

Open innovation powers growth

Procter & Gamble is raising its target for new products developed with external partners, writes **Jonathan Birchall**

Procter & Gamble, the world's largest consumer goods company, is an acknowledged global industry leader in new consumer product innovation. According to data from IRI, the market research firm, it produced five of the top 10 US non-food product launches in 2009. But as it pursues its drive to add another 1bn customers to the estimated 2.5bn it already reaches, Bob McDonald, its chief executive, says that the road to more innovation should increasingly embrace other people's good ideas.

"We need bigger innovations that create more value," Mr McDonald told this year's annual gathering and awards event for companies and research institutions that work with P&G. "We want you to come to us with your big ideas first."

It is now commonplace for consumer goods companies to work with outside partners and to pursue "open innovation" (see panel). But P&G may be the one that has made the largest deliberate effort to expand its reach since the launch of its Connect & Develop programme in 2001 by A.G. Lafley, its then chief executive.

In an attempt to open up the company and to end its resistance to innovations "not invented here", Mr Lafley said he wanted at least 50 per cent of its new products to involve an outside partner. The company met that goal four years later and the share is now about 60 per cent.

External co-operation has delivered a stream of successful "big idea" products. Last year's IRI list included Tide Total Care, a premium version of its Tide detergent, which was number two by sales on IRI's 2009 top 10 non-food products launch list. It was developed with external research from Sweden's University of Lund and from two small chemical companies. P&G's Always Infinity feminine care brand was at number eight – it uses a patented absorbent foam material from a manufacturing process developed with an external partner.

P&G's list of partners includes other large corporations, such as food groups ConAgra and General Mills, and rivals, including its Glad brand plastic bag joint venture with Clorox, set up in 2003. Its most unexpected government research partner may be the Los Alamos National Lab, the US defence technology research centre. Los Alamos initially helped P&G to regulate the production of the absorbent gel used in nappies, using theoretical data analysis systems developed for weapons technology.

But part of P&G's challenge is now learning how to work better with small and medium-sized companies, and entrepreneurs. "That to me is the largest barrier," says Bruce Brown, P&G's chief technology officer who also oversees about \$2bn of spending on its internal R&D. "How do we really learn to work better with some of the small and medium-sized entrepreneurs?"

Bill Weedman, head of the Connect & Develop programme, says: "It's normal for new partners to have a concern that they will be overwhelmed" and that "some small entrepreneurs don't have the patience to work through" P&G's exhaustive procedures.

Even when the company begins to explore potential co-operation, it may still decide a proposed partnership does not work. "We most often say no thank you, even in proactive searches," says Mr Weedman. "Fairly routinely... we'll refer them on to other companies, up to and including competitors. We never want them to have an excuse to not call us first."

Mr McDonald has now called for the value of the Connect & Develop programme's contribution to annual sales growth to triple by 2015, so that products launched with outsiders account for \$3bn of annual sales growth, up from \$1bn now. At current growth rates, the target would raise the share of new annual sales growth from the initiative from about 25 per cent to more than 60 per cent.

Mr Brown says the target marks a second stage in the programme's development, after a first stage that managed to create the cultural change sought, but risked becoming a "tick the box issue".

"Instead of just focusing on the number [of external partnerships], let's focus on the value we can cre-

ate," he says.

"When we get those really, really big ideas, we want to scale them more quickly across the company and use them in more places across the company."

Shekhar Mitra, head of research and development for P&G's global beauty and grooming business, recalls that a decade ago P&G was not even regularly scanning related research work.

"When we started to change our culture, we found out 'Holy cow! There's a world of minds out there that can bring innovation to us'," he says.

He was involved in one of the programme's early success stories, the creation of its Olay Regenerist anti-ageing creams, which was built around molecular peptides developed by Sederma, a French company, part of the Croda group.

"As a small company, we had little chance of getting in there until P&G switched its policy," says Karl Lintner, who headed Sederma at the time.

Sederma has worked with many of P&G's global rivals too, and says that potential partners with large corporations need to realise that "sometimes – like with most bigger companies – things take longer than you think, so it's a bit frustrating".

