Blueprint for a merger

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Abstract (summary)

As the chief procurement officer of one of the biggest consumer products companies on the planet, Rick Hughes isn't rattled easily. But when he got word in January 2005 that his company, Procter & Gamble, was buying rival Gillette in the largest-ever consumer products industry merger, his first thought was something along the lines of: How are we going to pull this off? Fast forward two years post-merger and the newly integrated company is humming along on all cylinders with a streamlined procurement organization and a stronger and more competitive supply base. Today, the combined procurement organization at P&G;&G is leveraging the expertise of both organizations. The integration work continues. The combination of P&G;&G and Gillette created a supply chain with roughly 500 distribution centers worldwide. Gillette brought extensive expertise in customization distribution and fulfillment networks and P&G;&G is leveraging that expertise in its efforts to cut the number of distribution centers in half by 2009 by optimizing their locations and operations.

Full Text

P&G uses Gillette deal to draft the blueprint for post-merger procurement integration.

As the chief procurement officer of one of the biggest consumer products companies on the planet, Rick Hughes isn't rattled easily. But when he got word in January 2005 that his company, Procter & Gamble, was buying rival Gillette in the largest-ever consumer products industry merger, his first thought was something along the lines of: "Wow, how are we going to pull this off?"

Fast forward two years post-merger and the newly integrated company is humming along on all cylinders with a streamlined procurement organization and a stronger and more competitive supply base. Here's how it happened.

Draw up the plan

Hughes says he started planning the integration strategy "in his head" almost immediately after P&G's CFO told him of the company's plan to buy Boston-based Gillette. For legal and anti-trust reasons, Cincinnati-based P&G was limited in the actual planning and meetings that could take place with Gillette, but Hughes was clearly developing a strategy for the merger of the two companies' procurement organizations and supply bases. Once the green light was given, he formed a cross-functional team to manage the procurement integration.

Hughes already knew a fair amount about Gillette's procurement strategies and processes from some benchmarking the two companies had done in the past. But even still, the size and scope of the two organizations made combining them a daunting task. From the P&G side, Hughes says his organization gained only two full-time employees to coordinate merger-related activities. The rest of the work was handled by existing staffers in addition to their daily duties.

There were four clear principles driving the internal organizational integration as well as the supplier integration that would come later: first, field the best team possible. Second, communicate with staff as openly as possible. Third, strive to have the resulting organization be better than two previously separate ones were. And fourth, face suppliers as one company as soon as possible.

In some cases, that meant some P&G staffers would be left without a clear future in the merged organization. There were also Gillette procurement staffers who did not want to be part of the new organization.

"We really did look across the staff at both companies to find the best team we could have going forward," Hughes points out.

Less clear was the integration of the business processes used at the respective companies. P&G was known for a very consensus-driven decision making approach. "It can be a time-consuming process to align the different parts of the business against a specific initiative," Hughes says. "But when it happens, it has tremendous strength because everything is aligned and marching in the same direction."

On the other hand, Gillette had more of a rapid-response decision making process that helped it react more quickly to market changes, but had less alignment strength behind it. "Both processes worked, but Gillette's was much clearer," Hughes says. "So we developed a new process combining elements of both. Again it's the one plus one equals three strategy."

Selecting the tools

In addition to the integration of people and processes, there was a major procurement technology integration that had to happen. In fact, Hughes lists the technology integration as one of the most difficult components of the merger. "The complexity of bringing all of the information systems and e-capabilities together was a bigger challenge than we expected," he says. "The technology integration is about 95% done now, but there are a lot of steps you need to take before integrating the information systems of two companies this size."

Specifically, both companies were using an SAP backbone, which eased some of the integration headaches. Each company had a contract management tool in place, but with the higher number of contracts in the combined organization, neither of the existing tools was considered adequate. So a new tool had to be selected and implemented to merge the contracts from both companies. The company held a six-month pilot and decided to standardize on a contract management tool from Upside Software.

Hughes says at the time the merger was announced, P&G was looking to upgrade its e-sourcing and online catalog technology. Gillette had some experience in these areas. Hughes' team evaluated the two systems, took parts of what existed at Gillette, integrated and upgraded what existed at P&G to create a best of breed solution.

Picking the partners

But perhaps the biggest challenge to the P&G-Gillette deal was the merging of two massive supply bases-more than 115,000 suppliers combined prior to the merger. P&G took this work extremely seriously because as Hughes points out, "more than 25% of P&G innovation stream comes directly from our supply base."

