

P&G goes inside out

When the CEO of Procter & Gamble decided that 50% of the company's products should be developed collaboratively, a new internal business group was born. Seven years on, it is ensuring the boss is getting exactly what he wants

By **Victoria Slind-Flor**

Procter & Gamble is getting back into the candle business for the first time since 1920. This autumn, the 170-year-old consumer-products giant will start selling Febreze air-freshening candles in five different fragrances.

Back in 1837, candle-maker William Procter formed a business partnership in Cincinnati with James Gamble, a soap-maker. Candles and soap formed the foundation of the multibillion-dollar company's fortune, particularly after P&G received the contract to supply both to Union army troops during the American Civil War. Soap remains one of P&G's crown jewel products, with the historic Ivory brand still marketed as "the soap so pure it floats". But the growing popular acceptance of electric light bulbs moved P&G to extinguish its candle line in the 1920s.

Connect and develop

The Febreze candles are the result of a dramatic P&G restructuring. They use a technology developed outside the company and are the fruit of an innovative "connect and develop" strategy for importing new ideas. In 2000, P&G Chief Executive Officer AG Lafley announced a radically changed business model for the company, with the stated goal that 50% of all new products be developed with the assistance of an outside partner.

Jeff Weedman, P&G's vice president for external business development, has the mandate to make that goal a reality. He and his staff bring in technologies and processes that mesh with the more than 300 products marketed under the P&G name. "We don't

just look to licensing," Weedman says. "It's a broader perspective." Instead, he prefers to say: "We access capabilities externally."

Weedman, who reports directly to Chief Financial Officer Clayton C Daley Jr, has about 50 people in his group. He thinks it makes sense that finance has oversight. "Finance has a line of sight over all the company's functions, and is much more able to harness everything for governance, tax; those issues that require Sarbanes-Oxley compliance. And finance is looked to as being a very objective function. It's a good credibility place," he says.

Besides, Weedman says he's seen a study 2004 study done by ipCapital Group Inc of corporate business-development types that ranks them according to their effectiveness and their lines of reporting. According to Weedman, groups that reported to legal tended to be at the lower end of the effectiveness range and R&D tended to be in the mid-range. But the group that reported to finance or strategic planning was considered the most effective. "Intuitively it makes sense," Weedman says. "The legal community plays defence, and R&D tends to be focused on technology and less on technology's commercial implications."

Multifunctional organisation

Weedman's EBD organisation is multifunctional, he explains. "We have people who come from legal. We have people who come from R&D. We have people who come from engineering. We have people who come from products supply and manufacturing; from purchasing, sales, marketing, finance, and information technology."

But everyone in Weedman's external business development group works across

Don't call us...

Got a great idea to sell Procter & Gamble? Here are some that didn't make the cut:

- Coffee in a pill.
- Invisible tampon for use at nude beaches.
- Peanut butter by the slice.
- A tablet to put into toilet tanks to make water fluorescent and, therefore, easier to find in the dark.
- Natural-grip shoes that left footprints looking like bare feet.



Jeff Weedman

If you want to use my stuff, you have to buy a slot in my group

these lines. He talks about the lawyers by way of an example. “[T]hey don’t operate as lawyers when they’re in my group. They operate as business development managers,” he says. Most members of his group have been with P&G a minimum of seven to 10 years and none was hired from outside the company.

In many companies, the not-invented-here syndrome sinks imported technology at the outset. But members of Weedman’s group know how to sell inbound technology to various P&G business units from which they come. “They know who talk to, who’s really knowledgeable.”

Their salaries are paid by the business unit they left to join the EBD group. “If you want to use my stuff, you have to buy a slot in my group,” says Weedman. “And all the money I make, I flow back to the businesses. If my team isn’t bringing them ideas that are displacing ideas they create on their own, then we’re not doing our job. If we do displace ideas they’re creating on their own, we’re doing a good job.” He claims he seldom gets any complaints from the business units that his agenda doesn’t meet their needs. “Their agenda is my agenda,” he says.

Weedman, for the most part, leaves the due diligence up to the business units. “I end up selling more than objectively vetting. We require our internal clients to do that work.” It’s a delicate balancing act for Weedman. If the EBD filters new ideas too much out front, “the businesses will never get exposed to new ideas”. And if his group doesn’t filter enough, “the system would collapse because we’d be inundating them with ideas.”

Every year the EBD sets up meetings with its internal clients – the various P&G business units – and sets up a forecast of what Weedman’s group can deliver. He then gets together with those units two or three times a year to see if what he’s bringing in is on track.

Hair-care highways

Patent attorney Vanessa Nichols has just finished a three-year stint in the EBD group where she served as associate director and deal manager for hair care and colorants. She was not doing patent work, but negotiating transactions for new technology. “I think having diverse backgrounds works extremely well,” she says. “The team partnership helps us see different issues and know who to go to get problems resolved.”

