



**Innovation in Outsourcing:
The Case of The Procter & Gamble
Company**

P&G

Case Study

*by the Academic Team from The University of Tennessee,
College of Business Administration*



IAOP's Global Excellence in Outsourcing Award

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P&G: Taking Innovation to New Levels of Value through Partnership

INTRODUCTION

Many people believe innovation springs serendipitously from some kind of “aha” moment – literally a bolt out of the blue.

P&G *knows* differently. Innovation has been the corporate lifeblood since P&G’s humble beginning in 1837 when William Procter and James Gamble signed a partnership agreement formalizing The Procter & Gamble Company. Today, P&G’s products touch and improve the lives of over 4.8 billion consumers in 180 countries. Fifty “Leadership Brands” include some of the world’s most well-known household names with 25 of these 50 brands each generating more than \$1 billion in annual sales.

Simply put, this degree of corporate growth could not be achieved without significant innovation across all aspects of the business even extending to our relationships with suppliers and partners. In 2001, P&G radically changed its approach to Research & Development (R&D). Instead of relying solely on its own, highly capable R&D resources, P&G welcomed ideas from individual entrepreneurs and scientists from other companies, and universities, the concept came to be known as Connect & Develop; the goal was to gain half the ideas from inside and half from outside the company.

Connect and Develop brought many great ideas, but the question remained. How does a company like P&G drive innovation in its outsourcing efforts? After all, P&G’s outsourced service providers are companies that have their own priorities, business objectives and investment requirements. Larry Bridge, P&G’s Global Facilities and Real Estate (F&RE) Governance Manager, explains. “In the world of outsourcing, innovation has to come from all places - including suppliers. Outsourcing is a strategic decision where a company decides it can benefit from expertise and industry knowledge externally. And, to be successful at driving innovation in outsourcing, we must work in highly-strategic partnerships with our very best suppliers on jointly- defined business priorities.”¹

GLOBAL BUSINESS SERVICES: THE BEGINNING OF THE GENESIS TO DRIVE INNOVATION IN OUTSOURCING

In 1999, P&G executives decided to centralize non-core functions into a newly organized Global Business Services (GBS) group as a critical piece of their operational platform. The goal was to reduce costs by \$500 million within five years.

P&G challenged William Reeves, Director of Global Workplace Services, to re-vitalize P&G’s facilities management operations. The solution needed to be effective long-term, accountable, and reliable. Reeves set out to re-invent outsourcing in the F&RE sector.

He no longer wanted P&G employees and vendors to simply take CARE of their buildings; he wanted to develop an outsourcing relationship where the future P&G service provider took CHARGE of their buildings.²

In 2003, after a competitive bid process, P&G ultimately picked Jones Lang LaSalle as its partner of choice. They forged ahead with what would be one of the largest outsourcing contracts in the F&RE sector. Known as a “Vested Outsourcing” relationship and featured in the book *Vested: How P&G, McDonald’s and Microsoft are Redefining Winning in Business Relationships*, the agreement flipped the conventional outsourcing approach on its head; P&G would focus much of the business model around contracting for transformation instead of contracting for day-to-day work under a transaction-based or managed services agreement.

P&G and its facilities and real estate partner, Jones Lang LaSalle (JLL), built an Innovation Program that successfully delivers impactful innovations. This is an innovation in and of itself that deserves to be shared within the outsourcing community. Bridge comments on the IAOP GEO award and what IAOP members can learn. “P&G’s Global Business Services (GBS) manages hundreds of outsourced service providers on a strategic basis. We’ve been working with JLL since 2003 when we commissioned a global facilities outsourcing agreement. JLL has proven they can meet P&G’s innovation challenges year over year. In fact, JLL has won P&G’s Supplier of the Year award three times in just 10 years. If you can deliver impressive innovation in areas such as building maintenance, janitorial, meeting services, mail room management, you *should* stop and pause and see what you are doing right.”³

JLL’s former CEO and CFO Lauralee Martin recalls the strategic focus both companies put on the relationship and getting the deal right. “Right from the start the relationship enjoyed recognition, support, and drive from both P&G and JLL. It took courage. The focus, the objectives, it was a partnership.”⁴

P&G INCENTS JLL TO DELIVER INNOVATION

Reeves believed in the arrangement, citing it as “the direction of the future.”⁵ Bridge agreed and believed challenging and incenting JLL for innovation would provide flexibility, better alignment of changing business goals, and a stronger alliance. Bridge comments, “You get what you measure and, in outsourcing, you get what you incent.”⁶

The conventional approach is to incent suppliers to hit operational Performance Metrics – or SLAs. While SLAs are established in the facilities and real estate industry and easily measured, focusing on operational metrics creates what P&G refers to as “green scorecards and red faces”. That happens when suppliers hit all of their performance metrics, but P&Gers become unhappy with the lack of change and new ideas.

