



*The World Leader in  
Enterprise Marketing  
Management*

# How P&G Leverages Its Scale

*In Ways Competitors Don't Fully Appreciate*

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In Ways That Competitors Don't Fully Appreciate**

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## ***Executive Summary***

Competitive analysis of P&G often focuses on hard outcomes like market share, gross margin, and number of patent applications but misses some under-appreciated but nevertheless critical strategies that drive P&G's business.

The least understood and most powerful P&G strategy is leveraging its scale. Least understood because it is hard to measure; most powerful because it touches everything the company does.

P& G has four separate identifiable scale leveraging strategies:

- 1 a retail trade strategy
- 2 a top down Corporate vs. Division/brand funding strategy
- 3 a consumer cohort strategy
- 4 systemic strategies

*“Scale is becoming increasingly important, particularly as retailers globalize and continue to drive out supply chain costs. We bring industry-leading supply chain management and the intellectual capital of our people to retail partnerships. We have higher-than-average market shares at our top global retailers. As big customers grow, P&G's overall market share grows.”*

A.G. Lafley, P&G CEO

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### 1 Leveraging scale with the retail trade

- Everyone recognizes that retailers are becoming more and more powerful, demanding more price concessions from manufacturers while themselves marketing private brands of higher and higher value to consumers.

Most manufacturers respond by dumping cash into the retailer's wallet. P&G responds by leveraging its scale. P&G is investing tens of millions of dollars in Supply Chain efficiencies to become the low-cost distributor, developing innovative distribution concepts and then "marketing" their advantages to retailers with sophisticated Activity Based Costing software tools.

In addition, high volume from multiple categories permits P&G account handlers at all levels to offer retail customers benefits such as:

- ▶ Account-specific consumer research
- ▶ Major theme events with genuine substance which make the retailer look good to their consumers (e.g., the Women's Health Initiative at Wal\*Mart)
- ▶ Multi-category consumer studies (e.g. Mothering)
- ▶ Software analytics

These are programs that have a high perceived value to the retailer and reinforce P&G's competitive advantages. Of course, these programs are most aggressively sold to the more enlightened retailers who are gaining share in the marketplace. In fact, gaining share with growing retailers is another major P&G strategy.

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*"We see retail consolidation as an opportunity that P&G is uniquely capable of leveraging. We bring a number of proprietary advantages to our retail relationship, including the strength and breadth of our brand line-up, our innovation leadership, our scale, our industry-leading supply chain work, and the creativity and thought leadership of P&G people."*

Kerry Clark, P&G President of Market Development and Business Operations

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### 2 Use Corporate-funded Projects to leverage scale

- Leveraging scale also means committing to ambitious corporate projects paid for from the top rather than requiring budget-constrained brands or divisions to commit their funds to projects too costly for them to consider. Massive IT projects are the classic example.

- P&G is willing to mandate corporate top-down programs where rivals like Unilever and Nestle often require countries, brands or sectors to bear the financial burden for costly projects of long-term value to the entire corporation. As a result, at P&G such projects get done relatively quickly while competitors can take months (sometimes years) of internal negotiation.

- The advantage P&G realizes by the top down leverage of scale is similar to that described by Lou Gerstner in his recent book ("Who Says Elephants Can't Dance? Inside IBM's, Historic Turnaround") Gerstner underscored the necessity of top down pressure to change IBM's highly compartmentalized structure which paralyzed that company.

- Gerstner made the point that the corporate center forced the regions and divisions to organize around the external customer's needs, and that this pressure broke down IBM's self-destructive internal silos.

- P&G would certainly agree that organizing around its customers, as with the famed Wal\*Mart team, has helped it break its internal silos. But more generally, P&G uses corporate leadership - from small, agile corporate groups and not armies of bureaucrats - to create paradigm breaking initiatives that local countries and individual divisions can't contemplate and can't afford.