In her three years with the EBD group Nichols worked on a wide range of deals. She set up a collaboration agreement with the University of Adelaide in Australia that will translate the university’s wool-fibre management technology into hair-care products. She’s negotiated licensing agreements with a company that specialises in the hotel-amenities business. That company buys Pantene and Herbal Essences products in bulk, repackages them in single-use containers and sells them under the original brand names to hotels.

Nichols also spent a lot of time talking to government officials in Singapore. She helped negotiate a collaboration with the city state’s Agency for Science, Technology and Research (A-STAR), comprising 12 Singapore-based research institutions. “They are interested in getting into the consumer industry and they will do some research for our products,” she says.

P&G and A-STAR will be working jointly on products in materials science. “This particular agreement does not involve the funding of research,” she says. Instead, it’s a master collaboration with no money changing hands. Nichols worked to establish how ownership of the intellectual property that comes from the research will be split. “In some applications for beauty, P&G will own it. For applications outside of beauty, they will own it,” she explains. For example, the research could yield a technology that increases hair shine, always a desirable quality in any hair-care product. But this same technology might have applications for the electronics industry.

In any case, Nicholas says the P&G hair-care sector “is looking not only at cooked products, but also at the upstream, technologies that may not be in the finished product”. The aim of the collaboration is to look for capabilities and, she says, to connect with a wide range of possibilities: “People and ideas and thought leaders and know-how, and how to build our business and how to do our research more efficiently.”

Not only do the EBD group members work on a wide range of transactions, they also have to deal with objectives that vary dramatically. “There is not a simple template, not a one-size-fits-all business,” insists Weedman.

Questions answered

After Weedman’s group identifies a technology or capability of interest to P&G, two key elements enter into all the negotiations. “First of all we want to

The legal view

P&G prosecutes almost all of its patents in-house. Steven Miller, vice president for legal/patent, has about 300 people who report to him worldwide, including 140 legal professionals. "It's one of the larger patent IP groups around," says Miller. The company is just setting up a small patent group in Beijing and already has a group of about a dozen Japanese patent attorneys in Kobe, as well as between 40 and 50 European patent attorneys.

Miller's department is feeling the impact of AG Lafley's 50% mandate. "It's certainly changed the way our patent attorneys work," says Miller. They are now doing much more transactional work, he explains, rather than just patent prosecution and opinions.

Miller has experienced frustrations with the US Patent and Trademark Office. "We need to improve the quality of the work at the PTO," he says. "The examiners are overworked and typically aren't given enough time to do their jobs." And he finds burdensome the increasingly high number of references that P&G must provide to the examiners. "We often have to send in 100 or 200 references in a crowded art field."

P&G is a member of the Coalition for 21st Century Patent Reform. Other members of the coalition include ExxonMobil, Weyerhaeuser, General Electric, Motorola, Texas Instruments, 3M Company and most of the pharmaceutical

companies. One of the coalition's goals is a limitation on so-called subjective elements in patent litigation, such as the inequitable conduct defence and the awarding of punitive damages based on wilful infringement. Miller says P&G favours post-grant opposition, but wants this limited to a single window of opportunity.

The coalition has engaged the Washington firm Akin, Gump, Strauss, Hauer & Field to lobby Congress on patent reform. Specifically, they've turned to Akin, Gump partner Joel Jankowsky and senior counsel Bruce Lehman, who was the Clinton Administration's first patent commissioner. Miller says P&G is happy about some elements of the proposed Patent Reform Act, namely the first-to-file provision, prior-user rights and 18-month publication for all patents. "There's a lot that's good in this bill," he says.

Miller says the US Supreme Court's *Medimmune* decision in early 2007 has caused P&G distress. "We're concerned that this decision opens up the possibility that licensees may file declaratory judgment actions if they're not happy with the deal they've struck." So the company's looking to craft language in future licences that will address this issue. "But given the number of licences we've signed in the last seven or eight years, there's a concern that [the *Medimmune* ruling] could open the floodgates for litigation," Miller says.

P&G has about 30,000 US patents, with



Steve Miller

another 500 issuing every year. They cover a wide range of chemicals, enzymes, technologies and business methods. "We have a lot of business method patents," says Miller. "Our marketing folks are the best in the world and they come up with unique ways in which to present their products. This has become an important part of our portfolio. We've been thinking more and more about these things over the last five or six years." But P&G doesn't patent everything. Many of the manufacturing processes and the company's unique machinery are protected by trade secrets, instead.

understand how we can make the pie bigger if we work with the other company," says Weedman. "We want to understand how much this will help our business and the person who owns the other business."

The other part is figuring out whether the cultures of the two companies are compatible. "And that's not just a critique or assessment of the other side; it's a constant assessment on our side, too," Weedman says. It doesn't really matter if the other company is large or small, foreign or domestic because each transaction is treated as a unique event. "Every day is opening day," he says.