Bridge comments, “Focus on change and innovation often works against well-established performance metrics and in some cases current supplier revenue. Challenging and incenting change provides the supplier the opportunity to align with the customers’ changing business needs, to maintain a strong relationship and to drive value for the customer and growth through potential new business opportunities for the supplier.”

Bridge continues, “Our agreement with JLL creates an environment that drives innovation. The transparency, cost pass through, and incentives features allow us to be aligned versus being on opposites sides of the table negotiating. We like to think of this approach as pulling on a rope in the same direction. The traditional approach is to have a buyer and supplier on each end of a rope, with each party giving-and-taking as they negotiate. The P&G way of thinking is to have JLL on the same side of the rope as P&G, with both parties pulling in the same direction to achieve P&G’s cost and service objectives – and drive innovation to solve our ‘wicked problems’.”⁷

THE INNOVATION PROGRAM

All too often when companies think about innovation, they count the number of new ideas or chase “shiny objects” where brainy people pilot new technology or products.

Bridge describes why this approach creates issues. “People spend all their time generating ideas and products/services, often ‘piloting’ them over the next two years looking for a business need to fix. But spending time, energy and money on ideas or gadgets frequently misses the true business need. It is imperative to start with the business need, and then apply an innovation that will solve the problem.”⁸

P&G and JLL wanted to avoid this common trap and instead create an Innovation Program where projects would be carefully selected to solve P&G’s most “wicked problems” and deliver true business value. To Bridge, “Innovation is not rocket science; it’s about bringing added value, not about the shiny new object. The ‘wicked problem’ documentation is really the currency of GBS Innovation and is used to stay focused on the business need vs. chasing gadgets.”⁹

The program itself is innovative—as it measures and incents JLL on its ability to deliver innovations that drive true business results—not just generate cool ideas or come up with a solution to a problem that does not truly drive value. The program has five attributes.

1. Structured Gate Process with Strong Governance

One of the most critical attributes is a structured gate process. The process the Innovation Program uses is best described as a pipeline where ideas go through a conversion process all the way through implementation.



Once an innovation is approved, it becomes an initiative and follows a stage gate project management process. This process makes it easy to prioritize and allocate resources to the highest potential ideas. Bridge comments, “Pilots are fun, but the idea isn’t marked as an innovation until it becomes a service supporting P&G’s business priorities. And what we really care about are the results that flow from successful implementation of an idea.”¹⁰ Deliverables and results are documented in an initiatives database that tracks all initiatives, the stage gate status, owner and the results. This process diligence

enables P&G and JLL to ensure they are collectively focused on the right things for the future.

To run smoothly, P&G and JLL couple the stage gate process with strong governance. The Innovation Program is led by an Innovation Council made up of the P&G Relationship Manager, the JLL P&G Account Executive, the JLL Corporate Innovation Program Leader and JLL's Chief Information Officer (CIO). The Council prioritizes the ideas and monitors the success of the initiatives. The Council is supported by a joint Innovation Team, led by a dedicated JLL P&G Account Innovation Manager and a P&G counterpart. Functional service owners and regional innovation leaders comprise the team that is chartered with deployment of the initiatives. Deployment includes managing the innovation process and initiatives as well as evaluating and measuring progress, deliverables and success.

The Innovation Program brings together the Innovation Council and the Innovation Team in bi-annual meetings, one virtual and one face to face. The goal is to align priorities with the P&G and JLL Joint Business Plan and the larger GBS and P&G business priorities. Through these regular connections, P&G and JLL identify what priorities need to move forward and what work needs to stop. This is also where the companies pinpoint new and painful "wicked problems". There is also an opportunity for JLL to share long-term strategies, sneak peeks at new products in development, and ideas from other JLL business lines and industries that JLL Innovation Leadership is researching or studying.