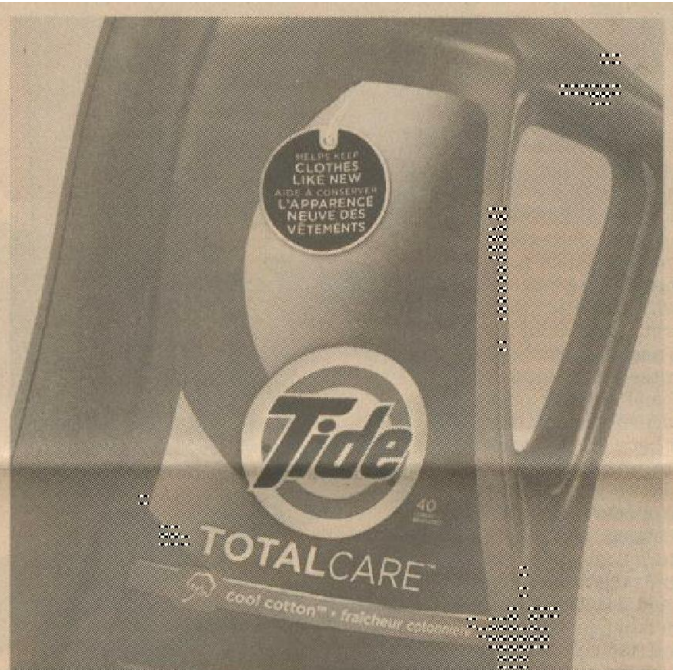
The Olay brand is also involved in one of the company's latest product launches, in partnership with Syneron, an Israeli technology company, that has developed a patented anti-wrinkle beauty salon treatment called ReFirme. After four years of joint development with Syneron, P&G's business in Canada has started selling its Olay Professional ReFirme treatment for C\$250 (US\$248).

P&G is also seeking approval for the product in both the US and the UK, a demonstration of what Mr Weedman says is its ability to deliver the kind of rapid growth and scale that would have taken a smaller company years or decades to attain on its own.

"When we decide we are going to take something global, we have the wherewithal," he says. "If you get through working with P&G and it makes sense, when we go global, you will go global. And it will be very quick."



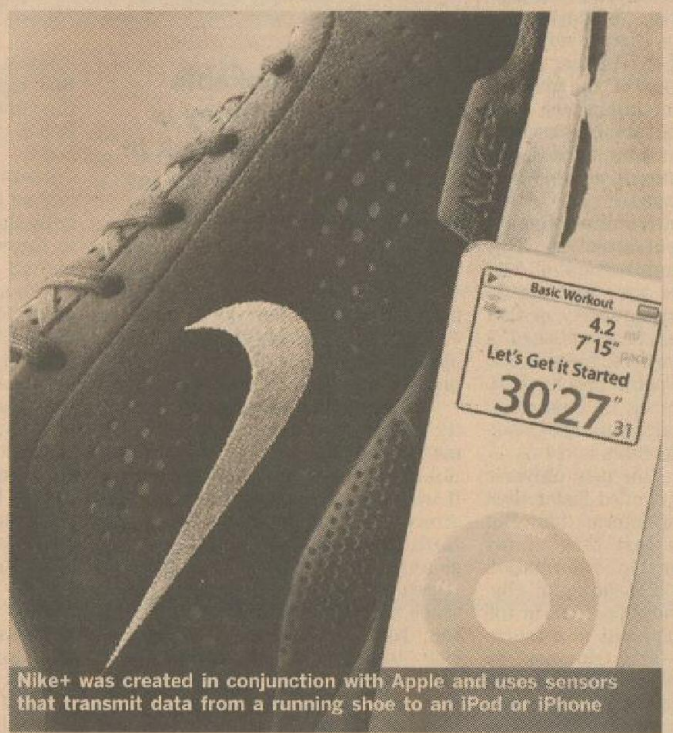
P&G's Olay Regenerist cream was created in partnership with Sederma, a French company that is part of the Croda group



P&G's Tide Total Care was developed with external research from the University of Lund and from two smaller chemicals companies



GlaxoSmithKline's Aquafresh White Trays were developed in partnership with Oratech, a private dental product company



Nike+ was created in conjunction with Apple and uses sensors that transmit data from a running shoe to an iPod or iPhone

Other innovative partnerships

● **Nike+**. Nike worked with Apple to develop a sensor that can transmit data from the heel of one of its running shoes to the runner's iPod or iPhone. Launched in 2006.

● **Little Swimmers Sun Care**. Kimberly-Clark created adhesive plasters for children that use ultraviolet sensitive material to warn parents of the risk

of sunburn. The product was developed and marketed in partnership with SunHealth Solutions, a Florida-based company. Launched in 2007.

● **Aquafresh White Trays**. GlaxoSmithKline Consumer Healthcare's entry into the tooth whitening strip market in 2007 came through a partnership with Oratech, a private manufacturer

supplying dental products.

● **S'mores marketing**. Kraft, maker of Graham Cracker biscuits and marshmallows, worked with Hershey, the US chocolate maker, on a joint summer marketing campaign to promote traditional "s'mores" – a combination of all three consumed over July 4 bonfires.