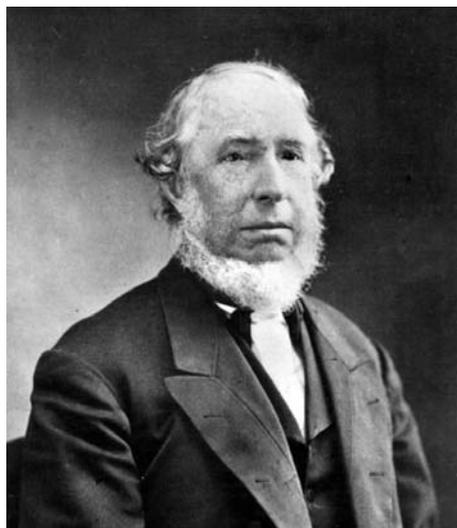
About 40% of the EBD teams bring others' intellectual property into P&G, and 60% involve some kind of outbound exchange. And of all transactions, 10% involve trademark licensing.

Weedman's constantly seeking technology with what he calls "legs". One-off innovations with nothing in the pipeline don't

make a lot of sense for P&G. "That's because we are looking at constantly, mind-numbingly improving our products," he says.

The two most difficult areas in negotiations are intellectual property rights and "divorce clauses". IP rights are tricky because "what I bring to the party is mine and what you bring to the party is yours," says Weedman. "But what happens when the combination of two things creates more IP? This can burn up more time than any other issue." Over the years the EBD team has developed a variety of scenarios such as limiting the jointly created IP to the two parties, but not in competing businesses; rights to use but not to license the IP; or sub-licences.

Weedman says the divorce clause is the single most contentious issue. "We spend all this time talking about how to make sweet music together and how to make the pie bigger." Everyone's happy, until they start talking about "what if" scenarios if the



P&G founding fathers

William Procter (left), James Gamble (right)



deal needs to be terminated. Companies that haven't done a lot of deals get scared when Weedman starts to mention the possible down side. When he airs the potential dirty laundry, the other party might sometimes think this is the actual behaviour they will encounter.

"But I have a belief that you need to talk about the things that could go wrong," says Weedman. "We need to agree to principles that will guide the deal before rather than after. If the other party can't work through that, you might as well disqualify [the deal] before you get married."

Treat them right

He says two principles have evolved in the years he's been running the EBD. The first is that the second deal with the same company takes half as long to put together; and the third takes even less time. The other principle is that follow-on deals that are unanticipated at the beginning are often much better and dwarf the initial deal.

For these reasons, Weedman is interested in building relationships with P&G's technology partners. He always seeks a sweet spot in every transaction that works for both parties, and promotes a sustainable relationship.

On one occasion a potential technology partner came to Weedman and offered an idea. Not a patent, but simply an idea, "despite our saying 'don't share this with us'." The idea was commercially viable and P&G was interested, but no deal was in place. "Now legally I could have said thank you and go buy the person a beer. But we stepped back and said this was not right or fair," Weedman explains. "So we went in to

negotiate a deal with this small entrepreneur after the fact to make sure he would earn a fair return," he continues. "This was tough because he didn't ask for anything. He said: 'you tell me what's fair and I'll sign the deal'." Getting that call right was important, because P&G wanted to do follow-on business with the entrepreneur.

In another transaction aimed at maintaining a long-term relationship, a company brought in a technology that looked promising but didn't fit with P&G's overall strategy. "We went back to the company that offered it to us, thanked them and offered to provide them access to our biggest competitors," says Weedman. The competitor did buy the technology, but Weedman maintains that P&G was the real winner. "They were good, sound, smooth and smart and I figured they'd get to my competitor eventually. But by opening the door for them this time, the next time they have an idea, they will feel free to call me first. I want to be first on their speed-dial."

Searching for stars

Tom Cripe, a PhD chemist who's spent 23 years at the company, leads the EBD's five-member Intelligent Search Engine. This sleuths out new technologies and acts as matchmaker between those that own them and the various P&G business units. At first, all he had to do was answer the phone. "It has been an embarrassment of riches" since Lafley's 50% mandate came down, he says. "The pent-up energy behind people who want to approach and partner with us is so big that for about two years, around 85% of my time was spent trying to be a good portal into the company for people. I didn't have time to go scare up leads on my own," Cripe explains.

One of those ideas that came over the transom to Cripe was the battery-powered spin toothbrush. P&G was already selling manual toothbrushes, so the idea of the battery-powered brush "took a little while for us to get our minds around". At that time, most battery-operated toothbrushes were expensive and non-disposable, often costing as much as US\$50 or US\$75. But ultimately the company bought the idea and came out with the Crest SpinBrush.

