

Interview

The Power of Purpose

An Interview with Bob McDonald,
Chairman, President, and Chief Executive Officer, Procter & Gamble



Bob McDonald

EDITORS' NOTE Bob McDonald graduated from West Point in 1975 with a Bachelor of Science in Engineering. After graduation, he served as a Captain in the U.S. Army for five years, before joining Procter & Gamble in 1980. In 1989, he began his first international assignment leading P&G's laundry business in Canada. He moved to Asia in 1991 and spent the next 10 years leading P&G's businesses in the Philippines, Japan, and Northeast Asia. In 2001, he moved to Belgium to lead Global Fabric & Home Care, the company's largest and most mature business. He returned to P&G's Cincinnati headquarters in 2004 as Vice Chairman of Global Operations and was appointed Chief Operating Officer in 2007. He was named President and Chief Executive Officer in 2009 and added the duty of Chairman to his roles in 2010. McDonald serves on the Board of Directors of Xerox Corporation and is Vice Chair of the U.S.-China Business Council and member of the U.S. Advisory Committee for Trade Policy and Negotiations (ACTPN) and the Executive Committee of the Business Roundtable (BRT).

COMPANY BRIEF Procter & Gamble (www.pg.com; P&G) has one of the strongest portfolios of trusted, quality, leadership brands, including Pampers®, Tide®, Always®, Pantene®, Bounty®, Dawn®, Pringles®, Downy®, Iams®, Crest®, Duracell®, Olay®, Gillette®, Braun®, and Fusion®. The P&G community includes approximately 127,000 employees working in approximately 80 countries worldwide.

Were you surprised at both the speed and severity of the downturn, and where do you see us today in terms of recovery?

We'd all say we were surprised to an extent, although hindsight is 20/20 and when you look at the things that created it and exacerbated the depth of the downturn – such as the amount of credit that was existent in the economy particularly in the United States – in hindsight, we're not surprised.

We're on a path to recovery, but it's going to be uneven. In today's media, because of the ability to have 24-hour coverage, we're going to hear about all the ups and downs. As long as there is more good news than bad news, that's good, and that is generally the case.

What worries me the most is that, since the downturn two years ago, governments have reacted by becoming more protectionist and just about every economist in the world would say that is the wrong thing to do.

But we see the same dynamic when companies run into trouble – they tend to become more internally focused when the right answer is, get externally focused, get outside, get into homes of consumers, and begin innovating.

In terms of recovery, will there be a changed landscape for the workforce and can we have a recovery without the jobs?

In any recovery, as history has shown, it takes awhile to create the jobs.

It's also important to recognize the importance of productivity to the growth of the American economy.

The McKinsey Global Institute put out a study in June 2010 that showed that U.S. multinational companies contributed 42 percent of U.S. productivity gains and 32 percent of real private sector GDP since 1990. The United States wants its multinational companies and companies in general to continue to improve productivity.

The issue is, you have to grow the economy to then create jobs to absorb that productivity improvement.

Will you give an overview of how each of P&G's segments has held up and your outlook for growth?

The articulation of our Purpose-Inspired Growth Strategy is to touch and improve more lives, in more parts of the world, more completely. That speaks to the fact that we want to take the 38 product categories we have in the U.S., where we have operated for 173

years, and expand them into all the countries of the world.

In China today, for example, we do about \$5 billion in sales; we're the number-one consumer goods company in China. But we're only in 15 product categories, and the average Chinese consumer only spends about \$3 per year on P&G products versus in the U.S. where it's \$100 per year.

So you can see what we mean by more consumers, more parts of the world, more completely. We have building block plans to support this strategy globally.

We have been at this for over a year now, and we've gone from growing market share on about a third of our business, to growing market share in more than two-thirds of our business. But we wish the economies of the world were helping us, because we don't have the tailwind that we once had to help us grow.

For example, in the fourth quarter, in terms of market value growth, North America was up one point, Western Europe was up 1 point, Japan was down 1 point, greater China was up 9 points, Latin American was up 10 points, and Southeast Asia was up 6 points. Developing markets were up 7 points versus 1 in developed markets, so the market growth that we see is much greater in developing markets, and we expect that to continue.

In terms of spending per consumer, where do you expect to generate growth in the U.S. market? Do you foresee opportunities?

I do. During the fourth quarter, we grew our volume in North America 5 percent and we grew our organic sales 2 percent, and at a price mix degradation of 3 points.