*"We ... link our entire global R&D group, which represents over 7,500 people, through an internal internet, which we call Innovation Net. We have over six million documents now in this system."*

Gil Cloyd, P&G CTO

*"Over the last year we invested \$22 million to add to our database of understanding, a base that now includes more than a half-million consumers in 30 countries over 25 retailers and 20 business categories."*

Kerry Clark, P&G President of Market Development and Business Operations

*"We've established marketing centers of expertise in areas like initiative success, winning at retail and stores, and connecting with consumers. The best thinking and the most experience from inside and outside P&G are captured through the COEs, and are available to every P&G business - and I should add, without a cumbersome central bureaucracy."*

A.G. Lafley, P&G CEO

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### 3 Leverage scale with specific Consumer Cohorts

Another example of P&G's leverage of scale is the focus on high-value consumer cohorts with intense needs. So far, the company has highlighted primarily young mothers, teenagers (especially girls) and seniors. These consumer cohorts have two things in common. First, they cross multiple P&G global business units and represent important profit potential for all of them. Second, they are prime long-range strategic targets for powerful but costly internet-enabled consumer relationship marketing. P&G is amassing names and developing programs to capture these critical marketing entry points. The little publicized internal "Tremor" group is one manifestation of using corporate scale to market to the level of the individual. Only a company with scale and the willingness to leverage it can generate the multi-category profit potential to justify marketing at the level of the single pocketbook.

### 4 Systemic strategies that use scale to overcome inertia

Scale brings its problems, and one of these is typically bureaucratic inertia. In fact, it has often been the case for large corporations that "Scale = Inertia". P&G has five sub-strategies to use scale to overcome bureaucratic inertia.

- ▶ Use inertia-busting IT enablers, especially in marketing
- ▶ Embed marketing processes in software
- ▶ Learn locally but act globally and do it fast
- ▶ Organize around multi-functional teams
- ▶ Leverage suppliers through partnerships

▶Taken together, these five sub-strategies are transforming the pace at which P&G is moving ahead.

- ▶ **Use systems in marketing.** No other global company, with the possible exception of IBM, is leveraging scale to build systems to accelerate marketing and sales. This use of systems extends to the critical area of marketing process.
- ▶ **Embed marketing processes in software.** P&G is embedding its "best practice" marketing process in software and is years ahead of its competitors. Diageo has done a remarkable job of codifying its processes, but they exist on paper, not in digital, collaborative, at-the-speed-of-electrons form.

Embedding processes in software – and organizing around that software - brings enormous advantages across the organization by elevating everyone up to a proven way of building brands. It even works to leverage local knowledge so important in many categories.

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By mandating a process, P&G can insure that local managers address what's globally common as well as what's locally important. In other words, process directs what gets considered; the individual marketer creates the plan relevant to the local market. P&G even has a sophisticated process for launching brands globally but leveraging local market variations.

► **Learn locally but act globally.**

P&G is a latecomer globally. The company does not have the experience, marketplace position, or international heritage of a Unilever or Nestle. But the company is totally committed to thinking and acting globally. P&G no longer sees itself as a U.S. company with "overseas" operations. Oddly, its top-down, Cincinnati-driven culture helps in this regard because the company does not have to overcome the ego and prerogatives of an entrenched country-based culture.

This new global ethos is enabled by common global processes deployed through a common IT infrastructure. Of equal importance are two relatively new aspects of the P&G organization-- its remarkable international and multi-cultural staff and its use of multi-functional teams. Every global business unit is international in character. The global head of Hair Care is an Austrian. The head of Hair Care U.S. is an Indian. And so it goes. Many people are surprised to learn that forty percent of P&G's R&D occurs outside the U.S., executed by a lower-cost (but often U.S. educated) work force.

**Organize around multi-functional teams.**

Equally striking is the company's development of multi-functional teams that run businesses on a regional basis and interact with their counterparts in other regions to identify problems and successes so that they may be swiftly addressed or expanded.

These multi-functional regional teams collaborate using common processes that are increasingly software-enabled. One common objective of these strategies is to decrease cost in price-sensitive categories like diapers, coffee and detergent.

► **Leverage suppliers through partnerships.**

Everyone understands that P&G leverages its scale in buying media and raw materials. Less well understood is the company's new strategy of leveraging supplier's capabilities through unique partnerships like the one with BASF.

