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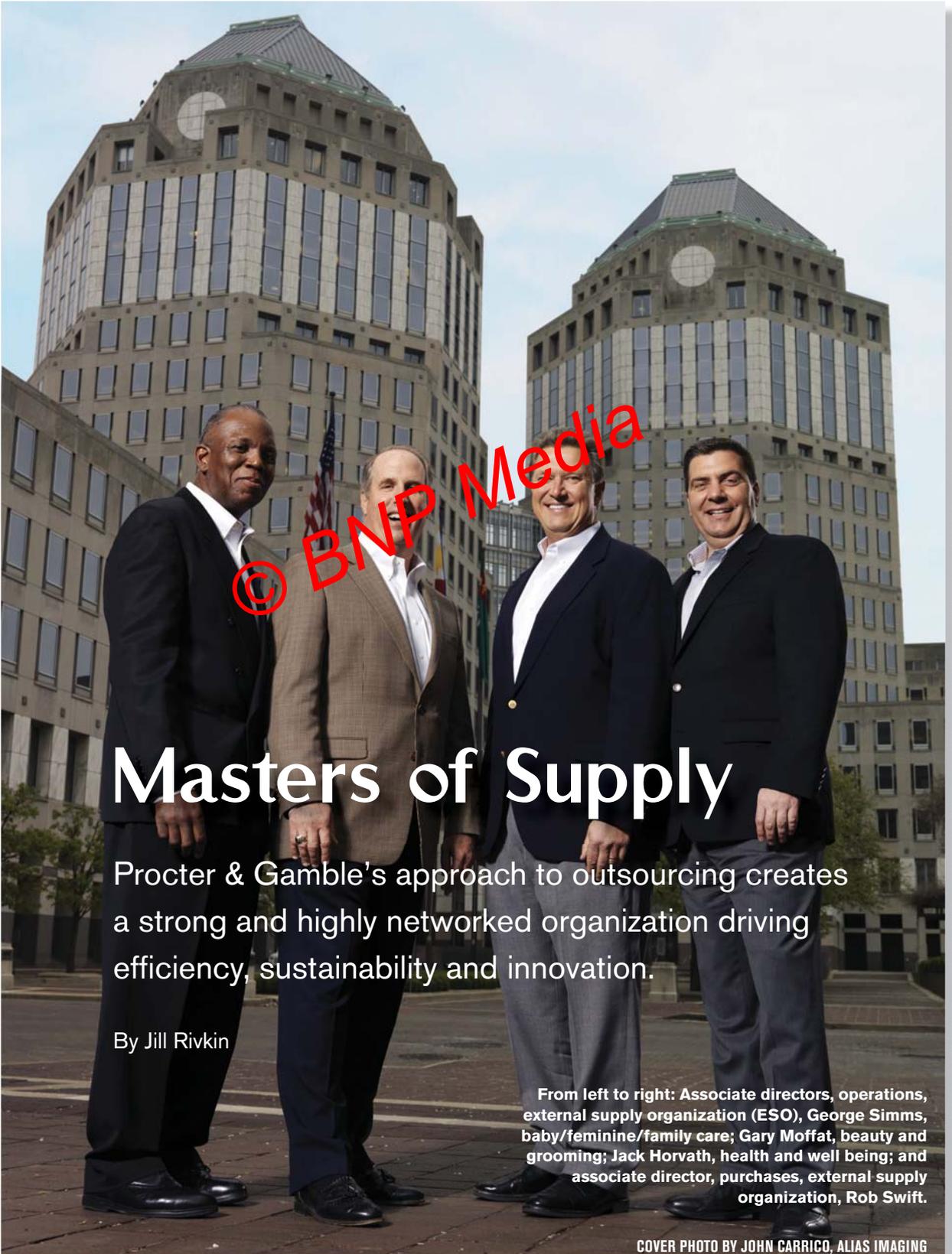
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MASTERS OF SUPPLY



PROCTER & GAMBLE'S APPROACH TO OUTSOURCING CREATES A STRONG AND HIGHLY NETWORKED ORGANIZATION DRIVING EFFICIENCY, SUSTAINABILITY AND INNOVATION.