When we innovate, we can increase consumer purchases. We've had one of our strongest innovation programs that we've ever had in my 30-year career, and North America is benefiting from much of that innovation.

We launched Fusion ProGlide, which is a new blade and razor system – the best one we've ever developed – and initial results are positive. By mid-June, ProGlide took market leadership as the number-one razor achieving a 37 percent share. Fusion shipments in general increased over 70 percent in that quarter behind the launch of ProGlide.

Now we are seeing a bifurcation in the U.S. where these innovations capture people's imagination, they buy them, and the business grows. At the same time, there are some consumers,

primarily those in households without jobs, where there is some trading down.

For example, people who might have bought Tide may buy Gain laundry detergent, and people who bought Gain might buy a lower-priced Cheer, but people who bought Cheer might buy a lower-priced Era. That is why you have that degradation in what we call price mix.

But we don't get fussed about that because we want to have a full portfolio of products in every category we're in, so no matter what the consumer need or value equation or household economic situation is, we have a product that solves that consumer need.

Has Wall Street understood where P&G is going in this area?

Of the 25 analysts who follow our stock closely, 17 have a buy on us and eight have a hold. So that's good news – it's always hard to get 100 percent. The majority has a buy, and at our current stock price, the stock is cheap. That is why we bought back \$6 billion of our shares the past fiscal year, and have already announced we'll buy back another \$6 to \$8 billion.

Many across industry talk about the BRIC countries. How strong are the growth opportunities in those markets, and at what point are those markets no longer emerging but will be considered emerged?

While China recently surpassed Japan as the number-two economy in the world, China was quick to point out that they still are a developing country, and all you have to do is look at per capita income to realize that.

That is one of the reasons we look at per capita spending on P&G products. Measuring it on a per capita basis is probably a pretty good measure, because we're about touching and improving lives and the best way to measure touching and improving lives is per capita.

Do you foresee your product categories remaining relatively consistent, and will a lot of your innovation be enhancements to that product offering now, or is there opportunity to broaden into other category segments?

We have taken significant steps within the company to increase the amount of resources we're putting behind what we call discontinuous innovation. We've created new business development organizations for each one of our Vice Chairmen, and the idea is that oftentimes, these kinds of innovations fall between organizational boundaries. In order to make sure they got work done by people who were objective and weren't concerned about boundaries, we created these new business development organizations under each of the global business unit Vice Chairs. We funded the activity because we're convinced we need to increase the rate of discontinuous innovation.

As companies grow larger, how challenging it is to remain innovative, and how do you drive that throughout the organization?

We talk about innovation all the time; it is one of our five strengths as a company. We spend \$2 billion a year on research and development, which is significantly more than our next largest competitor.

We were recently recognized with an innovation award for the decade because 50 percent of the top-selling innovations that have been

brought to market in the U.S. since the year 2000 have come from Procter & Gamble. There is no other company anywhere close to that.

Having said that, we're also anxious that, as our company continues to grow, we need to deliberately simplify the company and make it behave like a smaller company. We talk a lot internally about making this \$79-billion company operate like a \$10-billion company.

The way we do that is by the way we organize. We're simplifying our hierarchy and we're reducing layers of management from entry level to CEO; we've simplified the operation, the way business forecast has been simplified. We want fewer but bigger product initiatives and we're using digital technology to connect everybody in real time. Every one of our leaders has what we call a cockpit on their computer which gives them the measures they look at in real time.

So we're using technology, organization structure, and the processes by which we run the business to make the company smaller.

Is it important that your product offering and the messaging is consistent worldwide, or is it about what works in the local market?

It's a combination of the two. You want to be as global as you possibly can, but as local as you need to be.

For example, Pantene is the largest hair care brand in the world at over \$3 billion in sales. It's a global brand, so you have the same brand name everywhere in the world.

But the technology in the bottle is different, in that the formula framework is roughly the same, but the mix of ingredients is different, because of physiological differences, as well as practice and habits difference.

Physiologically, Asian hair is twice the radius of a Caucasian hair, which means it has six times the surface area, so an Asian shampoo would have much more conditioning capability than it would in a Caucasian country.

Habits and practices-wise, there are many parts of the world where people wash their hair once a week, so they need a different formulation.

You have many people who wash their hair using a well and a bucket, and they need a different formulation and a different package. Many of them buy their shampoo in a single-use package.

So we try to get as close as we can to having the same brand name globally, and the same formula globally, but we have to address these various differences in physiology and habits and practices.