"It wasn't as simple as deciding on who goes or stays," Hughes says. "It required us to take an overview of the totality of our supply base, what the existing capabilities were and where we wanted to be going forward and then targeting the suppliers that could get us there."

Hughes wanted to start the supplier integration process as soon as possible. During the change of control period from January to October 2005, P&G held more than 40 "Synergy Summits" for more than 100 suppliers from both companies globally. Suppliers were selected based on total spend or criticality of supplies. Due to antitrust laws, the meetings had to be mediated by a third party, AT Kearney in this case, but the goal was to bring suppliers from both companies together and see how they would work together, gain ideas and perspectives from them and begin to evaluate the capabilities in the combined supply base. Representatives from both P&G and Gillette's leadership teams were on-hand at the summits to present some preliminary thoughts about the merged organization and the suppliers' role in that organization. Hughes says it was important to appear to the combined supply base as a single procurement organization, even though the merger hadn't closed yet.

"Many of the Gillette suppliers had not been exposed to P&G and they had some major concerns," Hughes says. "We wanted to communicate clearly to them that it would not be automatic that P&G suppliers get more of the business and it's not automatic that Gillette suppliers would get less business. We were looking to build the strongest supply base possible."

A prime example of the success of the Synergy Summits is New England Wooden Ware in Gardner, Mass., which was a long-term supplier of corrugated to Gillette. After meeting with P&G's team at a Synergy Summit on packaging, the supplier increased its business significantly with additional new contracts to supply other parts of the P&G business. And Hughes says the same was true of Hi-P, an Asian supplier of electro-mechanical components to Gillette, which has expanded its business following one of the summits and now provides components for P&G's Swiffer products.

Another major benefit of the Synergy Summits was the area of supplier diversity. P&G, a member of the Billion Dollar Roundtable of companies spending more than $1 billion with MWBEs (Minority- and Women-Owned Businesses), used the summits and the merger to expand its supplier diversity strategies and spending to Gillette's minority- and women-owned suppliers.

After the merger was completed, communication directly with suppliers ramped-up dramatically, with members of the procurement team telling suppliers how the merger would impact them going forward. Suppliers were contacted through a variety of means in the hopes that none of them-especially the most important suppliers-were left with unanswered questions or concerns. The majority of that communication was done by the members of the procurement organization that had the most contact with the suppliers on a regular basis, rather than having a separate team making decisions on its own without specific knowledge of the individual supply markets.

"So it was procurement category leaders talking to their daily contacts-suppliers, R&D, marketing-about merger-related activities," Hughes says. In some cases, it was a communication to a supplier that said nothing would change."

Today, P&G has fewer suppliers than the two companies did-about 100,000 today across the whole company. But

Hughes points out that the supply base consolidation wasn't only a result of the merger, saying "some consolidation would have been needed whether we merged or not."

The fruits of the labor

Today, the combined procurement organization at P&G is leveraging the expertise of both organizations. Hughes says For example, thanks to Gillette's experience, P&G now has an improved strategy for when and where it should use contract manufacturing.

The integration work continues. The combination of P&G and Gillette created a supply chain with roughly 500 distribution centers worldwide. Gillette brought extensive expertise in customization distribution and fulfillment networks and P&G is leveraging that expertise in its efforts to cut the number of distribution centers in half by 2009 by optimizing their locations and operations. It's one more example of what Hughes would call "one plus one equals three."

Sidebar

Would this keep you up at night?

David Hannon

The combination of two of the largest consumer products supply chains are enough to give most CPOs nightmares. Here's what Rick Hughes, CPO of P&G, had to deal with:

Sidebar

Lessons learned: A post-merger briefing from P&G

David Hannon

Here are the major recommendations from Rick Hughes, CPO at P&G, on procurement's role in a merger integration:

You have to get leadership alignment early and through the organization and ensure that it remains consistent and constant.

Enroll all the key supply chain leaders together early to lay out the vision for the merger.

Focus on the strategic implication of taking on the new supply base. Short-term wins could equate to long-term losses.

Stay focused on delivering the existing business on a daily basis.

Ensure compliance to all antitrust laws in all appropriate markets.

Stay open-minded. There is often a better way, regardless of whose idea it is.

Communicate openly with suppliers. Treat them as critical business partners during the transition. At P&G, 25% of its innovation stream comes from suppliers.

Suppliers	
P&G	Gillette
85,000	26,000
Employees	
P&G	Gillette
110,000	30,000
Manufacturing plants	
P&G	Gillette
106 in	31 in
41 countries	14 countries
Pre-merger revenues (2004)	
P&G	Gillette
$51 billion	$9.8 billion

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