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Masters of Supply

Procter & Gamble's approach to outsourcing creates a strong and highly networked organization driving efficiency, sustainability and innovation.

By Jill Rivkin

From left to right: Associate directors, operations, external supply organization (ESO), George Simms, baby/feminine/family care; Gary Moffat, beauty and grooming; Jack Horvath, health and well being; and associate director, purchases, external supply organization, Rob Swift.

COVER PHOTO BY JOHN CARRICO, ALIAS IMAGING

Though 10 percent may not seem like much in some situations, when it's 10 percent of \$84 billion, it's significant. So for Cincinnati-based Procter & Gamble's external supply organization (ESO), outsourcing 10 percent of the company's global sales – 20 percent of its SKUs – is a more-than-sizeable task.

But thanks to a strong and networked ESO group, the sourcing of products for all of P&G's global business units is strategic and systematic in order to ensure the most cost-effective, efficient and value-focused approach to manufacturing, whether through an internal or external facility.

“Our mission as a product supply organization is to find the best supply chain for whatever product we're making – in some cases that will be internal to P&G and in some cases external,” says Gale Beckett, vice president of product supply, global home care, P&G professional. The ESO group has two faces: Commercial people focused on identifying potential contractor candidates and mastering the dynamics of their markets, and operational people with established relationships with contractors and a keen eye on achieving production commitments and quality standards.

“Our job in ESO is to find the external suppliers that best meet Procter & Gamble's needs and best deliver for the businesses. We offer those solutions as options to the supply organizations,” says Rob Swift, associate director, purchases, external supply organization.

“I think there's healthy competition between internal sites, across our external sites and between the two,” Swift adds. “The desire is to put a fast and best solution forward. By fast, I specifically mean speed to market, and by best solution I mean it gets the product to consumers in the most effective, efficient, value-focused way.”

Within the P&G organization, members of the ESO team often manage a number of product categories, working hand in hand with product supply executives to identify and establish the best manufacturing and packaging plan for each product. And because these execs have extensive knowledge of manufacturing and packaging solutions within their categories, they are highly networked

across the company and utilize each other's skills as much as possible.

In the baby care segment, for example, P&G launched the Kandoo kids brand in a way that maximized the ESO's capabilities and knowledge, while ultimately outsourcing to key contract manufacturers in varying capabilities. The Kandoo brand comprises personal care products for toddlers that cross segments from shampoo and soaps to wipes, reaching beyond the traditional scope of diapers, training pants and wipes for this particular brand group.

“We leveraged the ESO capability that other GBUs (global business units) had because they were already doing liquid filling,” says George Simms, associate director, global operations, external supply organization, baby/feminine/family care. “ESO gives us a powerful network, and we can really leverage the centers of excellence and technology mastery.”

“ESO has become more horizontally organized,” Beckett adds. “We can find good leads by listening to other businesses.”

Internal or External? That is the question.

There is no doubt that P&G has built and maintains a top-quality manufacturing business – with 145 manufacturing sites around the world, producing products is core to the company's mission. However, executives agree there are ample opportunities for contract manufacturers and packagers to make an impact and drive business solutions within the P&G universe, especially in today's environ-

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ment where value and efficiency are evermore imperative.

“About 10 to 15 years ago we started thinking long and hard about what to do inside vs. outside,” says Bob Gorski, vice president of product supply, global baby care. “For a long time before then the decision was that brick and mortar is internal to the company and that’s what we focused on. If you went outside, you felt like you were losing something.

“But then we realized that we were too inwardly focused and wanted to figure out how to leverage outside capabilities,” he adds.

“In the past, we were looking for backs and hands,” says Jack Horvath, associate director of global operations, external supply organization, health and well being. “Now we’re looking for collaboration, innovative ideas – we’re looking for partners in the supply chain.”