2. Innovation Performance Metric

The second unique feature is an Innovation Performance Metric, supported by an Innovation Initiative Scorecard that is designed to measure and validate innovation deliverables. The scorecard measures (with weighted values) **Fit** – Strategic Importance, Problem Resolution, Business Risk; **Feasibility** – Scalability, Reliability; and **Attractiveness** – Direct Value, Indirect Value, End-User Satisfaction.

Once defined, the innovations are prioritized using the Innovation Initiative Scorecard. Using the scorecard, the group literally "scores" each innovation to determine the importance of the issue and the value the solution provides. The overall score needs to fall above a minimum score for each criteria as well as a minimum total score. Over the first several years, 46 initiatives were presented. 1/3 did not meet innovation standard, but were continued because they helped meet controls, regulatory, health or safety needs. 1/3 qualified as Innovation according to the scale. 1/3 did not meet scoring standards and were sent to an "Ideas Warehouse" for possible future action.

3. Global Focus and Incentives

P&G's goal is to leverage its scale. After all, an innovation that is successful in one location may have great potential in all 60+ of P&G's countries. As such, a primary goal is completing deployments in as many locations as it makes sense.

Bridge reminds, "In outsourcing, you get what you incent, and you get what you measure."¹¹ A key feature of the program is that P&G ties JLL's incentives to how well they deploy new innovations. In order to earn the incentive attached to the Innovation

Performance Metric, JLL must deploy four or more Innovation Initiatives in three or more regions.

Bridge comments on the “global” nature of how P&G and JLL manages and measures innovation. “The Innovation Performance Metric was defined around P&G’s portfolio which is global and dispersed. P&G has a diversity of space in 60+ countries, but not all services and initiatives apply in all regions. For example, smaller remote office spaces have different business needs than larger technical centers. The Innovation Performance Metric is designed to incent implementation of ideas that have a broad impact but not force implementation in areas where the idea is not truly valuable or needed. The emphasis on continued full deployment results in a continuous portfolio of initiatives balanced with a focus of getting out of pilots and into smart deployment where innovation gets leveraged and really creates value.”

4. Balanced Perspective

Another key to success is a balanced perspective. Innovation matters, but so does operational excellence, reliability and customer satisfaction. “Focusing on any one of those items cannot result in performance degradation in any of the others,” says Bridge. As such, the Innovation Performance Metric is also balanced with the other performance metrics around reliability, efficiency, customer satisfaction and savings. P&G and JLL want new ideas and services, but new services and solutions must have positive benefits and savings. This approach creates a balanced, positive motivation for JLL to keep all areas of the relationship healthy and growing and ensures P&G is retaining high levels of service while bringing next generation ideas to life.

5. Emphasis on Transparency and Analytics

The P&G/JLL Innovation Program is heavily focused on leveraging data, analytics and technology to manage the real estate portfolio, assets and utilities. Results are managed effectively, by both parties, through transparent data, measures and analysis. Bridge explains the importance of transparent, data driven decision-making. “Anytime you talk about innovation, it can be hard to define, and the old adage ‘I’ll know it when I see it’ comes to mind. However, this is not an approach that sits well with P&G. We demand accurate data and measurements to help us make decisions and set priorities easier, faster and better. This is simply the best way to make sound business decisions.”¹²

The transparency of P&G and JLL’s joint Innovation Program and the analytics that stem from the performance measures and metrics make innovation less elusive. Solutions to “wicked problems” are evaluated and quantified against the fit with the Joint Business Plan, the feasibility and scale and financial and end user value. As Bridge points out, “A transparent, data driven approach means we are all on the same page, marching to the beat of the same drum.”

EXAMPLE IN ACTION: ENVIRONMENTAL SUSTAINABILITY AND SMART BUILDINGS

Perhaps no better example shows how the companies work together to transform and drive value for P&G business and customers than P&G and JLL's work on environmental sustainability efforts. P&G aspired to aggressively shrink energy use and resource waste throughout the entire supply chain. And it wanted JLL's help. Both companies committed to make a meaningful difference in the area of environmental sustainability and made it a focal point in 2007 when they renewed their contract.

"JLL was excited about the challenge for much the same reason as P&G was," explained Colin Dyer, JLL's CEO. "JLL is the leading global real estate services and investment management company. Buildings typically contribute 40 percent of a country's total CO² emissions."¹³

Lauralee Martin summed up JLL's philosophy, "When we made our commitment to sustainability, we embedded real talent in this area. If you are just going to look at something from just the cost perspective (energy reduction) – you miss the whole value chain (driving culture change)."¹⁴ Shared values matter.

