



Best Practices in Outsourcing: The Procter & Gamble Experience

P&G

Case Study

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Introduction

The Procter & Gamble Company (P&G) markets a wide range of branded consumer goods products, including beauty care and household products. The company's products are sold in more than 180 countries, with net sales exceeding USD 82B. With on-the-ground operations spread across 80 countries, meeting the business service needs of the organization was challenging. P&G's Global Business Services (GBS) organization has met this challenge successfully; they have implemented best-in-class processes to provide business capabilities that create value for the business units, while reducing the costs and efforts necessary to support these operations.

GBS is one of four organization pillars that support the organization's business and provides more than 170 services to the company. The services delivered through GBS include everything from employee services (e.g. people management, facilities, communication, meeting services, and travel services) to business services (e.g. financial services and solutions, product innovation, supply network solutions). Many of those services are provided today through a set of alliance partnerships. The scope of the alliance management effort at GBS encompasses the entire outsourcing lifecycle of these outsourcing engagements; the goal is to create value for the business by improving the efficiency and effectiveness of these partner relationships, while reducing the risk associated with the use of third party organizations to deliver services. Managing the end-to-end relationship successfully creates a win-win situation for the organization and its partner, and benefits all stakeholders vested in the alliance partnerships.

Evolution of Services Provisioning at P&G

P&G has taken a systematic approach to the development of the organizational structure of the support unit that provides the business services for the entire organization. The examination of the evolution of the business services organization at P&G identifies three stages: establishment of Shared Service Centers, engaging in outsourcing arrangements, and strategic alliance management.

With the global expansion in the '90s and the ensuing need to manage the services necessary for the internal corporate clients, P&G set up a Shared Services organization and began to change the way certain type of services were delivered to its business units. Service centers were set up in Costa Rica, Manila, and Newcastle, and work was spread across these centers. Shared Service Centers offer organizations the opportunity to eliminate redundant activities and realize efficiencies in service delivery. Most of the savings with the Shared Services model come from standardizing processes, making it easier to provide support for multiple business units, while improving the speed and quality of service. The three Shared Service centers marked the first stage of a journey for P&G in the development of a best-in-class service management organization.

In the next phase (2002-2003), GBS started an initiative to examine the possibility of transferring some of the work that was being done by the Shared Services organization to third party relationships. While the organization was achieving advantages from scale on its own, it could derive additional value in a well-managed third party relationship with a service provider who had made the particular service its core competency. In the preceding stage, P&G had gained some experience with third party providers by taking small projects to offshore locations on a limited basis. The organization had also explored the capabilities available at global locations for different types of work, as well as the value to be derived from outsourcing relationships. Though P&G initially considered a single large deal that would encompass the entire scope of IT services, employee services, and business services, P&G decided to enter into three initial partnerships in 2003: IBM for employee services, Jones Lang LaSalle for facilities management, and HP for IT infrastructure, applications, and transactional accounts payable. With these relationships, these service provider organizations took on some of P&G's employees and portions of the Shared Service centers.

Over time, the number of major alliance relationships grew. Each of these relationships had a team of individuals managing those relationships very effectively. GBS leadership knew that consistency in governance mechanisms would help derive the maximum benefit from the alliance partnerships. Lack of standardization and sharing of processes across relationships could prevent P&G from maximizing the value from these outsourcing arrangements. In 2010, GBS decided to set in motion a set of processes that would drive efficiencies and generate value for GBS as well as its corporate clients. As Bill Metz, GBS Strategic Alliances program manager explains, "We were managing each of our partner relationships in a slightly different fashion... it was more of an art than a science. We decided...let us step back and try to understand how we can do all this more effectively. Can we come up with standard processes? Can we develop with standard tools and share them?" The services provisioning and alliance management efforts of GBS were transformed through standardization of processes, helping P&G realize the maximum value from its outsourcing engagements. This third phase, the development and implementation of the strategic alliance management processes and tools by GBS at P&G, highlights the capabilities required for a high-performing service management organization.