The new technology brought the battery-powered toothbrush down to a low enough cost to be managed by a consumer company like P&G, Cripe explains. The new SpinBrush sold for under US\$10. P&G did the deal in 2001 and, in Cripe's words, "made ourselves and our partners quite a lot of



money". But when P&G bought Gillette and Gillette's Oral-B toothbrush line in 2005, that was one line of toothbrushes too many. As part of a consent decree relating to the acquisition P&G divested the SpinBrush business to Church & Dwight Co Inc, of Princeton, New Jersey.

Cripe sometimes has to educate would-be technology partners to the core nature of P&G. "We're largely a consumables company, and sometimes we get people not quite appreciating that. It doesn't play to our strategy to have people buy something once and that's it for five years or so," he says. For the same reason, P&G's interest in pharmaceuticals is more or less limited to drugs that would be taken on a long-term basis for chronic conditions. Acid-reducing Prilosec, which P&G in-licensed from AstraZeneca Inc, and sells in an over-the-counter version, fits the bill; as do Enablex, for over-active bladders; and Asacol, used for ulcerative colitis.

Beyond the boundaries

Recently Cripe has been on the road hitting various biotech meetings and venture capital investors' conferences. "The single question I get asked more than anything else is, 'Procter & Gamble, why are you here?' I got asked that question at least once an hour," Cripe says. His response is simple and to the point. "I say that you guys have the stuff we want. I'm your exit strategy."

These days he's trolling a wide range of technologies not normally associated with a consumer products company, such as energy and information innovations. Environmental concerns loom large. "We use more plastic than just about any country in the world and we want to use sustainable materials," says Cripe. "And as petrochemicals get more expensive and more of a burden on the world, we need new technologies and new partners. It's a huge investment these days, the clean-tech place."

For the most part, P&G prefers partners who have laboratories and the capacity to scale up inventions, not just get patents. "We need to have people who build things, demonstrate them, bring them to life," Cripe says. He mentions two companies in particular with which he works. One is the XL TechGroup of Melbourne, Florida, and the other is Evergreen IP from Colorado.

XL TechGroup works mainly with universities, taking promising early-stage inventions and investing money in them. "But they actually build them up into proper products instead of just trying to grab and flip IP," says Cripe. "We love them and people like that." Instead of universities, Evergreen works with the typical small "garage inventors", screening the most promising inventions, investing and building them. "They further the development to the point at which P&G can say it's real," says Cripe.

In addition to Cripe's team, P&G has 70 so-called technology entrepreneurs embedded in various business units around the world. They work as full-time technology scouts. "When they find something they like, they bring it back to their business and see if they can get some traction behind it," Cripe explains. These technology entrepreneurs are focused on finding quality opportunities and are not, in themselves, negotiators. But once they've managed to interest their business units in a new technology, the EBD group will buy it, license it or partner with the company that developed it.

Occasionally P&G has taken investment positions in a few companies. But, Cripe says, that's relatively rare. "We can offer a lot more to companies through a partnership. Our money isn't different from anybody else's money, but we have a wealth of consumer knowledge, a great distribution system and scale that's hard to match," he explains. "That's what companies that partner with us value more than anything else. With P&G as a partner, they have no trouble raising money that they need." ■

Selected recent P&G licensing deals

January 2002: P&G grants an exclusive licence for a green tea processing technology to Chinese Wuxi Green Power Bio-Products.

September 2002: P&G licenses Cotton Buds Inc to produce, market and distribute Bounty To Go paper towels.

April 2003: P&G licenses its vegetable-cleaning product, Fit, to HealthPro Brands.

April 2004: Genzyme Corporation agrees that P&G Pharmaceuticals Inc will develop and market Genzyme's investigational drug for the treatment of inflammatory bowel disease.

July 2004: Geron Corporation granted a non-exclusive licence to P&G relating to Geron's human telomerase reverse transcriptase technology for research applications.

November 2004: P&G licenses a water purification technology based on a proprietary electrolysis cell to Woongjin Coway of South Korea.

September 2005: P&G licenses Cotton Buds Inc the right to market and distribute travel-size single-use packets of Tide Liquid Detergent.

September 2005: Curis Inc grants an exclusive licence to P&G Pharmaceuticals for a technology used for hair-growth regulation.

December 2005: P&G enters into a licence agreement with Dolce & Gabbana Srl for the marketing and distribution of Dolce & Gabbana fragrances.

February 2006: Natestch Pharmaceutical Company Inc and P&G announce a collaborative agreement to develop and commercialise a nasal spray for the treatment of osteoporosis.

January 2007: BIOLASE Technology Inc licenses intellectual property relating to dental laser technology to P&G for the development of consumer products.

July 2007: ARYx Therapeutics enters an agreement with P&G for the development and commercialisation of the drug ATI7505 for the treatment of gastrointestinal disorders.