

# *Growth reimagined*

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*14th Annual Global  
CEO Survey*

*Bob McDonald  
Chairman, President  
and CEO,  
The Procter &  
Gamble Company*

*Interview Transcript*

# Interview with Bob McDonald

## Chairman, President and CEO, The Procter & Gamble Company



**PwC: What indicators are you watching to understand how the global economy will develop?**

**BM:** Every Monday morning we have a meeting of our leadership team here in Cincinnati, and we're surrounded by real-time data from the previous week. We're watching shipments and consumer purchases from around the world. We see market value growth in the categories in which we operate of about three percent this year: one percent from developed markets and high single digits in developing markets. So the growth that we're seeing is coming from developing markets.

**PwC: The weekly meeting to evaluate economic data in real-time is very interesting. How quickly can a giant organisation like P&G tack?**

**BM:** We look at the data every week, and once you make a decision – depending upon the country of the world or what you're trying to do – you can react almost instantaneously. Now, it may take time to, for example, build a new factory. We currently have about 20 new factories under construction around the world, 19 in developing markets, one in a developed market, which is the US. We see real-time operation as a competitive advantage. We want to be the most digitised company in the world, and use that real-time operation as a competitive advantage.

**PwC: But you really must have the corporate culture ingrained to be able to change so quickly.**

**BM:** You have to move to globally standard systems. About five years ago, less than 20 percent of our systems were globally standard. Each region had its own system; each country had its own system. But today, more than 75% of our systems are globally standard.

What enabled that evolution was the decision back in 2000 to place the profit responsibility and back-office responsibilities in global business units rather than individual countries.

**PwC: I read that 98 percent of American and Canadian households use at least one of your products, and a substantial amount of those have seven or eight products. What's the biggest strategic priority right now: putting more products in these households or introducing your products to consumers in emerging markets?**

**BM:** It's a combination. In the 1980s, this company was about discovering and entering new categories as we moved into the beauty business with the purchase of Richardson Vicks. We moved into the health care business with the purchase of Richardson Vicks.

In the 1990s, it was all about global expansion in the markets that opened up for capitalism. Eastern Europe, Russia, China. This decade for us, I think, will be about getting our categories into every country around the world. We're reaching about 4.2 billion people today, but we're not reaching everybody on the planet. We're in 38 product categories around the world, and there's not a single country where we're in all 38 categories. In the United States we're in 36 categories. At the same time, we're extending our distribution in developing markets, deeper into rural areas where economies may not exist at all. That combination – more consumers, more parts of the world – will help us get to every consumer and touch and improve every consumer's life.

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***PwC: It's generally agreed that by 2020 China will pass the US as the world's largest economy. The global financial crisis and recession have some thinking that the shift of global economic power toward emerging markets will accelerate even more quickly than previously thought. Does that enter into your strategic thinking at all?***

**BM:** We really take a long-term view. We don't change our strategy, necessarily, because an economic crisis occurs. In fact, we tend not to think of the world as a zero-sum game or view the world economy as a zero-sum game. I know many governments think of the world economy as a zero-sum game. We don't think of it that way. Our company, which has sales greater than the GDP of many countries, wants to do business and improve lives all over the world. The best way to do that is to get governments around the world to work together to create economic growth.

***PwC: What's your view on governments becoming increasingly involved in the private sector?***

**BM:** We partner with governments all over the world. I'm a member of the Advisory Trade and Promotion Council for the US Trade Representative. I'm always on Capitol Hill talking to members of Congress, and we're trying to create a situation where governments don't see each other as adversaries, but instead work together. I'm rather optimistic, because if you think about it, the WTO structure we have today is much better than what we've had in the past. There's an opportunity to see more free trade agreements, if we can convince governments not to see the world economy as a zero-sum game.

That's a challenge. It's a challenge when there's a recession, because when there's a recession, normal human psychology is to turn inward. It's to try to point blame. It's to become isolationist. And that's the worst thing we can do. I think any economist would say that's the worst thing we could do in this time. So, I'm encouraged, and I'm particularly encouraged with the work that President Obama has done on the Korea-US Free Trade Agreement. Now we need to get the Panamanian Agreement and the Colombian Agreement going, as well as get WTO accession for Russia. We want everybody participating. That's the way to improve all lives.