One of their first jobs was to tackle P&G's 1.5 million-square-foot headquarters facility in Cincinnati – converting it to receive an Energy Star label in February 2007, becoming one of the largest of the 650 private-sector office properties to gain such a distinction. Other projects also offered up savings, contributing to reducing global energy consumption by 14%.¹⁵

Both companies were looking at growing concern about rising greenhouse gas emissions. Some of P&G's sustainability goals include:

- Powering P&G plants with 100% renewable energy
- Using 100% renewable or recycled materials for all products and packaging
- Having zero consumer and manufacturing waste go to landfills
- Designing products that delight consumers while maximizing the conservation of resources, i.e. 70% of consumer washing machine loads will use cold water¹⁶

P&G and JLL agreed sustainability was truly a "wicked problem", but believed innovation can make it an opportunity.

One of the innovations to come out of the Innovation Program is IntelliCommand™ or what industry commonly refers to as "Smart Buildings". The concept is simple - a typical facility management protocol includes commissioning a building once every five to ten years. Commissioning is the process of making sure a facility is operating the way it was designed and built. Recommissioning is the process of going back over time to ensure the building continues to operate as intended. The issue is building needs change with the seasons, by operating hours and through general operations. Finding and correcting these changes is fundamental loss analysis. The idea is to apply low-cost new technologies, big data and analytics to create a "Smart Building" solution that provides "continual commissioning" in which building equipment is constantly adjusted to maintain peak performance.

JLL took the wicked problem as a challenge and developed a high-powered technology platform - built on Pacific Controls Machine to Machine (M2M) technology - known as IntelliCommand. The IntelliCommand program launched in twelve buildings across four test sites covering 3.2 million square feet of building operations. The initial deployment included office, laboratory and R&D buildings so P&G could establish best practices for different asset types and apply lessons learned to future deployments.

Implementation happened as a four-stage process:

1. Data collection of equipment, utilities, schematics, maintenance schedules, and sequence of operations
2. Testing and development of analytics, and validation of the data and interface
3. Deployment, including site team training, development and testing of work-order functionality and commissioning
4. Review of ongoing operations, reporting, work order follow-up, event management and alarm reporting.¹⁷

The IntelliCommand solution immediately began highlighting discrepancies that led JLL operations experts to failing components and scheduling glitches that were either previously undetectable or discovered during seasonal changes and scheduled activities. Pre-IntelliCommand, engineers followed best practice, trouble shooting procedures... The IntelliCommand platform is able more completely analyze the systems and to identify and report any aberration with the system. The data analytics provide a powerful, proactive tool that keeps things running at optimum level and prevents expensive and time consuming equipment breakdown.

If IntelliCommand encounters an issue that can't be corrected immediately, it alerts a remote control center staffed 24/7 by JLL experts who determine whether the urgency of the threat warrants immediate action or whether the matter can wait for a regularly scheduled call. Linking the analytics to the work order systems and readily available, handheld technologies provides an affordable and quick means to immediately address issues.

"We all knew continuous commissioning and the IntelliCommand idea had high potential," states Bridge. "However, we started seeing great results right out of the gate." Within less than 12 months, IntelliCommand delivered energy reduction of 8 to 13 percent in the facilities included that were in the initial test. On energy savings alone, the smart building program paid for itself in less than three months."¹⁸

Reducing P&G's energy use and carbon footprint was the most obvious reason to invest in Smart Building solutions, but there are many other important benefits. Identification of failing equipment is a huge money saving function. Analyzing IntelliCommand data optimizes maintenance management by using performance curves for large equipment such as chillers and boilers, and by scheduling preventive maintenance. As a result, equipment damage is reduced and expensive repairs are avoided. The business analytics data also helps determine the best option for correction – equipment retrofit, relocation, capital improvement project, or, even, disposition.