How much of an impact will e-commerce have, and have you seen a shift in how consumers are buying?

The e-commerce opportunity is immense. For a relatively high bulk item like baby diapers, people tend to buy it through the Internet.

We do about a half billion dollars a year on the Internet today, and we think the growth of the business can be multiples of 10, not index points.

In addition, our traditional brick-and-mortar customers over the past 172-plus years now are increasingly looking at their online presence and how they will individually play in that space.

So the institutional knowledge that P&G has on the way that shoppers think is something we have translated for retailers in their own brick-and-mortar environments. You could argue that nobody knows more about our categories and the way that shoppers think about them than we do. That is knowledge we have been sharing for decades with retailers.

As they think about what presence they need online, we need to have the same institutional knowledge about how shoppers think and act when they're online.

So we're doing a lot of work right now in what we call Learning Labs to try to understand the way consumers will interact online with brands, products, and how they shop so we can pass that knowledge on to our retailers.

P&G is known for their strength of brands and range of products, but there is so much work in understanding the spending habits of consumers. How do you put metrics in place to understand that to the extent that you do?

We were the first company in the history of the world – as far as we know – to develop a market research department. It was back in the '20s and '30s where we would go door-to-door with surveys. This demonstrates the dedication of the company to understanding the consumer.

Since 2001, we spent \$2.3 billion on consumer research. We conduct formal research but we also go shopping with consumers and spend time with them in their homes so we can better understand their needs. When I was in China recently, I went to a consumer's home and talked to her about the products she was using in order to understand the tension in her life, and considered how I could turn that tension into an insight, and how I could turn that insight into a big idea or a new product for us. After we spent time in her home, we went shopping with her in Beijing stores.

So one of our five strengths is consumer knowledge, and without the consumer knowledge, we would not be able to innovate, which is another of our strengths. The other three strengths are brand building or branding, global scale, and our go-to-market capability.

With the size and scope of P&G and its leadership in so many different categories, how are you able to retain your edge and avoid a culture of complacency?

First off, we're dedicated to growth. You can't have a purpose of touching and improving lives and be willing to be stagnant. We want to preserve the purpose and values of the company, but we're willing to change everything else in order to grow.

With our size and scale advantage comes a requirement to innovate and try new things. We're opening two new Mr. Clean car washes. Did I ever think we'd be in the car wash business? No. We also have Tide dry cleaners. Did I ever think we'd be in the dry cleaning business? No. Are these hugely expensive investments? No, but our scale gives us the opportunity to invest and innovate.

If we continue to do what we did in the past and think that will make us successful, we will be wrong. One of the things many commentators have talked about during the economic recession is the growth of private label

brands. We need to have a full portfolio of products so we have an offering for consumers who may want to buy a private label. I'm happy to report that today, a year later, we are growing market share, while private label share overall is declining. So we're doing our job.

How critical to the success of the brand is building a diverse and inclusive culture that mirrors your consumer base, and in those global markets, how important is it to find local talent?

It's essential. Diversity isn't really a strategy – it's in our DNA.

Our employee base has to represent the consumers we serve. The reason is that innovation never happens in a straight line; sometimes it's about connecting seemingly unconnected ideas.

So what we need to do as an organization is to create an employee body that has all these various diverse nodes of experience that can then be connected. Without that diversity, you don't have those nodes.

When I had just joined P&G, I used to marvel at how everybody at P&G was so much smarter than I was. Now that I've been with the company for 30 years and have lived and worked in five different countries or geographies, I realize that I'm not smarter than anybody else, but I have a lot more nodes of experience to connect to than the colleagues who have just joined us.

You have always placed a heavy focus on community service. How critical is the corporate responsibility work you do, and is it important for that work to align with the business or is it separate?

No, we see it as absolutely congruent. We talk a lot about the congruency of our purpose and achieving it with branded products, like Tide, Pantene, and Gillette, and with our philanthropy, like our program Live, Learn and Thrive, of which the signature program is Children's Safe Drinking Water. Four thousand children a day die from dysentery or diarrhea. We have a product called PUR that can clean up dirty water. To date, we have saved more than 8,000 lives and prevented 62 million days of illness.

We also provide opportunities for community service for our employees.

These work synergistically. It would be difficult as a company to have a purpose of touching and improving lives if you just stopped at your branded products or your philanthropy. People are attracted to our company because of the purpose – they want to live it.

So you can't compartmentalize it, and we try not to. We try to make it pervasive, and to the degree that we do that, we know our employees feel more fulfilled, are more energized by their work within the company, and are proud of the company.