One primary area where outsourcing really comes into play now is in “new-to-the-world products” where P&G doesn’t have the capability internally or the innovation comes directly from a supplier or contractor’s proprietary technology.

“Our CEO has talked about the concept that ‘Procter would rather fail early and cheap,’” Swift says. “In our industry, only 15 to 20 percent of products succeed so failing cheap means maximizing the speed and value of learning from consumers while minimizing the costs of making mistakes when we don’t get a product idea quite right. If we’re getting into a new product area that doesn’t look like it will make it, to build internal capacity for that new platform would be an expensive failure if it didn’t work.”

Another key contributor in the outsourcing strategy is when the new-to-the-world part of the equation is a geographic expansion. In regions such as Eastern Europe, India, Africa and parts of Asia, P&G has made a concerted effort to expand its core mission of “Improving the lives of consumers in meaningful ways.”

“In emerging markets we outsource more because we don’t have bricks and mortar on the ground,” says Rick Hughes, vice president of global purchases, pointing to product supply as a “growth engine” for the company. “We



can enable the company to grow by providing those supply solutions that enable us to get into parts of the world where we aren’t operating.”

And sometimes that mandates finding local contractors to help alleviate logistical issues and off-set the prohibitive costs of shipping products around the world.

“Another part that has become more important as supply networks have become more volatile is the logistics of it all... The logistics have become much more of a decision criteria for us in the past two to three years,” Hughes adds.

Back on this continent, logistics play a significant role as well, and P&G execs all plan to have even more distributed supply locations to ensure speedy and efficient product manufacturing where the market demands. In addition to easing up supply chain demands with faster and smoother distribution, an appropriately located network of contract manufacturers can push products – especially new ones – to market faster, a key to winning at the shelf.

One example, Beckett recalls, is when the drug Prilosec went from prescription to over-the-counter distribution. It was the “most remarkable example” of a team of manufacturers working to launch a product, she says. “We had five contract packers across North America helping us just package enough product to get it out there quickly. It was the largest one-day, push the product to the trade that we had done. We couldn’t have done it without our contract partners.”

The complexity of working with so many external partners is, however, sometimes a sizeable challenge.

“The biggest challenge is managing the complexity of ▶

P&G execs agree that the **decision to outsource** is a **business-by-business** approach and there is **no magic number** in terms of the right level of **outsourcing** for any particular business.

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it,” Beckett adds. “We have a number of contract manufacturers and it adds complexity in terms of touch points for our products.”

While partnering with external manufacturers is certainly an asset P&G execs appreciate, there are many influences in the make vs. buy decision, and they range from cost and logistics to ownership of intellectual property, plus a host of other issues to consider. P&G execs agree that the decision to outsource is a business-by-business approach and there is no magic number in terms of the right level of outsourcing for any particular business.

“100 percent is too much and 0 percent is too little,” Hughes says.

“You have to look at it supply network by supply network... The process of make vs. buy is not an easy one. It’s an ongoing challenge that we continue to wrestle with.”

The Magic Number

Establishing the right level of outsourcing for each business is a task constantly managed and monitored by supply organization execs and ESO members, and it changes regularly as the businesses grow and evolve. Similarly, finding the magic number of contract partners is like hitting a moving target because it, too, fluctuates. And there really isn’t a magic number, after all.

“I don’t know if there is a right number right now,” Hughes says. “It all depends on where we are in the world.”



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Currently, P&G works with approximately 300 contract manufacturers and packagers globally. But it has taken some strategic efforts to get to this level in recent years, as P&G had more than 700 contract manufacturers in the fold just three years ago when the company acquired Boston-based The Gillette Co. in 2005.

"We are on a concerted effort to drive to fewer and better," Swift says. "It's both to reduce the resource requirements and provide additional scale to drive value for the contractors and for us."

