



## Even Giants Start Small— A conversation with P&G’s Larry Huston

By Chris Flanagan, Business Innovation Factory

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No intellectual heroism or psychic leap will take you from the development of the wheel immediately to the internal-combustion engine and the automobile.

Elting E. Morrison  
*Men, Machines & Modern Times*

Procter & Gamble is in a new era of growth and productivity, thanks in large part to its Vice President of Knowledge & Innovation, Larry Huston. In a world where up to 96 percent of all new projects fail and huge sums of R&D money don’t seem to make a dent in innovation success rates, Huston’s Connect + Develop program has exceeded the company’s expectations for innovation-fueled productivity.

Huston, who is also a member of the Business Innovation Factory’s (BIF) research advisory council, has learned volumes by systematically transforming the way P&G finds and brings innovation to market. The company’s innovation success rate has more than doubled, while the cost of innovation has fallen. I recently sat down with Huston to talk about the P&G approach, how it came about, and how it might be applied to the Business Innovation Factory.

### **The Rise of Connect + Develop**

Huston and his team were given a monumental task in 2001 when CEO A.G. Lafley publicly proclaimed that P&G would source 50% of the company’s

innovation *externally*. “That represented a major challenge for an organization that historically invented 90% of its innovations internally,” says Huston.

Changing the mindset one of the world’s largest companies from ‘not invented here’ to ‘ideas can and will come from anywhere’ was a transformation that required research, commitment and a lot of motivation.

Ironically, the motivation part of the equation turned out to be a little more push than pull. “When Lafley’s pronouncement was picked up by Wall Street analysts and by the press, we realized that we really needed to deliver on this,” explains Huston.

He knew it was time to leverage every bit of institutional knowledge and experience in order to meet the new metric.

*“We’re talking radical re-design here. Most r&d organizations haven’t changed since the days of Edison. Transitioning from an invention model to a connections model required a lot of new capabilities to be developed.”*

Connect + Develop’s roots go back to the late 1980s. At that time, P&G changed its R&D model from a centralized structure based in Cincinnati to a transnational structure where P&G laboratories were linked around the globe.\*

This transnational approach accelerated P&G’s global time to market and revolutionized the way future organizations would structure their R&D organizations. In the late 1990s however, the company wasn’t meeting its growth objectives yet it was spending greater and greater amounts on R&D. Huston and his team began searching for the next big business model that could be applied to the innovation area.

Following 3 years of concept work, Connect + Develop was born. “Connect + Develop is really the tip of the iceberg,” says Huston. “There’s a mountain underneath in terms of the learning that took place, the evolution of programs, the various types of experimentation.”

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\* For more information see *Managing Across Borders: The Transnational Solution*, by Christopher Bartlett and Sumantra Ghoshal, 2<sup>nd</sup> edition published 1998

## **Capitalizing on the Strength of Weak Ties**

With their global solution networks, P&G is practicing what sociologist Mark Granovetter calls “the strength of weak ties” in that the most efficient networks are those that link to the broadest range of information, knowledge and experience.

It's important however to define the criteria for accessing these large networks

*“In order for Connect + Develop to work, we realized it was crucial to know exactly what we're looking for and where to play.”*

and targeting plays a key role. For P&G, often times, it means passing on a lot of great ideas. “You need to get really clear on what you're looking for and how value gets created,” says Huston. “Look for things with a pedigree and a reason to believe. Here at P&G, we're looking

for solutions that solve a consumer problem and are ready to go. Without proof of concept, we don't move forward.”

## **Finding Where to Play and Who to Play With**

There's been a great deal written about developing networks and buzzwords abound—one of the latest we've seen comes courtesy of *Wired Magazine*—‘crowdsourcing’. Many companies have taken the lead from Huston's work.

If P&G moved to a globally networked organization with external partners, Huston believed it would be important to identify *who* would be part of the network. From there, he began looking at the potential number of resources outside the walls of the company.

Following months of research, Huston and his team found 1.5 million qualified people P&G could leverage. “When we looked at our organization and defined it as 1.5 million plus 7,500 internal people, we began working out the structure of this new organization—How do you manage it, how do you incent it? What are the principles of an organization that you don't ‘own’?”

Huston is very clear that Connect + Develop is not an idea factory. “The reality,” he says, “is that the world is filled with great ideas. We want ideas filled with solutions—we want a solutions factory.”