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*"Today we're organized to leverage global scale and local knowledge; to connect and develop ideas inside and outside the company; to execute fast, with disciplined excellence."*

A.G. Lafley, P&G CEO

*"With a typical transnational customer, we conduct business on a day-to-day basis with our local teams in each of the customers' countries. However, we coordinate this work via a very lean, global multi-functional team that quickly and efficiently shares and builds best practices across borders."*

Kerry Clark, P&G President of Market Development and Business Operations

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**Conclusion – Scale with fewer people; scale at every juncture**

P&G has been rudely surprised by the relatively small incremental price consumers are willing to pay for their brands in many categories. Their answer has been to cut costs, cut staff, outsource, and increase white-collar productivity through systems and process improvements of the kind mentioned herein. **No major global marketer had more staff to cut and none cut more.** This staff reduction has made P&G a nimbler, quicker and lower cost competitor than ever before. More cost cutting is yet to come.

Enabling this has been the company's willingness to use its scale at every juncture. They know that their competitors fall into two categories.

- ▶ Smaller companies like Kimberly-Clark Corporation who lack multi-category, multi-brand scale to bring to bear against retailers or in other forums.
- ▶ or
- ▶ Global giants like Nestle and Unilever whose leadership struggles with a corporate culture that inhibits the leverage of scale across brands and sectors. Indeed, P&G's largest competitors often seem fated to squander their potential scale advantage on the luxury of country / category ego.

Regardless of the category or the country, the customer or the consumer, P&G's scale provides advantage in numerous ways. Its competitors need to understand how P&G leverages its scale and take action to match it or counter it.

One example should suffice. Many P&G competitors spend hundreds of man-years trying to drive down the cost of media a few cents per thousand impressions. No one will ever beat P&G at this game. Their scale is too great.

Instead, competitors must expend their efforts to create media alternatives that have the distinctiveness and brand equity building value vastly more valuable than 3¢/M.

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*"We have a right to be the most efficient and effective marketer because we have scale and spending."*

A.G. Lafley, P&G CEO

*"Thanks to our close relationship with P&G, we've become much more than simply a supplier of chemicals. P&G has made us more aware of consumers' needs while sharing in its experience with retail customers – just another example of how extensive our entrusting partnership has become."*

Dr. Stefan Marcinowski,  
Member BASF Board

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The antidote to scale can come from two sources.

For small companies, smallness is not an advantage unless it is combined with speed, better process, creativity, better consumer insights, stronger brand equity.

For large companies, scale itself is not a competitive asset unless it is leveraged with the same level of imagination and purpose as the company from Cincinnati has been able to create. P&G realizes that leveraging scale is not necessarily a denial of local knowledge, local culture or local advantages. Rather, scale can create superior processes and IT systems to bring global marketing power to every consumer, customer and store.

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*“Every year we have an event where we recognize brands and we recognize great advertising and great marketing, and this year one of the biggest awards we gave out was for marketing ROI. Who got the most bang for their marketing investment? Who was able to drive significant market share and profit growth and spend fewer marketing dollars? This is just underway. We’ve gotten it going in the last year or so, but we are going to learn how to leverage more knowledge, some scale, a fair amount of scale, and drive the efficiency and the effectiveness of our marketing investment.”*

*A.G. Lafley, P&G CEO*

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## About EMM Group, Inc.

EMM Group is the world leader in enterprise marketing management. Our mission is to embed the discipline of enterprise marketing management at thought leader companies around the world.

EMM Group is expert in marketing best practices across multiple categories. Our consultants all have several years of client-side experience in senior marketing positions (VP Marketing and above) in multiple categories, and have consulted to senior marketers in several more categories. Our experience base includes consumer financial services, telecommunications, technology, retailing, entertainment, durables, health care, household products, food, beverage, and many more.

EMM Group offers unique know-how and expertise in this field. We are the only company in the world that can:

- ▶ Offer a systematic audit of marketing best practices to benchmark your company against the emerging enterprise marketing management standard.
- ▶ Design and constructed customized marketing knowledge centers for Fortune 500 companies.
- ▶ Provide advanced technology design and systems integration to enable clients to integrate knowledge centers into their existing technology infrastructure.
- ▶ Offer integration of brand building and CRM disciplines into a unified consumer relationship growth engine for consumer financial services.

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