***PwC: Increasing international trade would seem to be an area where everyone can agree. If you look at most periods in history, one sees increasing wealth with increasing trade.***

**BM:** You're exactly supporting my point, which is that you have to take the long-term view and you have to find common ground. P&G has an agreement with almost every government that we call a joint value creation. Basically, it's our plan to say, "Here's how we're going to help you create economic growth in that country."

***PwC: You just mentioned the products you make and develop around the world. So let's talk about innovation. Can you tell us a little about your Connect & Develop Initiative?***

**BM:** Innovation is the lifeblood of our company. We live or die based on the innovation that we do. The good news is that we do have an innovative company.

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We spend about US\$ 2 billion a year on research and development. That's about 50% more than our closest competitor and more than most of our closest competitors combined. When IRI published their Pacesetter study on the top-selling new items in the United States, last year we had half of them. Over the last 15 years, we've had 125 Pacesetters – more than our six largest competitors combined." That's more than any other company. In the year 2000 – under my predecessor, A.G. Lafley – we set a goal that we would get 50 percent of our ideas from outside the company.

Today, nearly every new item we bring out was produced with at least one partner somewhere in the world. So, for example, we co-locate scientists from partner organisations and from our organisation in the same laboratory. It's amazing what you can do when you knock down the barriers in an organisation or the barriers between organisations.

**PwC: Are there any concrete Connect & Develop examples that come to mind?**

**BM:** Sure. Swiffer is a household cleaning implement. We actually partnered with a competitor in Japan in the creation of that.

**PwC: You're not afraid of working with a competitor or potential competitor when it comes to innovation?**

**BM:** The world has changed. The definition of "competition" is different. We have a joint venture with the Clorox Company. Clorox competes with us in some of our household care products. We define competition within the categories we're in, but we also look outside that definition and say, "Are

there things we can partner in, in order that we all grow and in order that we touch and improve more lives?" We spend a lot of time thinking about who we want to partner with and the definition of "competition."

The other thing we spend a lot of time talking about is new categories we can create. Often, new categories will fall between the boundaries of two existing categories. So if you're an innovative company and you're organised by category, who's going to invent the category that falls between the boundaries?

We created new business development units that can look across categories and figure out how to use technologies across our normal category structure to invent new categories. You may have seen recently that we're now in the franchising business. We have Tide dry cleaners. We have Mr. Clean car washes. Some of these things would not have happened if we stuck to our normal category structure.

**PwC: A crucial part of innovation is understanding what consumers in different parts of the world want. How is market research around the world changing?**

**BM:** Well, we have operations on the ground all over the world. So, in China, for example, we do about US\$ 5 billion of business a year and have 7,000 employees, the majority of whom are Chinese. The only employees who are not Chinese are development managers that we've brought there for developmental assignments. We also spend a lot of money, more than \$2 billion on research since 2001. Our employees there spend time in consumers' homes, shop with consumers, and watch them use our products.

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We look for the tension in consumers' lives. If we can find that tension, we can then get an insight. In India, for example, we initially had some trouble selling diapers. Indian mothers thought the diaper was all about convenience for them, thinking, "Well, I'm not going to do something as a mother that's just more convenient for me. I want to do something that's good for my baby." Well, that's a great insight. We did clinical research and discovered that the baby that sleeps through the night develops better than the baby that wakes up four times during the night. That changed our sales approach, and sales took off. So, those insights are incredibly important, and we turn those insights into big ideas, and then we turn those big ideas into things we can engage consumers on.

**PwC: P&G has stated its desire to serve an additional one billion customers. What assumptions about emerging markets and evolving consumer choices does this strategy depend on?**

**BM:** When I came into the job, we were reaching about 3.8 billion people on the planet, and we set a goal to get to 5 billion by 2015. We're now at about 4.2 billion people. At the same time – and it's a synchronous effort – you've got to develop products that will appeal to those people, at the right price points. As you get out into rural areas of the world, many people are using very, very basic products. They may be using the same soap to wash their hair, body, and clothes. And so we have to develop unique products in order to extend that distribution.