Bridge is pleased with the results. "By converting to a smart building system that uses predictive analytics to detect building performance abnormalities before they occur, we not only achieved energy savings in our corporate real estate portfolio, but we also improved building equipment reliability and the physical comfort of our employees."¹⁹

INNOVATION BY THE NUMBERS

Innovation continues to be the lifeblood of P&G's success in both improved products and processes. While P&G's innovation traditionally revolved around product development, the partnership with JLL shows that innovation can be found in even the most basic of processes such as facilities management. The key has been in systematizing an innovation process – including measuring the real value from deploying innovations. “We’ve made innovation a disciplined, reliable, repeatable and measurable process,” explains Bridge.²⁰

But process is only part of the equation. A key to P&G's success is its *choice* to work in a highly strategic and collaborative manner with suppliers like JLL. Bridge states, “We can’t just sit back and take all of the credit for the innovations. Our success really stems from choosing to work in highly strategic partnership with JLL.”²¹

Lydia Jacobs-Horton, Director Facilities and Real Estate for P&G, is proud of the success experienced through the Innovation Program. “This kind of achievement can only be realized by challenging the status quo and bringing innovation – the power of the AND. We expect our suppliers to bring innovative ideas to help us with our toughest problems and that is exactly what JLL has done.”²²

¹ Corenet article; November-December, 2013; P&G Innovates Again; Next Gen Smart Buildings; Bridge, Larry

² Corenet Leader article; November-December, 2013; P&G Innovates Again; Next Gen Smart Buildings; Bridge, Larry

³ Phone interview: Monday, December 23, 2013; Larry Bridge, Kate Vitasek, and Jeanne Kling

⁴ Vested For Success Case Study; How P&G and JLL Transformed Corporate Real Estate; A Report Authored by Vitasek, Kate, Manrodt, Karl PhD, and Kling, Jeanne; University of Tennessee; 2011

⁵ <http://www.tradelineinc.com/reports/2004-8/procter-gamble-leverages-scale-going-beyond-its-own-walls>; Tradeline Magazine; Procter & Gamble Leverages Scale by Going Beyond its own Walls; *Outsourcing Agreement Signals Shift in Business Structure*; Published: 8-3-2004 y Nicole Zaro Stahl accessed 12.24.13

⁶ Phone interview: Monday, December 23, 2013; Larry Bridge, Kate Vitasek, and Jeanne Kling

⁷ Phone Interview Thursday, January 9, 2014; Larry Bridge, Kate Vitasek, Ross Holthouse, and Jeanne Kling

⁸ Ibid

⁹ Ibid

¹⁰ 2014 GEO Nomination; The GEO Award for Innovation; Submitted by Larry Bridge;

¹¹ 2014 GEO Award for Innovation Application; author Larry Bridge,

¹² Ibid

¹³ Vested For Success Case Study; How P&G and JLL Transformed Corporate Real Estate; A Report Authored by Vitasek, Kate, Manrodt, Karl PhD, and Kling, Jeanne; University of Tennessee; 2011

¹⁴ Ibid

¹⁵ Vested: How P&G, McDonald's and Microsoft Are Redefining Success in Business Relationships; Palgrave MacMillan; September 18, 2012; Vitasek, Kate, Manrodt, Karl, and Kling, Jeanne

¹⁶ <http://news.pg.com/press-release/pg-corporate-announcements/procter-gamble-unveils-new-sustainability-vision>; P&G; Procter & Gamble Unveils New Sustainability Vision: *Announces 2020 Goals to Guide Progress Toward New Vision*; Monday, September 27, 2010 8:08 am

¹⁷ P&G Innovates Again; Next Generation Smart Buildings: Bridge, Larry; Corenet Leader, November/December 2013

¹⁸ P&G Innovates Again; Next Generation Smart Buildings: Bridge, Larry; Corenet Leader, November/December 2013

¹⁹ <http://www.nacdonline.org/Resources/RSSDetail.cfm?RSSID=79618>; NACD/ National Association of Corporate Directors; P&G Slices Energy Bill With 'Smart Building' Project; Abstract News © 2013 INFORMATION, INC.

²⁰ Phone Interview Thursday, January 9, 2014; Larry Bridge, Kate Vitasek, Ross Holthouse, and Jeanne Kling

²¹ Corenet Leader article; November-December, 2013; P&G Innovates Again; Next Gen Smart Buildings; Bridge, Larry

²² Vested: How P&G, McDonald's and Microsoft Are Redefining Success in Business Relationships; Palgrave MacMillan; September 18, 2012; Vitasek, Kate, Manrodt, Karl PhD, and Kling, Jeanne