Best practices built on organizational processes

Having realized value from the scale of operations at their Shared Service centers, GBS leadership was well aware of the benefits standardization could bring in large-scale operations. As the number of outsourcing arrangements grew, GBS decided to put in place an organizational structure that could establish ownership and accountability for each partnership, and ensure adherence to standardized operations and management processes across partnerships. Without such an organizational structure, oversight across all engagements was not possible; in addition, this lack hindered the standardization and sharing of processes and the development of a common set of resources.

GBS turned to best practices within its core business in identifying the best way to manage these alliance partnerships. For example, GBS adopted a joint business planning process that was used extensively within the corporate environment – between the different business units within P&G and between P&G and its clients. Similarly, in establishing structures for accountability, GBS looked to established corporate business processes. Metz puts it concisely, “We run GBS as a business.” The following sub-sections present some of the best practices in outsourcing management implemented by GBS.

Tackling wicked problems

The management of alliance partnerships needs to be driven by knowledge of what is important to both parties in a relationship. The joint business planning process, adopted by GBS from the P&G corporate environment, allows both parties to come together to plan and set targets. A joint business plan has two sections – a set of base measures (e.g. performance, revenue, agility, innovation), with targets identified, and a set of projects and initiatives, with success criteria identified. Both organizations have input in the identification of the measures and projects, thus ensuring that measures and projects of importance to both parties are included in the business plan. During this process, P&G and its partners work together to identify and tackle “wicked problems”; wicked problems are challenges that directly affect business performance, challenges that both organizations believe would be beneficial to solve. This joint planning and addressing of challenges is “fundamental to the way we (GBS) operate, fundamental to the way we manage the relationship” (Metz.)

In addition to the declared initiatives and projects, P&G and its partners may be working on some upstream innovative ideas, as GBS looks to its partners to bring break-through innovation and solutions to the table. This leads to another sub-process: innovation portfolio management. A portfolio process is used to manage these upstream ideas, to help P&G understand which ideas have the most promise, which ones are closest to bringing value, and which ones will be most feasible. Metz explains that the innovation portfolio could be viewed as a funnel. When a break-through idea in the innovation portfolio advances to a certain point within the innovation lifecycle to become reasonable enough to be successful, it is graduated into a formal project or initiative and moved to a joint business plan. This is a second type of wicked problem solving, and it happens within the innovation space. The attention paid to the innovation portfolio highlights the intense focus of GBS on finding new solutions to business-critical problems. GBS not only strives to meet the current needs of the business with existing resources, but also looks to bring new and innovative ideas to the business units. GBS also measures the throughput of the innovation portfolio funnel to assess the number of ideas that are surfacing, the proportion that get through different stages in the lifecycle, and the number of innovations that ultimately get deployed.

Measuring the right things

In most outsourcing engagements, measurement centers on the attributes captured in the service level agreements. However, to get a true assessment of service delivery, it is necessary to roll up the service level measures from a more granular level to an aggregate level. An examination of the governance processes across P&G’s outsourcing engagements at the start of the strategic alliance management

phase in 2010 showed that different measures and different aggregation methods were being used across the many outsourcing arrangements. In response, a standard SLA methodology – that makes it very clear how measures were to be created at the granular level – was developed. Further, rules for how these service level measures should be rolled up and aggregated were put in place. This ensured that measurement and aggregation was done in a similar fashion across engagements, providing a uniform picture across all outsourcing arrangements. This new measurement process contributed to the desired standardization across processes; it also provided a true assessment of the services being delivered, a benefit for both organizations in the outsourcing arrangement.

