

**Proctor & Gamble: An Evaluation of Best Practices and Methods to Improve
Operational Efficiency**

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Introduction

There is certainly no question whether people around the world are affected by the brands produced, marketed and distributed by Proctor & Gamble. The company has one of the widest, deepest and most established portfolios of reliable leading brands. Chances are the average American consumer, and probably the average global consumer, has on a given day used one of P&G's brands. To name a few: Iams, Pampers, Tide, Folgers, Crest, Pantene and Charmin.

It is estimated that these and other P& G brands interact with the consumers 2 billion times a day. In order to maintain this level of consumer involvement, P&G employs not only a massive workforce of over 100,000 in 80 countries; P&G reinforces its commitment to the consumer through adequate training and hiring practices, a successful implementation of Research & Development methods, state-of-the-industry Supply chain management and product line management solutions, and industry-leading consumer awareness initiatives to enhance the effective marketing, delivery and sale of its product lines.

Supply Chain Management

Historically, Proctor & Gamble has been around for a century and a half, yet only in the past 20 years has the rapid advancement of technology allowed P&G to truly process research & feedback on company practices in real time, allowing management to truly assess the efficacy of all areas of business. Traditional supply chain management was

driven by promotional pricing, coupon discounts and selling product lines forward in a measure to push sales down through supply channels at discounts that are passed on to the consumer. This expectation of discounts became ingrained both at the distributor and consumer level.

The effect of promotional pricing was two-fold: first, the consumer expected a discount. This often diluted brand identity, especially for premium products, which in turn reduced consumer loyalty. Second, discounting product lines took the attention from the consumer and placed more emphasis on distributor satisfaction. The majority of sales efforts were spent bargaining with distributors as opposed to reinforcing attention to consumer needs in a product.

Without exceptional customer satisfaction, economies of scale were subject to depletion due to a weakened loyal consumer base. And as more product lines were created, the confusion was compounded. It was not unusual before 1990 that orders were made to deliver up to three month's of supply to gain pricing advantages all the way down to the store level. However, the actual age of the product was extended due to inefficiencies in getting the product from storage to shelf, causing the window of sale to the consumer to become narrow. Up to one-third of P&G's product line was held up in the distribution chain between plants and the consumer.

In order to remedy many of the concerns caused by inadequate Supply chain management, P&G implemented the Continuous Replenishment Program (CRP), which uses electronic data exchange between customer sales and production to determine a just-in-time supply of products throughout the supply chain. In addition, P&G introduced

several waves of Value Pricing and Streamlined Logistics Initiatives to respond more efficiently to consumer needs. Under value pricing, the discount focus was abandoned in favor of everyday lower prices for the consumer. This eliminated the need for advance ordering and decongested the shipping supply chain and also reduced the number of SKUs within a product line caused by promotional differences in price, packaging and distribution. Value pricing also reconstituted brand image by offering the consumer one consistent value for each product, regardless of differentiation. The simplification process also resulted in net profits because the original promotional push pricing actually did not result in increased profit margin.

By streamlining logistics P&G has successfully reduced confusion among the five business sectors of laundry, paper goods, beauty, food and health. Previous to 1994, all five sectors managed individual policies regarding ordering and billing, as well as pricing and promotion policies. These segmented practices resulted in as many as nine prices per item and inefficient shipment loads, resulting in excess of \$400 million in unauthorized price reductions per year.

In order to simplify pricing and ordering, P&G instituted standard payment terms and fewer price levels within each business sector. Terms and conditions for delivery were also standardized among the different sectors. Buyers could now order several product lines at once and have them delivered on the same truck, reducing inefficiencies in delivery and improving order sizing for shipment. 98% of all shipments are on full truckloads and this improvement has resulted in a decline in inaccurate orders by 80%. The reduction in paper invoices has been substantial, due to the combination of several

product lines into one shipment. The savings has been passed onto the consumer in the form of lower prices, which results in greater brand loyalty that drives retailers to order more product.

Research & Development

P&G has made significant advances in the past 20 years due to an investment in technology to manage product development, packaging and delivery. This effort has been called “Connect & Develop”, and intends to advance company efficiency through teamwork with the most innovative talents of other companies.

Through developing partnerships with technology, marketing and consulting firms, the company has been able to capitalize on third-party solutions to resolve internal constraints. One such relationship was between Siemens and P&G with the incorporation of Teamcenter Product Line Management software. The software allows the product development teams around the globe to work together using Microsoft Sharepoint to utilize an existing Microsoft business framework to access CAD files and other visual information on product development from any work-center regardless of location. This allows product development teams to be location-free, providing the best use of human resources. Now a product designer in China can coordinate project calendars, notes and prototypes with a costing department in the U.K, with marketing being done in the United States. This means the product can be developed, packaged, and brought to market before the competition, with a reduction in time from concept to market. . “Teamcenter gives us the capability to share applications, models and results both inside and outside

P&G,” says Brad Whitmore, in Baby Care Computer Aided Engineering. “No other collaboration tools have successfully provided this capability.”

