

# Open Innovation at P&G

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This research paper explores P&G's "Connect & Develop" open innovation initiative. The objective is to discuss the impacts, challenges and problems of implementing an Open Innovation initiative inside a well-known corporate such as P&G.

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## **Introduction**

Innovation is a very important factor for the success of the companies. It is considered as the main the driver for economic growth and progress of companies. Innovation becomes even more essential for companies as maintaining competitive advantage becomes harder with technology that ease the communication between companies and customers. Procter & Gamble is a good example of a company that has been a leader in this innovation field. They are basically global manufacturers and marketers of consumer products with complex operational networks. P&G have been able to maintain their strong market position by adopting different innovation techniques and strategies. This paper explores the innovation and techniques adopted by P&G, and it focuses particularly on Open Innovation. In addition, the paper goes through the framework of the innovation model the company has applied into its innovation strategy and management. The paper also analyzes the problems/challenges of the Open Innovation model adopted by P&G.

## **Innovation Framework**

### **Innovation Networks**

Innovation is not a stand-alone concept which works well independently. An input from different people and different perspectives is essential for converting a good idea into a profitable product or service that grabs the consumers' attention. Creating an innovative environment requires bringing teams together in a creative and productive manner. Building and developing good networks is a key issue in innovation process due to globalization and

the high-speed nature of the market. The path of knowledge around an innovation project is more complex and interactive, appearing like some kind of 'social spaghetti' where different people talk at different times about different issues. (Tidd and Bessant, 2008).

A network is defined as a complex interconnected system or structure which is used to get work done. A network consists of nodes or points of action which are occupied by individuals, companies, research institutions, universities, governments, customers and so on. These networks are greatly affected by how economic activities are influenced by the social setup and the position that the nodes or points occupy in the network. Networks work best when the advantages of Co-specialization, sharing infrastructure and standards and other benefits outweigh the costs of network governance and maintenance. (Tidd and Bessant, 2008). Understanding how the innovation networks work helps in understanding the Connect and Develop Open Innovation model at P&G.

## **Open Innovation**

In the traditional model of innovation, the focus was mainly on research and development laboratories. These R&D labs usually concentrated on creating new technologies for self-commercialization. This process can be viewed in the form of a funnel, where a large number of varied ideas and concepts can be trimmed down to few of those concepts and ideas that best meet the requirements of the company (OECD, 2008). In recent times, companies have become more open with their innovation process, leading to revolution described as "Open Innovation" by Chesbrough (2006). This 'open innovation' model is a more dynamic model when compared the traditional model as there is much more interaction between knowledge assets outside the

company as well as inside. Henry Chesbrough (2006) in his book “Open Innovation: New Imperative for creating and profiting from technology” defines open innovation as a concept in which companies must use ideas from inside as well as outside sources and find internal and external ways to reach the market in order to advance their technological capabilities. In another book “Open Business Models: How to Thrive in the New Innovative Landscape” he defines open innovation as the flow of knowledge internally and externally such that it moves the process of innovation at a much faster pace and so that new markets can be found for the use of this innovation. Therefore, Open Innovation implies that companies should start acquiring innovative ideas and technologies in order to create new and improved products and services.

## **Innovation Strategy at P&G**

P&G’s CEO, A.G Lafely, believes that innovation is at the heart of P&Gs business model. The company uses innovation to create value with retail partners, satisfy customers and to create new business models to maintain sustainable growth (Datamonitor, 2009). P&G uses a unique design for innovation comprising of five major categories (Datamonitor, 2009):

- I. Defining innovation broadly.
- II. Investing in innovation at industry levels.
- III. Managing innovation with discipline.
- IV. Delivering innovation that builds consumer trust and loyalty over time.
- V. Using global brands and an outstanding team of innovation leaders to lead innovation.

One unique feature in P&Gs strategy is that innovation is involved in every area of the product which makes contact with the customer, such as the packaging, the shopping experience, the

in-home product usage experience as well as the product itself (Datamonitor, 2009). This means that P&G's products offer customized benefits in order to meet the different consumer needs.

The company supports sustainable innovation, investing heavily in R&D to bring better quality products to the market. P&G's budget for R&D amounts to nearly \$2 billion an year: twice the amount spent by Unilever, P&G's biggest competitor. This proves the company's dedication towards sustainable innovation (Datamonitor, 2009).

### **Managing Innovation at P&G**

Historically P&G's innovation strategy was focused on its internal capabilities. The company had minimal experience externally and was not involved with its competitors. The model used by the company was a traditional stage gate model. This model helped P&G until 2000 when the company faced major financial difficulties. With the increase in the pace of innovation, costs, fast followers, constrained resources and more consumer demands the traditional model was unable to deliver the required results (Heimberg, 2008). The company required a growth rate which exceeded the industry growth rate. This required collaboration with external sources (Lafley, 2008); commonly known as Open Innovation. This initiative was named connect and develop where the company collaborates with external sources for innovative ideas and technologies. When the process began the 10-15% of the innovations at P&G included ideas from external sources and today this has increased to 50%, resulting in the company achieving a 6% organic growth in an industry, which is growing at 2-3 %.( Lafley, 2008). Nowadays,

Connect and Develop model is considered as the major innovation initiative that derives the success of P&G.

### **Connect and Develop Model**

P&G has paid a lot of attention to product innovation. In the beginning, they had an R&D group that did a good job of exploiting the existing knowledge and doing research inside the company only. However, P&G realized that that wasn't an efficient way of doing innovation as researchers need to get out of their labs and learn more about consumers needs before coming up with new products or services.

