



Book The Game-Changer

How You Can Drive Revenue and Profit Growth with Innovation

A. G. Lafley and Ram Charan
Currency, 2008
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Recommendation

This book is both intriguing and highly useful. Procter & Gamble CEO A. G. Lafley and business author Ram Charan draw examples from several large, successful organizations – GE, Honeywell, Dupont – but their primary focus is Procter & Gamble (P&G). They explore how P&G changed from a staid giant to an organization driven by innovation – and radically expanded its sales and profits along the way. They are candid about P&G’s organizational methods and failed innovations, and they show how willing it has become to open up and connect. *BooksInShort* recommends this book to anyone who is interested in innovation on a corporate scale and wants to know how to make it happen.

Take-Aways

- In today’s economy, innovation is the fundamental engine of organic growth.
- Procter & Gamble (P&G) developed a culture of innovation to transform its business.
- You can innovate methodically. Start by reviewing your core strengths. Set a strategy that determines where and how you want to innovate.
- Build a portfolio of different types of innovation with varying risk levels.
- To innovate regularly, establish organizational structures that support innovation.
- Take all innovations through the same process of conscious development from idea creation through selection and development to sales and marketing.
- To innovate, put the customer at the center of everything you do. P&G set out to learn from its customers.
- Killing ideas that aren’t working or that offer too little return is an essential part of innovation.
- Make innovation less risky by understanding the factors involved.
- Innovation happens more easily in a culture that is conducive to it: Your organization needs to be brave, open, curious and collaborative.

Summary

Innovation, Procter & Gamble and You

Procter & Gamble (P&G) integrates “innovation into everything” it does. This drives its business, and is the primary source of its profits and competitive edge. However, that hasn’t always been the case. In June 2000, when A.G. Lafley became CEO, the company was not doing well. Earnings were flagging and the stock price was dropping. P&G transformed itself under his guidance. Its changes provide models you can use to transform your company by using innovation as a primary tool.

“Game-changing innovation comes not just from disruptive, ‘big-bang’ product innovations but also from leveraging what your business does best to create competitive advantage.”

Start by putting your customers at the center of everything you do. Pay attention to customers and treat them as the boss. Expand your horizons; P&G shifted from focusing on in-house development to being open to learning from a broad variety of experts and examples. Rather than growing through acquisitions or holding steady by clinging to old brands, prioritize “sustainable organic growth” and build your strategies around it.

“P&G’s managerial breakthrough was to conceive of and implement innovation as an end-to-end process based on the idea of the consumer as boss.”

Procter & Gamble started its reinvention by seeking “clarity and focus” and seriously examining its practices. Once the company’s leaders determined its priorities, they worked to make innovation an integrated process throughout the organization. P&G reaffirmed its core goals, and set ambitious new objectives to push sectors that were growing from 2% to 3% a year into 4% to 6% growth, to move “earnings-per-share growth” into double-digits and to accelerate cash flow. With this foundation, it developed strategies to reach its goals. This meant increasing returns in several mature, core business areas (fabric, baby and hair care; and women’s products), while shifting its investment to growth areas, including low-income consumers. P&G had to identify its “core strengths,” and build systems and a culture to maximize their impact. This required inspirational leadership.

“Every business has some central organizing principle that people use as the basis for making decisions, meeting challenges and creating opportunities. For P&G, it is innovation.”

Innovation doesn’t mean just creating something new. It means converting “a new idea into revenues and profits.” Innovation no longer means a lone inventor making a surprising breakthrough. In fact, innovation is a methodical process that works within the context of collaboration.

Laying the Foundations for Innovation

To innovate on a regular basis, start with the big picture: Who are your target customers? What do they want? P&G is very serious about knowing its customer, who is usually female. One unit even made a life-sized cardboard cutout of a consumer they named Joanne and brought her to meetings, so that they always kept her in mind. When you consider your consumer, try to understand the entire person. People’s needs vary according to their culture, setting, wants and expectations. For example, most companies that tried to market cellular phones in India did not understand the local culture. Nokia took the time to look at how Indian consumers would use phones – right down to realizing that in rural villages several families might share a phone – and adapted their product accordingly. As a result, it achieved market dominance.

“It is possible to instill a culture in which systematic innovation becomes a habit, practiced as a matter of routine – and consistency.”