In the beauty business, in particular, the number of contractors grew too much, and the team has worked diligently to "get to the core," says Alex Blanco, vice president of product supply, global personal beauty care. Globally, beauty care has more than 150 external sites producing P&G products, and to some extent, the complexity is bigger than P&G's own system, says Gary Moffat, associate director, global operations, external supply operations, beauty and grooming.

"We've got a strategy to consolidate our contract operations so we can do more with less," Moffat says. "If our business is growing pretty quickly, we can't keep adding contract manufacturers and have such complexity. We're taking a good look at the capabilities of our current group and doing market analysis to see what's coming and who is new to the industry."

"Our goal is to have fewer suppliers and have more strategic suppliers – people that really add value," Blanco says, pointing to three tiers of supplier relationships including: "strategic," "essential" and "emerging," each of which plays a specific and integral part in P&G's product supply program.

Another reason to use contract manufacturing and packaging services is the flexibility it allows, and the beauty care segment demands that nimbleness more so than other segments because of the unique product

profiles.

"It's the speed that beauty care changes – people want new innovation, new-to-the-world, fresh colors, and there's a lot of complexity," Moffat says. "The individuality of the segment comes into play ... and that doesn't play well with high-speed, high-volume lines. We need to be able to change on a dime."

Risky Business

A major part of identifying the need for contract services and the appropriate contractors is assessing the risk, and this challenge never wanes. For one, given the volatile market and tenuous economic times, no one customer – not even one the size of P&G – can get a truly transparent look at a supplier or contract partner to ensure its stability. ▶

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“Getting the financial transparency and really understanding the situation at a contract manufacturer is quite difficult,” Horvath says.

To help off-set this risk, P&G outlines specific business-continuity plans, which demand a tightly knit supply strategy where internal and external sites support one another if need be.

“Going outside creates risk for the company,” Moffat says. “We believe we have better control of business-continuity plans inside — we have one for each plant — and we have one for each contractor. What’s their business-continuity plan and what’s ours if something happens — if they go bankrupt, have a fire or explosion or are affected by a natural disaster.”

Assessing risk also must be addressed in terms of production and product quality. After all, in an outsourcing relationship, brand owners must entrust the contractor with the company and brand image and feel com-



dent that the product leaving the plants meets all expectations.

“One of ESO’s continued challenges comes from our product supply leaders making the make vs. buy decisions. Our company expects that whatever we put on the shelves — regardless of where it’s made — will be the same high quality,” Swift says. “When you have complete control of your operation, you can manage that. When you don’t — and it’s an arm’s-length relationship — there is a higher element of risk and cost to manage that risk.”

Ensuring Quality

With risk comes reward, or so the saying goes. But P&G’s execs want to ensure that adage by holding its external sourcing partners to the same company-wide standards used for internal sites. In analyzing and monitoring outsource partners’ operations, P&G employs a 19 key-element approach to evaluate suppliers, contractors and all plants on a regular basis until each one reaches 100 percent QAC rating.

“That’s an investment they have to make,” Moffat says of P&G’s external sites that are considered strategic. “We will help with the coaching and the tools, but though we

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Currently, **P&G** works with approximately **300 contract manufacturers** and **packagers** globally.

provide the tool box and the skills, they have to drive the program.”

Having high expectations in the company’s partners’ ability to attain high quality standards doesn’t ebb and flow – it’s a mandate, though not one that P&G expects to have to monitor day to day.

“We’ve got to make sure we’re managing the risk,” Simms says. “We do an in-depth assessment in the area of compliance with QA and internal controls, and after that we have a validation process that ensures what’s on paper is what’s going on. Once we’ve done that and they’re up and running, we try to give them as much autonomy as possible. But we’ll monitor to protect our business and our consumers.”

“In my experience, when a company has a high quality standard it plays out in everything they do including the relationship and the work processes,” Blanco says. “It becomes a very, very important factor for us because at the end of the day, it’s the image of our company. A consumer doesn’t know and doesn’t care if a product was produced in a P&G factory or at a contract manufacturer.”