A main issue that P&G was encountering is that less than 10% P&G's technologies were exploited when developing/creating a new product; many existing technologies at P&G were kept unexploited. What's more, with knowledge increasing and refreshing at an exponential rate and much important innovations being carried out in small entrepreneurial firms, P&G realized it is impossible for them to complete everything alone while at the same time create satisfactory operating results for their shareholders (Bessant and Tidd, 2007). P&G realized that things needed to be changed in order to integrate the desire for external innovation ideas with the existing technologies inside the company. Thus, P&G introduced a new business model in place of the old model, Research and Development. The new model was called Connect and Develop which is basically based on Open Innovation.

The idea behind introducing this new model was to bring together customers, suppliers, research institutions, and competitors to develop the market for new products. P&G also developed a website ([www.pgconnectdevelop.com](http://www.pgconnectdevelop.com)) to communicate with the external

resources. The mechanism works like this: they simply put all their needs on this website in classified categories, and then anyone who is interested or has the solution could propose their ideas and get assessed by a specialized team. Payments can range from US\$10,000 to US\$100,000 (Bessant and Tidd, 2008). After this model has been applied, P&G is able to drive new innovation through collaboration with external partners in at least 50% of the cases (Sakkab 2002, cited by Dodgson, Gann, Salter 2006, and P.6). Furthermore, this model seems to work well: in 2004, P&G reported a 17% increase in volume, a 19% increase in sales, a 25% rise in earnings and a total shareholders return of 24% (ANOY 2005).

### **Connect and Develop Risks/Challenges**

P&G has been a very successful company for a long time which enables it to deal with the upcoming problems and challenges. Mentioned below are some of those problems and challenges that might threaten the company's success.

#### **The Risk of Outsourcing Innovation**

Innovation might be a good strategy to exploit external knowledge. However, some important risks might lie behind that. For example, "Lean Innovation" might become fragile innovation and result in a continuous loss of internal capabilities to develop their own innovations. This could have an impact on P&G's most competitive advantage which is their expertise in innovation.

## **Managing the Intellectual Property in Open Innovation**

P&G believes that Connect and Develop will become the dominant innovation model in the twenty-first century (Huston, Sakkab, 2006). However, an important issue that P&G has to account for is the issue of protecting their intellectual property. It becomes more difficult for P&G to protect their intellectual properties after the Connect and Develop model is implemented. In the old model, i.e., Research and Development, all the innovations were kept inside the company, and P&G's task was simply to decide which innovations are eligible for patent application. However, Connect and Develop model requires many in-licensing and out-licensing of innovation and technology which impacts the security of the intellectual property. The company should come up with a technique to protect their new invention or otherwise competitors are going to have access to that for free.

In addition, managing the big number of relationships with small technology providers such as universities, R&D labs, and individual inventors might become an issue when implementing the Connect and Develop model. The reason that this might become an issue is that those new relationships will have no formal relationship with P&G as they do not have the same incentives.

## **Issues of Selecting and Filtering Great Innovative Ideas**

To cope with the complexity found in the C&D model, P&G tries to select technologies as mature and proven as possible (Huston, Sakkab, 2006). This is being done by P&G to reduce technological and implementation risks. However, this affects the possibilities of creating

radical innovative products due to the fact that the R&D department at P&G gets involved in final phase of the new product development. This filtering process basically limits the potential of the Connect and Develop model, and it generates the problem of unexploited internal R&D capabilities.

### **Identifying the Serial Innovators**

P&G believes that the most valuable innovative ideas come from a small group of bright people which is called the group of “Serial Innovators.” It is a challenging process for a company that is doing Open Innovation to identify those “Serial Innovators” due to the fact that those people are among a big number of individuals who are not working inside the company. Even though identifying those people might become an issue, but once they are found P&G will gain a competitive advantage in the market.

### **The Complexity Issue**

Connect and Develop model and other innovation initiatives have created a complex set of structures and interactions which made the management of the system very challenging. Among this complex system, P&G has two important positions. The first one represents the technology entrepreneurs who are responsible for scouting new innovative ideas outside the company. The second one represents the research fellows who are responsible for the development and refinement of the Connect and Develop model.

## **Connect and Develop Successes**

Consumers around the world have already realized the benefits of P&G's Connect + Develop strategy. The following products and technologies are examples of the mutually beneficial collaborations we have established through external connections.

### **Ready-To-Go Technologies**

P&G introduced Bounce, the world's first dryer-added softener, after acquiring the product technology from the independent inventor who developed the innovative fabric-care solution.

### **Ready-To-Go Products**

By acquiring the newly introduced SpinBrush, P&G was able to bring a superior oral care brand to market quickly, without undertaking the time and expense of developing an entirely new product.

### **Ready-To-Go Packaging**

Several of our Olay Skin Care products now utilize new consumer-preferred pump dispensers originally developed by a European packaging products company. P&G led a collaborative improvement process to make the original pumps more effective prior to their launch in Olay's North American markets.

## **Commercial Partnerships**

P&G found the perfect complement to the Swiffer brand in a hand-held duster developed by a Japanese competitor. After purchasing the product, P&G leveraged elements of existing manufacturing processes and advertising components to launch Swiffer Duster within 18 months.

## **Conclusion**

P&G sets a great example of a large company that adopted an Open Innovation model in order to open the doors for new innovative ideas from the outside. They have established new innovation networks inside and outside the company, and invested heavily into that in order to improve the process of new product development. Those networks are interrelated with internal personnel and external clients, suppliers, customers.<sup>i</sup> The Connect and Develop model apparently introduces risks and challenges along with a complex system to manage. However, P&G gains a competitive market advantage upon the adoption of this Open Innovation model.

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