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From internal service provider to strategic partner:

An interview with the head of Global Business Services at P&G

Filippo Passerini is bringing the back office into the boardroom.

Michael Bloch and Elizabeth C. Lempres

Article at a glance

Filippo Passerini, the head of P&G's Global Business Services (GBS), describes how his organization evolved to become a strategic partner with the company's operating units.

He explains that the consolidation of dispersed local support units, the outsourcing of nonstrategic service functions, and the blending of IT with other services helped the company to cut costs substantially and gave GBS a new role as a provider of innovative solutions in customer interactions and product development.

The new challenge, he says, is to adopt a project-oriented work style as GBS takes productivity and IT-driven innovation to the next level.

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P&G's support services have made a ten-year journey that many global corporations are studying with interest and, perhaps, envy. P&G has saved around $600 million to date by consolidating all back-office functions, such as finance and accounting, HR, facilities management, and IT, into one unit—Global Business Services (GBS)—and by outsourcing many of the nonstrategic activities involved in providing these services. What's more, GBS played a key role in the speedy integration of Gillette, which P&G acquired in 2005, and it has emerged as a strategic partner with the operating units of the global consumer products group by providing innovative solutions in consumer and customer interactions and in product development.

"It's all about innovation—at the operating level in the way GBS is structured and in the design of our work processes, as well as upstream, in the IT-driven solutions that we can offer to support P&G's brands." So says Filippo Passerini, president of GBS and P&G's CIO, when describing the transformation of support services into an important contributor to the company's growth.

P&G has built its current business services platform in phases. In 1999, the company reorganized its small, mostly independent businesses into strategically connected global business units and regional marketing organizations. At the same time, it pulled together local support services (with the exception of IT) into a single global unit—GBS.

In 2003, P&G embarked on a second phase when it entered into $4.2 billion worth of outsourcing partnerships in IT infrastructure, finance and accounting, HR, and facilities management. At that point, HP took over the development of IT applications and the operation of data centers and IT support, as well as key elements of accounts payable. IBM won a contract to provide employee services such as payroll, travel support, and expatriate services. Jones Lang LaSalle took over the management of offices and technical centers, including their maintenance and security, in over 60 countries. But even in these areas, P&G retained the activities that it considered strategic—for instance, IT architecture. Moreover, it chose not to outsource services in business-critical areas such as procurement, logistics, and IT-driven innovation. In 2004, Passerini expanded GBS to incorporate P&G's IT function.

Recently, Passerini talked with Michael Bloch, a principal in McKinsey's Paris office, and Elizabeth Lempres, a director in the Boston office, about how the current platform has enabled the shared-services unit to emerge as a strategic partner with P&G's business units and about the challenges and opportunities that lie ahead as it enters its third phase of development.

Filippo Passerini

Vital Statistics

Born July 30, 1957, in Rome, Italy

Married, with 3 children

Education

Earned Ph.D. in statistics and operating research in 1981 from University of Rome

Career highlights

P&G (1981–present)

- President of Global Business Services and CIO (2008–present)
- Chief information and global services officer (2004–08)
- Global Business Services officer (2003–04)
- Vice president of business process sourcing study (2002–03)

Fast Facts

- IQPC's (International Quality and Productivity Center) Shared Service Leader of the Year (2006 and 2008)
- Named in *Information Week*'s "Innovators and Influencers Who Will Make a Difference in 2008"
- Competition-level chess player and keen mountain climber

The *Quarterly*: What was the thinking behind creating GBS, in 1999?

Filippo Passerini: It was to eliminate duplication—most operating units at the time were supported by their own local service organizations—and, in doing so, reduce costs and leverage our economies of scale. What we did in the next three years was consolidate and standardize more than 70 services. To provide around-the-clock business support worldwide we built three shared-services centers: in San José, in Costa Rica; in Manila, in the Philippines; and in Newcastle, in the UK. We also integrated numerous IT systems into a much smaller set of global platforms, which enable us to access data faster, make smarter decisions, and track operations anywhere around the globe.

The *Quarterly*: P&G made a design choice when it set up GBS as one entity rather than letting the various support functions improve performance on their own. Many companies fear that bundling functions might create overhead that would bring more complexity rather than more efficiency.

Filippo Passerini: Our opinion is that if you optimize by function, you will inevitably end up creating silos, which would carry the risk of fragmentation. By integrating all these services into one organization, we can manage them by work process rather than by function and better leverage scale and create synergies. Take purchase-to-payment for suppliers, for example. Some of this work is normally in procurement, some in accounting, and some in finance. We can have one group of people who handle the whole process and so avoid handovers across multiple functions, each with its own management and perhaps different objectives and incentives.

The *Quarterly*: GBS was doing well at that stage. Why did you outsource many of its services?

Filippo Passerini: The time was ripe for making the move. We had maximized our internal ability to cut costs and improve service quality. By consolidating and standardizing our services, we had paved the way for a smooth transition where we could leverage the greater scale and unique expertise of outsourcing partners and also negotiate attractive and mutually beneficial agreements with them. We believe there is a sequence in this process. You outsource only when you are internally optimized. Counting on outsourcing to fix issues or to help improve your work processes is a mistake.