P&G has already moved to introduce the software platform to its over 10,000 partners and employees who will benefit from collaborative access to product development.

Another area that has gained from technology partnership is space management. The limited actual selling space for products within the retail market causes excess competition as well as confusion for the consumer. With the aid of JDA Portfolio Space Management software, P&G is able to layout floor plans for retail locations, determine the best method of filling space to achieve maximum exposure and even develop complete product categories to optimize use of space. Working in hand with retailers, the software allows P&G sales representatives to help stores improve category sales/sf. and also increase P&G profits. This program was the response to a request made by retailers to better understand the benefits floor planning can provide.

All technology services and software are governed by a set of rules called the Information Technology Infrastructure Library (ITIL). These rules are maintained by the U.K. Government’s Office of Commerce, and are designed to help IT services efficiently manage processes across IT departments. Since 2004 P&G has saved about \$500 million across its global IT infrastructure since streamlining IT processes. Steps in this savings included staffing data and operations centers around the world according to time zone,

allowing all data centers to be fully staffed from 8 to 5 in each location, without adding staff.

Ethical Practice

Another complement to P&G's traditional business structure is an emphasis on ethical business practice and environmental awareness. Perfection of ethical business practice and global responsibility is impossible to achieve. However, P&G had major areas of improvement to make in not only air pollution and waste production, but also on a personnel level in ensuring that company professional conducted themselves in an ethical manner based on a cohesive set of principals and values.

P&G has incorporated a set of programs called Principles, Values and Policies (PVP's) and in fact has consistently redeveloped these practices from tenets that have lasted since the company started in 1837. The PVP states that "we believe that doing what is right for the business with integrity will lead to mutual success for both the company and the individual" and outlines the manner in which the company will perform as a good corporate citizen, emphasizing what is expected from employees. This includes a commitment to continual employee development. The PVP's complement a manual for worldwide business conduct that requires all employees to read and sign a contract that "while we value business results, we place equal value on how we achieve those results." The two documents underscore all company interactions, and serve as a point of reference for anyone who asks why the company makes critical decisions. This allows P&G to implement sustainability practices throughout the company and incorporate them into daily business practices as a corporate culture.

The ethical practice of sustainability is enforced through the development of a department to oversee the process of bringing about change. Developed in 1999, the Global Sustainability Department ensures responsible reporting of corporate impact on environment, consumer and culture. This has led not only to the development of products such as dye and color-free detergents and a new Tide that allows the cleaning of clothes in cold water—thus reducing energy costs to heat water—but also the development of a slate of long-term goals to generate sales of more environmentally friendly products. By 2012 P&G has made a commitment to generate \$20 billion in cumulative sales from products with reduced environmental impact. In addition, at the 170th anniversary of P&G in 2007, the company pledged to reduce emissions of carbon dioxide, energy & water consumption and waste per production unit by 10 percent. This will result in a 40% reduction in environmental impact by 2012.

Other programs to drive sustainability include the Learn & Thrive program, which has the ambition of helping up to 250 million needy children worldwide; and the Children's Safe Drinking Water program has the goal of providing clean water to save 10,000 lives.

From Internships to Employment

P&G's real asset is its employees, and knowing that they impact most directly the way the consumer receives the P&G brand, the company has done much to integrate the importance of consumer awareness into every office and plant.

This process starts with the student-intern and continues up into senior management. At the entry-level, internships are 10-week, work-experience intensive full-time programs.

The structure of the internship is to allow the company to complete projects, recruit new employees and give the student exposure to the company culture. These internships have been in place for over 20 years and includes a 3 day training program designed to introduce company structure PVP's and the responsibilities of each business sector to these values. Training also includes case studies, group projects and advice from senior management in the form of lectures and group discussions. Interns gain training specific to their designated function and an overview of what will be their impact on the company. The topics covered in training are then evaluated throughout the working internship and culminate in a work review. The benefit of this program structure as opposed to non-paid and traditional internships is that it both allows the student to determine his or her own fit into the company culture, the expectations of the position and the company; and also gives P&G the ability to determine the best fit for students, so far as job placement and skills assessment. As a system of recruiting new talent this 10-week program produces a proportionally high number of full-time employment opportunities for dedicated interns. The program has also resulted in a higher retention rate of employees that started out as 10-week interns.

Proctor & Gamble as a company has had the benefit of experience over the last 170 years to know what works, both from a consumer perspective and from an historical advantage. However, only in the past 20 years has the core set of beliefs and values that has made this company a global giant been put into writing. Specifically since the late 1980's, the development of a unified corporate identity, including standardized practices, values and technology solutions, has resulted in a much more efficient product delivery system, a more responsive customer service agenda, and a more targeted set of sustainability goals.

The measures that promote improvement in these areas have been considered global best practices, and P&G is considered an industry-leader because of these recent efforts to consolidate control of its business sectors, leverage technology to control cost and educate a workforce with principles with global reach.

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