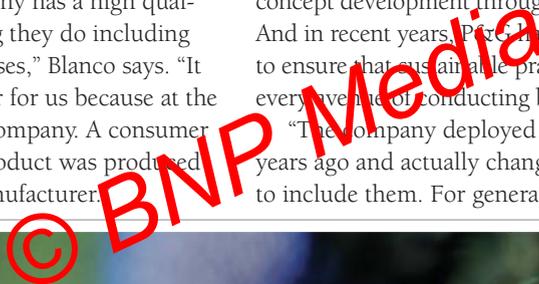
And since many of P&G’s brands are established, beloved and highly esteemed, protecting brand equity is critical to the company’s next 100 or so years, building on its 171-year-old legacy.

“We’re very proud of our products,” Blanco says. “Messing them up is a big deal. Having a contract manufacturer that doesn’t deliver the experience that a consumer wants is a major issue. We hold them to very high standards because our products make a difference to consumers.”

Sustainable Practices

P&G’s quality standards not only ensure high-quality products, but also high-quality production that has a sharp focus on sustainable practices throughout the supply chain from concept development through production and distribution. And in recent years, P&G has indelibly changed its culture to ensure that sustainable practices are at the core of nearly every avenue of conducting business.

“The company deployed sustainability goals a couple of years ago and actually changed the statement of purpose to include them. For generations to come, sustainability ▶



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will be a part of what we do," Hughes says, pointing to the magnitude of making changes to P&G's mission, which is more than 170 years old.

Since the goals were deployed, P&G has since "doubled-down" and reset higher goals. "We've got detailed tracking systems for every plant around the world and within the first year, we reached our goals," Gorski says of the mission to reduce emissions by 20 percent.

Sustainable practices have been enforced at manufacturing facilities, of course, but the movement also has infiltrated day-to-day operations and the marketer's approach to product packaging.

P&G's sustainability efforts have and will continue to positively impact the manufacturing and packaging industries in general because the company continues to raise the bar and its expectations of its partners.

"One of the key things is that we've got incredible capability and our core competency is manufacturing," Simms says. "That lets us take what we've learned inside and take that to our contractors to drive out loss and incorporate sustainability."

Connecting and Developing

In a similar way that sustainability has permeated the P&G environment in everything from research and development through production and distribution to ensure processes are completed in a way that's considerably better for the world, P&G's Connect and Develop program has already reached nearly every element of the company's business approach. Around for about a decade already, the Connect and Develop program is the company's moniker for open innovation and has created a unique culture of idea generation, especially at a company of P&G's size and caliber.

"Innovation happens internally and externally," Beckett says. "Connect and Develop is a key

strategy that requires 50 percent of innovation comes from external connect points – they can be with contract manufacturers, or many other places. There's an entire strategy on how to look for and generate ideas – our R&D department has its own C&D organization. It's a real journey."

Connect and Develop drives P&G to fully utilize the network of resources available for innovation – universities and think tanks, materials suppliers, competitive companies, agencies, and of course contract partners.

"In many cases, they are subject-matter experts for chemicals, packaging, marketing programs and media design," Hughes says.

"Not to minimize what we do, but P&G is just one company vs. hundreds and hundreds of companies out there with research capabilities, engineering capabilities," Horvath adds, emphasizing his view that there is "unbelievable capability and opportunity" to be tapped through Connect and Develop.

"There are 6.5 billion idea generators out there in the world and only about 140,000 of them work for P&G," Swift says, with optimism that there are life-changing ideas out there for P&G to deliver to consumers worldwide. And, he says, contract manufacturing and packaging will play an integral role in this mission.

"I think there is a very bright future and a strong, continued place for contract manufacturers," Swift asserts. "There will always be a need for business-continuity sources, and there are a number of places where contract manufacturers can very well compete with internal solutions."

Blanco agrees, "We'll continue to see an ongoing level of contract manufacturing. It's going to be with fewer, better-quality manufacturers that provide win-win solutions with the right cost, the right quality and service. They are really partners in taking care of our brands and our businesses." ■