While service level measures are necessary to examine if the client is receiving the required level of service, it is difficult to capture all aspects of the engagement using just service level measures. Sometimes, there is an element of the work or relationship that cannot be measured effectively using the service level measures. In other cases, the wrong service level measures may have been used. In such cases, the engagement dashboard could show visuals indicating that the service levels are green, but clients may be unhappy because expectations are not being met. The service organization would then have to contend with the “watermelon effect, where everything looks green on the outside, but there is all this red going on inside” (Metz). To address this issue, GBS instituted a set of subjective measures, complimenting the objective set of service level measures. Using the subjective measuring process, performance data were collected at the operational level and the management level. The subjective measurement scheme helps GBS capture information beyond that provided by the service level measures, about the client’s satisfaction with the services being delivered. When the subjective and objective measures are not aligned, it indicates a disconnect between what is being captured using service level measures and client expectations. Though small variances are possible, a significant variance would indicate the need for re-examination of the service level measures.

In the presentation of the data captured through the different measurement processes, GBS demonstrated the sensitivity to the needs of the business user that has been behind the constant drive for improvement at this organization. When the data is presented in a two-dimensional form, essential information regarding the criticality of a business service may be missing. To overcome this problem, GBS uses ‘bubble charts’ in their data representations. These visualizations go beyond the adherence to service level measures and the magnitude of the service, to indicate the strategic importance of the business service. Delays or problems in less strategic services, while not excusable, are not as serious as problems with business-critical services. The additional knowledge about the size and criticality of the services presented in the bubble charts helps manage the delivery of services to ensure business needs are met. With the bubble chart, it is possible for the management team to see if something big and important is off-track. Information about projects and initiatives are also presented in a similar fashion, using bubble charts. This focus on 360° measurement and meaningful representation highlights GBS’ commitment to continuous performance and provides exemplars for measurement and visualization practices.

Connecting the dots

One of the challenges faced by GBS was connecting the data and individuals who were distributed across multiple locations. To address this problem, GBS developed an Alliance Management platform that knits together all the different data points, people, and the components that go into managing a relationship. This Alliance Management platform provides a shared space, a ‘teamspace’, for data and knowledge management for all the alliance partnerships. The Alliance Management platform appears as a highly structured screen divided up into different buckets of information that allows GBS to directly access or link to all the information that is applicable to a relationship.

Each of the strategic relationships has a cockpit within the Alliance Management platform; a cockpit contains summary performance reports, communication strategies, service level measures, and all

information that is specific to a particular relationship. The Alliance Management platform has two levels of access. P&G employees have access to an entry level portal that presents general best practices, training, news, and any information that would be of use to those involved in outsourcing in the company. A subset of the cockpit is opened up to partner resources where the joint business plan, innovation portfolio, and other relationship-specific documents are available to the partner and P&G account leaders. The results of reviews are posted in the standard reports section, with all the data presented using standard templates. Bill Metz comments on one of the many benefits of this Alliance Management platform: “Gone are the days of ...well, let me update and email this to you. Nobody ever really knows where the right version of something is. We now have one version of the truth. The copy that we all know to be the official copy is stored there.”

When governance resources need to change between relationships, the standard reports and presentation formats in the Alliance Management platform makes the transition easier. Every cockpit in the Alliance Management platform is identical; individuals trained in the system can be easily onboarded into a new relationship. The Alliance Management platform also provides a complete contact list, alliance management KPIs, process documentation, a knowledge base, an integrated alliance calendar, news items, and much more – essentially, a one-stop shop for alliance management. At the time of writing, the Alliance Management Platform has more than 200 users and averages more than 500 web site page requests a day; at last count, it has 139 codified knowledge items and 22 named subject matter experts. A major benefit of this Swiss-army knife of outsourcing management software tools is its capability to not only present a complete picture of the alliance relationship to the management team, but also alert the management team of actions to be taken. As Metz notes: “Part of the biggest challenge about governing relationships is doing the things that you know you are supposed to be doing, you know you should be looking at certain issues and updating them on a weekly basis...sometimes people are so busy and get so time challenged, we often become complacent and do not do the very basic and fundamental governance tasks we should be doing. This tool becomes a gentle reminder to people to think about what they should be doing...we find it to be very valuable.”

