the Yet2.com will help companies reach individuals outside of the company for solutions to their R&D needs. Yet2.com is different from the others because it is an online marketplace that brokers information both into and out of companies, labs, universities, and governments.

Although Procter and Gamble opened itself up for companies wanting to collaborate in an effort to rework the way they fund R&D, the most important question is did it work? “The model works. Today, more than 35% of our new products in market have elements that originated from outside P&G, up from about 15% in 2000. And 45% of the initiatives in our product development portfolio have key elements that were discovered externally…our R&D productivity has increased by nearly 60%. Our innovation success rate has more than doubled, while the cost of innovation has fallen. R&D investment as a percentage of sales is down from 4.8%in 2000 to 3.4% today.” (Huston & Sakkab, 2006, p. 4) This example of Procter and Gamble’s success collaborating with outside companies for R&D ideas and solutions should be a guiding light for other companies to follow. Companies can use the collaborative approach to solve problems or improve efficiency within any aspect of their business. Efficiencies within a products supply chain, logistics, marketing, R&D, or any other business unit. Companies need to shed the old school way of doing business; walling yourself off from others and only contracting out non-essential functions. By opening lines of collaboration between companies seeking solutions and those in a position to provide the answer, both are positively impacted financially and a close working, reliable relationship can be forged to ensure both collaborators future financial security.

# Bibliography

Huston, L., & Sakkab, N. (2006, March). Connect and Develop: Inside Procter & Gamble's New Model for Innovation. *Harvard Business Review*, p. 10.