



CASE STUDY

P&G



Mary K. Wagner
Director, Global P&G Purchases

This case study provides an insight to the development of supplier relationship management (SRM) in a company that has a long, established reputation for excellence in SRM.

STATE OF FLUX

Procter & Gamble was founded in the US in 1837, by William Procter from England and James Gamble from Ireland. Both men were travelling through the United States when they met by chance in Cincinnati.

Having decided to go into business together, they founded a small soap and candle company that grew and thrived to become, according to Fortune Magazine*, one of the world's most admired companies.

In our 2012 global SRM report, we assessed P&G to be the single leading company according to our SRM maturity criteria. Consequently, we were keen to invite them to share some insights into how they have developed and maintained this level of excellence.

We were introduced to Mary K. Wagner – Director, P&G Purchases, and currently on assignment in China – who kindly agreed to answer a few questions.

What were the original business drivers for your SRM programme?

P&G has a long history of positive engagement with its suppliers and sees SRM as a natural extension of this. P&G's SRM programme was established to provide a rigorous methodology for managing supplier relationships, to deliver sustained business results over time. It was created to drive supplier-generated value, which would enhance P&G's competitive position with both our customers and consumers, in a way that clearly links to our compelling desire to improve and win in the market place.

How have these business drivers changed and how has SRM adjusted to remain aligned?

A key challenge for our SRM work has been to remain aligned to our business strategy as it has evolved. This has essentially meant operating in new geographies and new markets, with new products and new services. It has required our SRM work and thinking to evolve – from an increased need to focus on the most important relationships, to the development of new relationships in emerging markets and new industries, and to the creation of new business models, particularly in the services area.

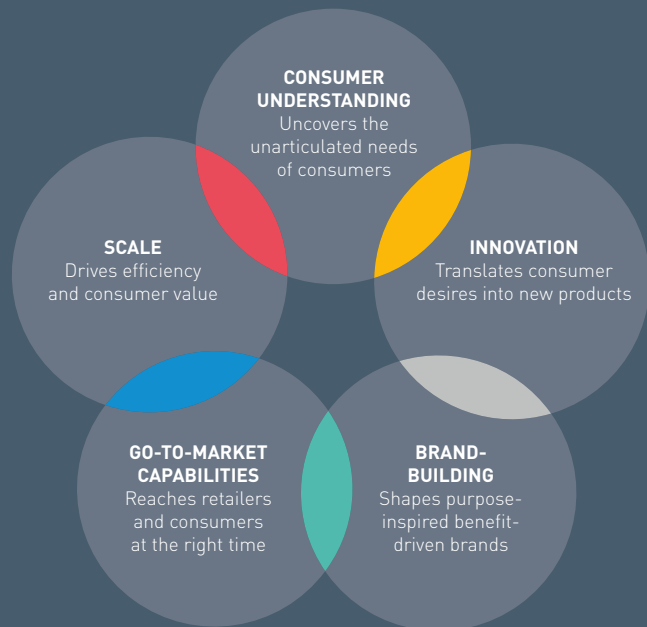
What were the major barriers and how were they overcome (internally and with suppliers)?

Given the size and scope of P&G's global business, we clearly have to work at effectively managing our complex supplier relationships. These relationships, which touch P&G in many ways, need solid linkages, constant communication, good systems, clear measures, and resources that can effectively coordinate both strategic direction and day-to-day issues over time. Relationships are about people and can easily be affected by personnel changes, shifts in business direction, and miscommunication. Ensuring strong leaders are in place to guide the overall relationship is critical to ensuring both parties are getting their needs met.

As purchases has expanded its participation in indirect spend areas, we have had to evolve our participation in markets which previously were managed directly by leaders in the marketing, media, or IT services areas as examples. Bringing our solid relationship management systems, processes and thinking into these areas has required some rewiring of how and where supplier relationships are managed. This has taken time, but the overall value that has been realised by this change has resulted in enormous suction for our structured SRM efforts.