People’s desires often are too complex for them to express; you must figure out how to articulate these unspoken needs. For this purpose, P&G seeks “total immersion” in the consumer’s world. Employees in P&G’s “Living It” program live with families for weeks to observe how they use products. The “Working It” program puts employees to work in small shops, so they can see what people buy or don’t buy, and find out why. After you make such observations, distill them into conclusions, and break down your general consumer profile into specific market profiles. To go further and create loyalty, enlist your customers in “co-creating and co-designing” innovations.

“When innovation is at the center of a company’s way of doing things, it finds ways to innovate not just in products, but also in functions, logistics, business models and processes.”

Your strategy plays a crucial role in innovation. Decide “where to play” and set goals about how far you hope to go. Remain open to different types of innovation. Seventeen P&G brands have used “disruptive innovation,” thus reconfiguring their markets. Overall, though, P&G has maintained its market position by steadily introducing smaller “incremental improvements.”

“A brand is a product that creates an experience and ultimately a relationship.”

To innovate, work from your core strengths. Identify and build upon the things you do best. P&G identifies its own strengths and then conducts extensive research to build “a deep understanding of the consumer.” It develops lasting brands. Tide detergent is more than 60 years old and still going strong. P&G has 23 brands that have sold more than \$1 billion each. After developing the core technologies for these brands, P&G keeps them vital with advertising and incremental innovation. It also creates value with suppliers as well as customers, and it puts innovation at the core of a deliberate effort to learn and think broadly.

“Great innovations come from understanding the customer’s unmet needs and desires [which] they cannot articulate or do not want to say.”

During the four years he spent in Japan as head of P&G’s Asian operations, Lafley came to see design as a pivotal way to differentiate products. He learned from a society where even the department stores are beautiful that design can play a powerful role in innovation by improving the buyer’s experience with a product, generating product variations to match consumer profiles, and spurring innovation and sales. To foster sensitivity to design issues, P&G cultivates “abductive thinking,” the skill of imagining possible alternatives. Design schools teach and practice this ability, which P&G values so highly that it has hired 150 mid-career designers since 2001.

Enabling and Managing Innovation

To develop an organizational structure that fits your company and to set up the right “mix of innovation initiatives,” examine where your core business harbors an “innovation opportunity.” Is it accessible? Is it risky? What investment is required? Does it fit your strengths? What would the development timeline be? Where is this innovation in the process? Is it just an idea or a fully developed product? Finally, what sort of expertise do you need to bring this innovation to market? Working through these questions will determine how to shape your support structures.

“Generating ideas is...pointless unless there is a repeatable process in place to turn inspiration into financial performance.”

P&G uses various structures to support different kinds of innovation. Its “Corporate Pipeline” which works like an internal venture capital firm, focuses on high-risk ideas that offer great rewards. The multidisciplinary teams in the “FutureWorks” program seek innovations that cross market categories. “New Business Development” focuses on nurturing innovations in existing categories, while “Innovation Project Teams” operate within existing brands. Like P&G, you can create “innovation hot zones.” Its Innovation Center near Cincinnati contains an entire small store where researchers can test new layouts and watch customers shop.

“Without the discipline of a system that fully shapes, revises and reshapes an idea through multiple iterations, a project rarely reaches full potential.”

In general, contemporary change management calls for open organizational architecture, so innovation can flow in any direction. P&G’s “Connect and Develop” program looks for cross-connections. It has led to P&G buying key products outright, or licensing them from the competition. Finally, you also can innovate with your cohorts, such as suppliers, retailers and customers. This multiplies your sources for innovation and enhances loyalty. As you locate potential innovations, integrate them into a disciplined, multistage development process that you can execute not once, but repeatedly. Start with the regular flow of new ideas. Then develop the best ones until you can take them to market. At any step along the way, you can kill ideas that aren’t working or that offer too little return. Weeding out less productive ideas can be hard – a lot of managers get too emotionally committed to axe pet plans – but it is necessary.

“A third of innovation resources are wasted because business unit managers let emotional commitment keep a project moving and don’t kill it at the right time.”

Make it easy for people to propose ideas. Honeywell uses an online “Innovation Pipeline” where anyone can add ideas. Obtaining funding for good ideas is a crucial part of the selection process. As you develop innovations, track them. Follow who is leading each project, how it is going, what technology and target markets are involved, and how important the idea is. Track all projects on the same software so you can monitor your innovation mix and keep it balanced.