Our objective was not only to further cut costs and improve service levels. By outsourcing the more repetitive commodity work and keeping in-house what we considered strategic, we could in effect decommoditize our shared-services business and allow it to focus on innovation and developing new business capabilities for P&G. For example, about 2,000 P&G employees in 48 countries transferred to HP to cover things like infrastructure management and application coding. The remainder of our IT community stayed with us to work on system design and architecture, new technologies, and new IT-related business capabilities.

At the time, this was the largest package of outsourcing deals in the marketplace. Because we had strong internal skills, we were able to make the proposition to outsourcers attractive so that our people were all offered jobs by our partners. Our own people became our providers, delivering the same services. I asked our internal business partners—P&G's operating units—if they knew what day we transferred many of our services to our outsourcing partners. They hadn't even noticed it happen. That's perhaps not so strange. Let's take our service center in Costa Rica as an example. Here, the people who transferred continued to work in the San José center, so for them it was mainly a change of badge.

The commitment to collaboration and strategic connection with our outsourcing partnerships has made a difference too. Earlier we mentioned purchase-to-payment for suppliers. One element, accounts payable, is now outsourced; the other two, procurement and finance, remain in-house. But the people managing this process work as one team. Even when they are not physically colocated, they are building on established relationships and know-how. That can only be an advantage.

This model was also unique because it was not a case of flat-out outsourcing, where costs are usually reduced by cutting staff. P&G was offering unique capabilities—skills, knowledge, work processes, and technologies—to each of its outsourcing partners, which enabled them to create new business opportunities. That was beautiful because our people were wanted and needed. The vendors further offshored some of the work, but the GBS people who were affected by the offshoring stayed in place to serve the vendors' other clients.

The *Quarterly*: How did the structure of GBS and the outsourcing partnerships help you to speed up the integration of Gillette?

Filippo Passerini: Our centralized and standardized business services and integrated IT platform were prerequisites for achieving integration in 15 months. If we had needed to blend numerous Gillette systems with multiple, intertwined P&G systems, the transition would have been more complicated and costly and much more time consuming. Equally important was that we could flex up our capacity by leveraging our outsourcing partners. Within a few weeks they were able to provide 750 people, who joined an equal number of our own staff on this project. It would probably have taken three or four years to integrate Gillette if we hadn't had the capacity to flex up on the fly.

Consider this. We moved all systems operated by Gillette—an organization of nearly 30,000 people that sold products in more than 200 markets worldwide—onto the P&G platform. This allowed the integration of the two sales forces; now when you go to a customer, you take combined orders for all Gillette and P&G products. Shipping them together required the integration of warehouses and distribution centers. All this brings down costs. The synergies savings, which we publicly declared at $1.2 billion a year, amount to around $4 million a day, so every day counts, and achieving them in 15 months saves a lot more money than achieving them in three or four years.

The *Quarterly*: What was the thinking behind the incorporation of information technology in GBS?

Filippo Passerini: The services that can help P&G gain a competitive advantage are enabled by IT-driven innovations. But making these innovations happen and getting the most out of them required a change in mind-set—from IT as a provider of technology to IT as a provider of solutions, often in cooperation with other services. This reinvention of IT would not have happened had it remained a functional silo. By pulling all IT employees into one unit, renaming it Information and Decision Solutions,[1] and integrating this unit in GBS, we had the structural foundation for developing our IT people and instilling a new mind-set. The results have not been late in coming.

In the new IDS structure, we have put resources to deliver against priorities. One of these is personalization—supporting P&G's brands to develop one-to-one connections with consumers. So today, we have digital-services managers partnering with the brands to create best-in-class Web sites that offer a high level of interactivity. At pampers.com, for instance, parents can customize their membership according to the age of their children and get appropriate health and nutrition advice by our experts. Having these managers in place allows us to drive scale, and because the digital-services experts work as one global team, we can create synergies among work done by brands in different business units. Pampers has reapplied the model in 49 markets around the globe, and the pampers.com global network now reaches 26 million consumers a year. In addition, we have reapplied this personalization approach for other individual brands, as well as on multibrand Web sites.

Another area concerns modeling and simulation through the use of virtual reality. The objective here is to reduce development costs and the time it takes to get innovative products to market. For example, we used to use physical mock-ups of products on shelves when we engaged consumer focus groups or retailers in the development of new products. We now do this virtually. One technology centers on a room with all walls covered by high-resolution screens that create a full, three-dimensional world. By using a pointer, you sense that you're moving through the aisles of a real store even though you are standing still. The renderings of products on shelves look more real than the real thing. It's quite amazing. Engagement with the customer is much more immediate and profound. More importantly, this technology allows us to quickly implement feedback on a product's packaging or artwork. Instead of taking five or six weeks to redesign a physical mock-up, we do it in days, as it's all virtual reality. This allows us to iterate more times and still cut costs while bringing innovations to market much faster and better. Our virtual solutions tools are now used in almost 80 percent of all P&G initiatives.