* Fortune Magazine, 3rd March 2011 - P&G ranks 5th overall and 1st in their industry sector in Fortune Magazine's World's Most Admired Companies

P&G's five core strength focus



P&G is a pioneer of open innovation – how does this apply to suppliers?

P&G focuses on five core strengths required to win in the consumer products industry. We are designed to lead in each of these areas. Innovation is one of these core strengths and is the lifeblood of our company.

P&G is the innovation leader in our industry. Virtually all the organic sales growth we've delivered in the past nine years has come from new brands and new or improved product innovation. We continually strengthen our innovation capability with a global network of innovation partners outside P&G. More than half of all product innovation coming from P&G today includes at least one major component from external partners. External partners are a significant source of material innovation, product innovation, supply chain innovation, and innovation of services and new business models.

Given your reputation for innovation, is there a risk that you are overrun with innovation ideas that turn out to be little more than a sales pitch?

We must fuel our innovation pipeline with new ideas, new materials and new services from our external business partners. We welcome those new ideas, and typically have focused resources to help guide the commercial and technical innovation work with our most critical business partners.

How important is risk management in your SRM approach?

Our SRM methodology clearly addresses managing risk and relationship dynamics – i.e. changes in business fundamentals, and changes or issues in the health of a relationship. We focus on tools and assessments which provide early warnings and strategically engage our business partners in proactively managing change. For us, one critical activity that we participate in is our robust business continuity programme – which identifies high risk supply chains and ensures solid plans are in place in the event a supply disruption occurs.

How do you measure the effectiveness of your SRM approach?

We measure the effectiveness of our SRM approach across a number of different relationship attributes.

- ▶ We create joint business plans with our most strategic business partners to identify two-three year goals for the relationship and key action plans which will deliver those goals.
- ▶ Quarterly scorecard metrics are used to measure performance, and are typically a mix of predictive, outcome, quantitative and qualitative measures.
- ▶ We also use a very comprehensive supplier performance management system, which uses multi-functional assessments to evaluate and reward supplier performance against four key areas: commercial, operational, innovation and relationship.

What do you think is the most successful aspect of your SRM? What makes you proud?

P&G is consistently the preferred customer or the partner of choice, and many of our external business partners will dedicate their best talent to managing our business, bringing innovations to P&G first, and investing in our mutual success.

P&G's SRM process is a well-recognised, well-practiced and highly valuable asset for the company. The process starts with leadership involvement, and our focus on creating joint value for P&G and our business partners is effectively realised every day.

When you talk about leadership involvement, what does this mean in a practical sense for P&G?

For P&G, leadership involvement is far more than just about sponsorship. The example is set from the top, with our CEO and many senior business leaders personally involved in regular dialogue with our most important partners. These relationships may have different goals and objectives, but the thing they have in common is the 'hands on' involvement and the enthusiasm with which our leadership remains involved. Discussions may be directly related to our business engagement, but also subjects of common interest such as regional growth or development challenges.

Where next for P&G SRM? What are the next challenges?

P&G's business is constantly evolving. The demands placed on us by our consumers, shoppers and retail partners continue to grow, and we must be positioned to deliver against their changing needs. Our relationships with our external business partners must evolve and adapt to these changing business conditions. SRM is simply about how we do the work and how we ensure we deliver value. We must constantly mine our external business partner relationships to enable innovation, create new business models, drive technology advances, and ensure we are delivering value to the consumer and a demonstrable competitive advantage to P&G.

What advice would you give to organisations just starting out on their SRM journey?

- **Focus** – Not all relationships are created equal and you have to be strategic about where value is created.
- **Resource** – Effective SRM work takes time and resources, and leaders must be involved and role model the effort.
- **Measure and reward** – Find a clear, simple way to know that you are making a difference, and make sure your business partners feel valued for the contributions they make to your business.

