



BEYOND THE BEAUTIFUL

HOW DESIGN THINKING SHAPED P&G'S STRATEGY

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In June 2000 Procter & Gamble was in free fall. It had long suffered lackluster performance during the 1990s, followed by a 20% plunge in its share price after investors refused to back its bid for drug maker Warner-Lambert. Next came a profit warning, then investors saw the company missed its forecasted earnings by another 15%.

When Durk I. Jager stepped down as CEO that summer, after less than 18 months on the job, P&G's share price had plunged by more than half compared to where it was four months earlier, wiping out USD \$75 billion in market capitalization since January.

With stock prices in tatters and investor confidence destroyed, new CEO A. G. Lafley had no choice but to begin a brutal turnaround. He laid off employees, slashed non-performing brands, culled new products, drove efficiency and instilled a sense of urgency around operational discipline.

But these actions, however effective they were, did not come close to addressing the company's most fundamental issue: product stagnation. The multi-layered approval process at P&G – one that exists at most conservative companies – resulted in a sluggish product pipeline, a declining product portfolio, and a lack of new customers.

What P&G needed was more than simple downsizing. It needed a new knowledge base to generate relevant insights and new growth. Perhaps, thought Lafley, it needed design thinking.

At Stanford's Hasso Plattner Institute of Design, or commonly called, "the d.school," two basic elements are taught: empathy, that is, an understanding of the human emotions, goals, and needs that design must address; and rapid prototyping to develop quick and cheap solutions and to update them quickly in response to users' actions and suggestions.

Lafley well understood that large scale changes don't happen overnight. He began by hiring Claudia Kotchka as the first design chief of the company, convincing her to take the role by pledging that design would be one of the five legacies of his tenure as CEO. Her subsequent actions followed one tenet: "When big organizations scale well, they focus on moving a thousand people forward a foot at a time, rather than moving one person forward by a thousand feet."

Her first step was to benchmark P&G against companies such as Mattel and Nike which were far more design sensitive. She also built a network of external design experts, called on the assistance of three eminent academics, and set up a formal review board that looked at P&G's design and acted as key advisers for the business teams. Alongside this she hired around 150 mid-career designers over five years – a shocking stance for P&G, which had long adhered to the tradition of taking college graduates and then moulding them from scratch.

Generating goodwill

In 2003 Lafley took his entire global leadership team of 35 people to IDEO, a design and innovation consultancy in San Francisco. He and Kotchka wanted the executives to experience design thinking and understand that what looked like chaos to people who used to the formal P&G process was actually an effective way to create product ideas. Seeing is believing. Some of the managers who panicked at the lack of structure in the early workshops were quickly converted to fervent supporters.

This process of conversion was important; Lafley and Kotchka knew that they could never force design thinking on a business that did not want it. So, rather than starting in the areas of the business that most needed design thinking, they started in areas where there was an existing interest. One early effort was to tap into consumers' frustrations with annoying cleaning chores. The team was instructed to focus on "extreme users" at both ends of the scale, from the professional house cleaner who scrubbed grout with his fingernails to four single guys whose idea of cleaning the bathroom was to push a filthy towel around the floor with a big stick. The thinking was: If P&G could make these people happy, it would be a home run for the company.

In just 18 months, the team invented, developed and unveiled the Mr. Clean Magic Reach bathroom cleaner – a product that proved so popular with consumers that some even refused to return the prototype. Although the Magic Reach did not quite become a blockbuster, it sold well enough to encourage managers to think about innovation differently, and led them to try out product ideas beyond liquid detergent. This approach eventually led them to an eventual mega hit – the Mr. Clean Magic Eraser.

Changing the organizational context

Unlike most companies, P&G did not centralize its design function, choosing instead to build it into each business unit by assigning designers to business teams. Lafley himself worked to change the organizational norm by modeling design thinking in his own behavior, including dedicating more time on home visits whenever he traveled, and changing the way in which business strategy was reviewed.

Kotchka also made it easier for businesses to answer these sort of questions by creating an arena in which to explore them. She commissioned a purpose built workspace on Clay Street in Cincinnati so that the right people, regardless of seniority or functional background, could effectively integrate knowledge and expertise. Clay Street became P&G's official skunk works where cross-functional teams would spend up to 10 weeks away from their day jobs in order to think big. During that time, 8 to 12 people were released from their regular tasks to immerse themselves in innovation in a situation where they were given complete autonomy. They were accountable to one another, not to their function bosses.

The results

Between 2000 and 2008 P&G's revenue more than doubled from USD \$40 billion to USD \$83 billion, while earnings took a gigantic leap from USD \$2.5 billion to more than USD \$12 billion. It was the kind of growth expected from an IT company or a firm operating in an emerging market, not a 200-year-old soap business from Ohio.

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