**PwC: Let's return to public policy. If one thing were to be done to stabilise the financial sector and minimise the risk of another recession, what do you think that should be?**

**BM:** I'm not an expert on the financial sector, but I think the biggest challenge for all governments around the world is to provide more certainty about the future. With that certainty comes hope, and I think hope is incredibly important to people. What businesses need in order to invest in the future, what consumers need to invest in the future of their families, is greater certainty. To the degree that governments around the world can work together and provide greater certainty, I think that would really provide more hope and more willingness to spend and invest.

**PwC: Is it a question of leadership, both private and public?**

**BM:** I think it's partially leadership. Any time you're in a crisis, normal human reaction is to become isolationist and turn inward. I think what we have to do is have the courage do the more difficult, right rather than the easier wrong. Back late 2008 and early 2009 – around the time of the G20 – many governments around the world were putting in place protectionist measures. What happens with those protectionist measures is that then everybody does them, and they hurt economies. Having that courage to do the harder right, which is to continue the interdependence, the interconnection, is incredibly important. I wrote an Op-Ed recently, around the time of the election, on the importance of China to the United States. China and the United States are entirely interdependent. It would be silly for either country to think they could go their own way without the other.

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Because of our business, we don't export much. Our operations have to be on the ground. Our plants have to be near the consumers they serve. But, importantly, 20 percent of P&G's jobs in the United States depend upon our international business, and 40 percent of our jobs in Ohio depend upon our international business. So, our international business is good for the State of Ohio and for the employees of the Procter & Gamble Company. The interconnections around the world today are so dense, we can't forget about that.

***PwC: What's your view on raw material and commodity shortages as the middle classes in emerging markets continue to grow at a very fast rate?***

**BM:** I think the increase in demand as the global economy recovers will undoubtedly lead to higher prices of certain commodity materials. What we, as a company, need to do as innovators is innovate our way out of that. We've got to find substitutes for those materials, and we're working on that now. We're working on finding substitutes for the chemicals that come from petroleum that we use in our products. There are organic bio-substitutes and they are renewable, so they may even be better for the environment. So, we're always working to create the substitutability of raw materials without the consumer ever seeing a different end effect from the product or brand that they use.

***PwC: Are issues like sustainability just as important to you, as you go about expanding into emerging markets?***

**BM:** With a company like ours you really can't separate sustainability as a separate activity from the activity of growing the company. Sustainability is built into everything we do, whether

we're innovating for the top economic tier or the bottom economic tier. It could be designing laundry detergents that work better in cold water, so people can turn down their water heaters. It could be thinking about a person in a developing market, what do they do with a product when they are finished using it?

We've committed to a vision of being neutral to the environment, for our products as well as our operations. We don't know how to get there yet, but we're working very hard to reduce our impact on the environment.

***PwC: Along those lines, are you working with other stakeholders, say, your suppliers? I know many retailers are working with suppliers to try and cut emissions.***

**BM:** Yes, we work with our suppliers. We have a sustainability scorecard that we use with our suppliers that contains our sustainability criteria. For example, I talked about the new laundry detergent that helps cleaning in cold water. One of our suppliers developed the cleaning agent – what we call “surfactant” – that's part of that. Other suppliers developed other elements, like enzymes, that are parts of that product. So we do enrol our suppliers in our sustainability goals. We give them a checklist that we work with them on to improve their operations.

I don't believe sustainability is optional anymore. The world today is so flat, so transparent with the Internet, and the impact of individuals is so heightened because of the ability to blog and Tweet and other things, that consumers want to know what they're buying into when they buy your brand. They want to know the company behind that brand. They want to know what that company stands for, and they want to know how that company takes care of the environment.

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***PwC: Do you view P&G as a company of a particular country? Why or why not?***

**BM:** We view Procter & Gamble as a global company. Cincinnati is where we started 173 years ago. We're traded on The New York Stock Exchange. But we have a lot of international people who hold our stock, and we have on-the-ground operations around the world. If you look at our packaging, generally it's in the language of the country, and we work very hard to create those one-on-one relationships with every single consumer in the world. It's easier to do that if you work in the local language and in the local culture than if you're this international company with an international brand that's somehow coming from abroad.

The ultimate goal of a global company is being recognised as a local company. I mean, that's the ultimate. And when you think of that Internet allowing this one-on-one relationship with every consumer, it enables that.

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