“P&G spends...time living with consumers in their homes, shopping with them in stores, and being part of their lives. This total immersion leads to richer consumer insights, which helps identify innovation opportunities that are often missed by traditional research.”

The consumer will be any innovation’s ultimate judge, so your job is not to produce an innately impressive product, but rather one that satisfies your customer. Assemble a multi-disciplinary development team for the product. Select a leader who can coach the team, encourage frequent low-cost tests, judge them fairly, and evaluate the innovation based on technology, price, business model, available “proprietary” protection and consumer appeal. In addition to evaluating projects, conduct formal “innovation reviews” that assess team performance. Although your goal is successful innovation, failure is a necessary part of the process. A leader must foster open dialogue about failures, so that the innovation team can learn from them. Finally, build innovation into your budget and use it to evaluate how business units perform.

Innovation and Risk

Innovation is innately risky – but not necessarily more so than other elements of business that just seem less risky, such as building a factory. The difference is that people think they understand and can manage the risks involved in manufacturing. In fact, you can know innovation’s risks just as clearly and you can reduce them, once you understand them. Innovation risk comes from the gaps between different elements of the innovation team (such as the technologically trained and the marketers). Gaps also occur when companies lack the right support mechanisms, don’t train leaders appropriately or don’t understand all the components of a specific innovation. Gaps pop open when managers disrupt innovation teams, rather than helping them, when companies try to develop too many ideas at once or when they let teams sink fortunes into projects without addressing the “killer issues” they must solve to bring the product to market. Two additional subtle challenges come with innovation. First, incremental innovation requires different skills and attitudes than disruptive innovation, so a mismatch will stall a project. Of course, you also can do everything right and your competitors still may simply get to market first.

“Good design is a catalyst for creating total experiences that transcend functional benefits alone and delight customers. It is a catalyst for moving a business from technology-centered or product-myopic to consumer-experience-centered innovation.”

You can reduce these risks by taking several replicable steps. First, “know your customers” and keep them at the heart of your thinking. Second, build prototypes to test ideas as cheaply and quickly as possible, and run tests with consumers as soon and as often as possible. Experiment often. Third, monitor and maintain your innovation portfolio, so you’ve got varied projects maturing at different times. Fourth, identify your “killer issues early” in the process and force your team to face them. Fifth, learn from experience and from failure. Sixth and finally, develop metrics to measure your innovation.

Building an Innovation Culture

To develop an innovation culture, create an atmosphere where people are encouraged to try new things. Build a culture that emphasizes connection over isolation, a culture of teams, not just individuals, and a culture that is courageous. This courage may manifest in taking obvious risks, like trying new products, but it also may appear in subtler ways, like seeing the world in fresh ways or being comfortable with disagreement.

One way Procter & Gamble develops its innovation culture is through having a facility dedicated to developing innovative teams. P&G releases entire teams from their daily jobs for weeks at a time. They go to the innovation facility at Clay Street, which is stocked with tools – such as whiteboards and comfortable chairs to facilitate idea exchanges – and spend weeks interacting, with the help of a facilitator. They start by getting to know one another and they learn to trust each other along the way. They move into extended brainstorming sessions on their project. These sessions start on the wild and unstructured end of the spectrum, and move to being structured and focused. Along the way – around the sixth week – there’s usually a chaotic breakdown. This is followed by greater team unity, new ideas and, by the end of the process, a shift into functioning as an autonomous team.

You may not have a Clay Street facility, but you still can foster innovation by taking some deliberate steps. Make it easy for your employees to link up with resource people. Build innovation teams with the right people in specific roles: idea generation, execution, project management and leadership. Encourage the emotional qualities of an innovation culture: courage, connection, curiosity, openness and collaboration. Prepare the physical environment for innovation by creating gathering spaces, and providing props and funds for prototypes. Put the right leaders in place. This means finding people who are at ease with innovation’s sometimes conflicting demands.

Innovation leaders must think creatively while helping their teams stick with processes and budgets. They must support their teams emotionally, but remain objective enough to kill projects that need to die.

About the Authors

A. G. Lafley is chairman and CEO of Procter & Gamble. In 2006, *Chief Executive* magazine named him CEO of the year. **Ram Charan** wrote *Know-How* and co-wrote *Execution*.