According to Huston, it's rare for a consumer to come up with a product idea that P&G's research and development team haven't already considered. So the value of the external network is not in coming up with a new idea—it's about solving our important consumer problems. “Most parents love the idea of a flushable diaper,” says Huston. “There aren't too many people out there who can create one.”

To address the ‘solving problem’ P&G builds solution-based networks rather than brainstorming networks. The onus is on P&G to be exceedingly clear about the conditions and parameters of a particular problem so their network of problem solvers can get to work.

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To do that, the company collaborates with organizations and individuals around the world, systematically searching for *proven* technologies, packages and products they can improve, scale up, and get to market fast.

“When you get the right people, working on the right problem, at the right time, magic happens,” explains Huston. “You just need to know how to stimulate that latent capability within a given network. Smart people will swarm to a given problem.”

## **The Other Half of the Equation: Develop**

The business press loves to play up the connect half of the equation. But as the BIF community knows, it's all well and good to link to global talent networks, but it's what you do with them that really matters.

Huston's fellow BIF Research Advisor, JP Jeannet of Babson College, believes that building an effective innovation program requires companies to consistently keep themselves in a 'zero legacy' mindset. A company the size of P&G has legacy to spare, so Huston's team instituted a number of programs to change mindsets.

Implementing Connect + Develop required intense internal coordination and several new job descriptions were created. For instance, new business growth managers or Connect + Develop Leaders were named to act as the internal motivators responsible for driving cultural change around the new business model.

"The C+D Leaders are very important," says Huston. "They're here to make sure the technology entrepreneurs are well integrated into the business. They ensure that reward systems are adequately designed and provide the appropriate level of leadership to generate success stories, they drive the culture change."

Seventy technology entrepreneurs were also added. These 'TE's' work each business unit and research where the consumer is headed and what types of things are needed to grow the business.

They may look at technical solutions, or ready-to-go solutions. They may look at the equity of a brand. Are there new products which might be developed in adjacent areas? "What's important," says Huston, "is that once the problem is defined, they build the networks that enable P&G to ultimately introduce new innovations to the marketplace at a much quicker rate than before."

Huston likens these technology entrepreneurs to "strategic scouts,"—ferreting out the best problem solvers, resources and capabilities worldwide. They actively tap both closed proprietary networks and open networks of individuals and organizations. They look for solutions in government and private labs, as well as academia. They target P&G's suppliers, retailers and even competitors.

Results have been astounding—R&D productivity has increased by nearly 60%; R&D investment as a percentage of sales is down from 4.7% in 2000 to 3.4 % today; in the past several years, the company has launched more than 200 new products attributed to its external networks; and, P&G just achieved its goal of getting 50% of its innovations from external sources.

### **Pick a Goal, Put a Stake in the Ground, and Go, Go, Go**

Huston, who joined BIF's research advisory council last year, says you don't have to be a juggernaut like P&G to make Connect + Develop work. "Some people might be surprised, but Connect and Develop did not arise from a large team with massive resources."

According to Huston, there was a tremendous amount of education and listening that happened during its evolution. "We started with a small team, in a small office and jumped on the learning curve. Focus and specificity were important."

He references a recent *Wall Street Journal*\* article about public/private partnerships and what it takes to make them successful. In the seven counties around the city of Cincinnati, 8.3 out of every 1,000 newborns die before they reach their first birthday. The city developed a program called Every Child Succeeds, and for the group of mothers part of the program, the mortality rate is 2.8.

*From the article:*

(The program) is built on a tough, corporate model inspired by a former chief of one of America's most successful companies, Cincinnati's Procter & Gamble. Every Child, a partnership of public and private groups, has relatively narrow goals and is run to produce specific results—rarities in the world of government-run health services.

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\* "Cincinnati applies corporate model to saving infants," Gautam Naik, *The Wall Street Journal*, 6.20.06

The point here is not just about starting with narrowly-defined problems. What's important is that incremental advances are understood and leveraged into a repeatable process; a platform that can scale.

“That’s the ultimate value of BIF,” says Huston. “By leveraging Rhode Island’s size and densely connected networks, they provide the platform for scalability and sustainability. The potential for national and global expansion starts there.”

There’s an interesting benefit to Connect + Develop which Huston did not foresee. Most people, he says, are either asleep at the wheel, or so consumed with their own environment, that their businesses are at risk to being blindsided by new technologies or products or services.

“Connect + Develop allows us to focus on where the world is going, and what’s really going on out there,” he says. “In the past, we probably didn’t have the ability to see it as clearly as we do now.”

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