Beyond that, we know also that our consumers are interested in what the company behind the brands they're buying stands for, and they need to buy into that company and what it's trying to accomplish.

In Saudi Arabia, for example, we were the first FMCG company in that country to get a license to employ women. Since that time in 2005, we have invested in resources to enable

our talented Saudi female employees to become an integral part of our organization and contribute very effectively. These are the things you need to do if you want to touch and improve lives all over the world.

A lot of companies are doing a lot of good, but from a media or messaging point of view, the public often doesn't hear about it. Is it frustrating that there isn't a better understanding of how critical the corporate world has been in addressing societal need?

Of course. But I can't blame anyone else, because we have the opportunity to do it.

We recently advertised the Procter & Gamble company in the U.S. for the first time during the Winter Olympic Games in Vancouver. We decided that we would use the Olympics as a platform to recognize the roles the moms, dads and other caregivers played in raising Olympic athletes. We became the Proud Sponsor of Moms.

That really resonated with the public. It resulted in record volume growth of our North American business and share growth during the time we were doing it, but more importantly, it touched and improved the lives of so many people.

Can the CEO role at a company the size and scale of P&G be a lonely one?

I have had the benefit of living and working in so many different geographies, that I know many people in the company.

When I'm with Procter & Gamble people, I get so energized every day by their commitment to improve people's lives, by their care for one another, and by the demanding standards they have for themselves. I've always cared about the people.

You can't do it by yourself. No leader can do it alone – you have to care for the people. If we're going to touch and improve the lives of the world's consumers, our HR organization and every one of our leaders has to touch the lives of our employees first.

With all the technology today, are you ever able to get away from the business?

It's more difficult than it was years ago, but one of the things we talk a lot about at P&G is we work the job, we don't work the clock.

This comes back to innovation: you can't overwork most business problems – you have to be innovative. And the way to do that is to get out of the office.

It's where we started this conversation around the world becoming more isolationist. When things get tough, people turn inward, and that is the wrong response – they need to turn outward. They need to work with others and connect with people outside. They need to think of more than just themselves. That is what we do, and technology can be used to help rather than hinder.

Is the U.S. losing its edge in innovation, and what should the U.S. be doing to drive innovation?

I don't look at the global economy as a zero sum game, i.e. China wins, the U.S. loses. I look at it in terms of how the countries and governments of the world can work together to improve the lives of all the people on the planet, not just the ones in their own country.

Having said that, I believe there is risk in the U.S. turning inward and isolationist.

I also think there is risk in not improving the education system. At Procter & Gamble, we're deeply involved in something called the STEM (Science, Technology, Engineering & Mathematics) education initiative, which is about helping teachers and students to grow capability in these four key areas of education in the U.S.

I worry that we aren't producing enough engineers, scientists, or people focused on technology, and technology is oftentimes where innovation comes from, so there is a risk that if we don't produce enough scientists, we don't have enough technological innovation.

As one of the five values of the company, would you talk about the importance of leadership, as well as innovation?

With regard to innovation, I expect every employee to be innovative; when I talk about leadership, I expect every employee to lead.

Procter & Gamble is the democracy of ideas – whoever has the best idea wins; it doesn't matter what your title is.

We're a company of people with ideas, so we work very hard to hire the best people in the world, and one of the things we look for is leadership.

Last year, we had more than 360,000 applicants for about 3,000 management jobs. The quality of the people we get is absolutely astounding because we're drawing from the entire world.

Now getting the people is one thing, and we have data that says we're getting outstanding people. But developing, training, and giving them the experiences they need is something we spend a lot of time on.

Fortune magazine rated us number two of all the companies in the world for the development of leaders. We spend a lot of time on it and we only promote from within.

We have formal and informal training, and unlike many companies, we do the training ourselves. We do use outside people occasionally to make sure we stay externally focused, but when it comes to training leadership, I have trained all the general managers of the company myself since 2002, when the then-CEO asked me to develop General Manager College.

It shows the difference between Procter & Gamble and other companies; we believe if you teach the people to fish, you don't have to fish for them.

We also spend a lot of time working on the development of people. I already know who the handful of people are that we think at this time could be my successor, and we already have their assignments planned through 2015.

Now that plan may not happen exactly as it's detailed today, but the point is, we have a plan.

One of the things we can guarantee is that of the graduates who enter this company, one of them will be our CEO one day. ●