Accountability and Visibility keeps efforts on track

Alignment between the goals of GBS and the organizational structure that it implemented also contributed to the effectiveness of the alliance management processes. GBS defined key roles for the management of the outsourcing arrangements. Executive Sponsor, Relationship Manager, Deal Manager, Transition Manager, and Alliance Architect roles were established, with operational governance and relationship management responsibilities separated. These roles were scoped where necessary to provide visibility across all the work performed by an alliance partner, and located within or as close as possible to the organizations consuming the services of an alliance partner.

Borrowing another best practice from the corporate business, a single Relationship Manager was made accountable for each alliance relationship; this held true even when the supplier delivers services under multiple Work Statements to different areas of the business. Every one of these alliance relationships is subject to routine internal reviews, with the review reports going to the highest level of the company. These high levels of individual accountability and data visibility ensure a commitment to the highest level of performance possible in a relationship.

Standardized processes, effective measures, and exemplary software tools will generate business value, only if the individuals involved in the management of the alliance partnerships leverage these resources. GBS used education and training and visible adoption measures to drive commitment from end users to the new methodologies and tools. In addition, competency development training, including IAOP Masters training for Deal Managers, was created and/or deployed.

Outcomes

The development and implementation of the strategic alliance management process by GBS at P&G was a successful organizational change effort with impressive results. The effort focused on every stage of the outsourcing lifecycle, including optimizing the process for establishing new outsourcing relationships, managing existing alliance relationships, and handling the renew/repatriate/recompete decision at the end of the relationship lifecycle. This new alliance strategy ensures that GBS gets the right work to the right partners faster, maximizing the potential of the alliance relationships for value creation. Standard processes and tools reduce risk and improve effectiveness, efficiency, and speed of execution of established outsourcing relationships.

The data management functionalities built into the Alliance Management platform and tool set improves visibility, enables easier benchmarking, and establishes one version of the truth. GBS uses this assessment to quickly recognize and reward good performance, and drive continuous improvement by identifying and correcting systemic issues. Sophisticated data visualization methods enable GBS to quickly assess if the most important services and initiatives are on-track. The knowledge management capability within the Alliance Management platform has been used to create a knowledge base of standard process models, training, CBAs, templates, examples, and named SMEs; this knowledge repository supports reapplication of the learnings from collective experience.

A major change effort of this nature, which encompasses multiple functional units, can be successful only with the support of top management. The effort was sponsored by the executive responsible for strategic alliances, led by a program manager, and carried out by a network of resources from a variety of functions and organizations. The approach is multi-functional (including roles for HR, Legal, Finance, Purchases, Stewardship, and External Relations), it covers the entire lifecycle, and it is used across P&G's largest and most critical relationships. The overall result is alliance relationships that are more efficient and effective.

Lessons Learned

In an outsourcing environment that is as complex and globally distributed as the one managed by P&G's GBS, introducing change can prove difficult. Two challenges faced by P&G in the transition from ad-hoc to standardized processes for alliance management were the consolidation of the different processes and alignment of a large number of resources. P&G was able to knit together components to create a software tool that provided a platform for collaboration and data management and supported processes including joint business planning, performance visualization, and innovation portfolio management. This Alliance Management platform offered a comprehensive set of resources for the management of the partnerships. Still, changing the way people had interacted with partners for years was a challenging task; however, once the value of the process was realized, it became easier to get buy-in to the new strategic alliance management process. Clear articulation of the benefits and alignment of leadership were key in getting this buy-in. Visibility of alliance management indicators in the Alliance Management platform portal has also been a significant factor in the adoption of the new processes and tools.

As the number of outsourcing relationships grew, the expansion in scale required a mature approach to the management of partnerships, leading to the development of the strategic alliance management process by GBS. Given the number of alliance partnerships and the magnitude of the engagements, it was critical for GBS to invest time and effort to develop the standard processes and tools. Successfully managing outsourcing relationships can have a true impact on the business and create a win-win driving more value for both the customer and the partner. This is how to transform the way business is done.