

Innovation & Organic Growth

For some unknown reason, A.G. Lafley wouldn't come to the phone when I rang him up to ask about his insights on innovation. The P&G CEO instead took a call from Geoff Colvin of *Fortune*—and even sat down for a face-to-face interview to share what he knows.

Geoff's excellent Q&A was published in the December 11th edition of *Fortune*. Because *innovation* is our thread in this issue of the HUB, I thought we should highlight some of A.G.'s comments. No hard feelings.

One key to innovation, says A.G., is focus. "I don't know how it happens, but in every case I've been associated with over almost 30 years, the focus gets diffuse. More projects get started than anybody can manage." So, at P&G, the focus "is on just eight-to-ten core technologies where we want to be world-class," he explains.

World-class is also how A.G. describes P&G when it comes to R&D. "The underlying assumption is that great invention is going on anywhere and everywhere in the world... In our pipeline through the end of the decade, half of the innovation has an external partner." As recently as 2000, only about 10 percent of P&G's innovations involved external partners, but last year that figure jumped to more than 40 percent, edging toward A.G.'s goal of 50 percent. He says he sees no reason that such innovation partnerships couldn't hit 80 percent.

"We did have to kill not-invented-here," he notes. "We have to make 'reapplied with pride' just as important a part of the culture as 'invented here'."

If A.G. Lafley can innovate, why can't we?

In a related vein, A.G. says he's reconfigured his leadership team on a global basis. "Some 55 percent of our business today is outside the U.S., so my top leadership team for the first time in our history is now up to half non-Americans," he says.

"It makes for a very different discussion when we get together for our quarterly or semester meetings," he adds.

The whole point of A.G. Lafley's innovation imperative is *growth*, of course. But "not just any old growth," as he points out. Notwithstanding P&G's string of acquisitions, it's all about *organic* growth.

"We're in markets that in a good year grow 2 percent or 3 percent, so for us to do 5 percent to 7 percent top-line growth... we've got to grow market shares and move into adjacencies and create new categories of business," says A.G.

"We work really hard to try to turn innovation into a strategy and a process that's a little more consistent... so that we can build a portfolio of innovations and get the yield we need to get that \$6 billion or \$7 billion a year."

He's getting there: For the past five years, A.G. says that P&G has been clocking in at six percent annual organic growth, on average.

Sound easy? Not on your life. Especially when your company is as big and ostensibly entrenched as is Procter & Gamble.

But, you know, if A.G. Lafley can be innovative, so can we.

All the best,



Tim Manners, editor-in-chief