The *Quarterly*: How exactly does the integration of shared services and IT help you in this regard?

Filippo Passerini: A traditional IT organization would have developed the virtual-reality technology in-house or bought a package off the shelf and deployed it for operating units to use. They would have executed in different ways, but they would not have been able to maximize its value. Consider the point of the whole exercise, which is speed. You have to build a virtual store within hours or days, and you only have digital elements to work with, so you need a vast library of high-quality three-dimensional pictures, and you have to always keep the library up to date. These are things that GBS can specialize in doing. So because we have integrated IT services, operating units can come to us and say, "A retailer is coming in, and these are the products we want to show." We take care of the whole process end to end by building the virtual store and running the actual session. We manage the relationships with vendors to make sure that the technologies are working for us, and we collaborate with brand, customer, and R&D teams in order to fully leverage the technology.

The *Quarterly*: This must also require a commercially oriented culture, which is sometimes lacking in cost-focused services organizations. How do you deal with this issue?

Filippo Passerini: We want to reduce costs in our commodity infrastructure operations, on the one hand, but we want to continue to invest in innovation, on the other. Therefore, we have separated our investments in innovation from the objective of reducing costs in operations, to eliminate the risk that a one-sided focus on costs could undermine the building of business capabilities. Moreover, we run GBS as a full business unit, just like P&G's global business units that are in charge of brands and like the market-development organizations that operate in the individual markets. They have scorecards that register profit margin, sales volume, and market share. GBS has an equivalent scorecard that measures financial contributions to the company, service levels, and value creation. This inspires and incentivizes our people to be professional at commercializing and selling their services.

The *Quarterly*: From a people perspective, what has changed at GBS since 1999?

Filippo Passerini: I will give you a couple of indicators. Every year, P&G's top 400 senior managers rate each business unit on its contributions to the group. GBS started off six years ago at an aggregate score of 5.2 out of 10. Our score is now above 8.5. It has gone up for six years in a row. But the most important indicator from a people perspective is perhaps the number of internal P&G applicants for every new job at GBS. That shows how much people want to be part of our services organization. We've gone from 0.3 applicants per job five or six years ago to 7.1 today.

The *Quarterly*: Why are so many people suddenly so interested in working for GBS?

Filippo Passerini: It is due to growing skills, high levels of investment in our organization, and the perception that we are doing more important work than before. Success breeds success.

The integration of Gillette is a good example. Our people were working around the clock. Every two or three months, we started up large systems. One phase, which covered Europe and some of Asia, began two years ago on January 1. Some 35 people were in the control room for the last few days of December and the early days in January. I was there with them on New Year's Eve. I am sure most people would say they have more interesting things to do on New Year's, but the paradox was that even though people had to work so hard, their morale was rising. It's really very simple. People want to do well. People want approval. When they feel they are doing something extraordinary, their motivation increases. Our people loved the work they did during those 15 months.

The *Quarterly*: How did you go about changing the culture?

Filippo Passerini: It was a big cultural change. However, when we talk of cultural changes, we must keep in mind that we can't commandeer culture. It is the product of organizational design, of building skills and competencies, and of rewarding people when they do well. My own leadership philosophy is about launching breakthrough ideas and setting goals. It's about starting with the end in mind and forcing a pace to deliver on the goals. It is about creating support systems that enable the organization to perform, to feel motivated and good about itself. It's about raising the energy level.

The *Quarterly*: What's ahead for GBS?

Filippo Passerini: We are now moving into the third phase, which is about agility, flexibility, and being able to anticipate what will happen, so that we can respond more quickly. The background is the way the world is accelerating dramatically not just in our consumer-packaged-goods industry but in most other industries too. It is very important to stay flexible in this new world. GBS is setting two overarching goals for itself: a dramatic rise in IT-driven innovation and a threefold increase in organizational capacity and "flow to work." The idea of flow to work is that resources will be concentrated on the top few priorities at any time—just as they were in the integration of Gillette. The philosophy behind this model is that the organization chart should be dynamic and determined by what the project portfolio looks like.

In that context, we are being asked to bundle into GBS a project-management and change-management capability for large change initiatives, to support our businesses across the world. This will involve different sets of skills and capabilities than the ones we currently have, and it will be very exciting work for our people.

The *Quarterly*: So this is a project-oriented, professional-services concept?

Filippo Passerini: Yes. This will be transformational for us and will increase our productivity even further. It will also be better for our people because they will continue to develop professionally. The challenge is obviously that there will be a greater element of ambiguity in the system, and some people like ambiguity better than others do. But the new world of dynamic reallocation of priorities implies that you may change your manager or even your job every two years and sometimes every three or six months.

The *Quarterly*: How does the corporate center view GBS's expansion of its service catalog to new project-based and more value-added services?

Filippo Passerini: The company is asking us to take on far more work. We are working on seven large worldwide initiatives—I call them the magnificent seven—for instance, the phase-two integrations of Wella and Gillette. Each initiative will take two to four years to complete. In contrast, changing our core order-shipping and billing system in North America took six years to complete in the 1990s, although it was the only large systems initiative at the time. So we are going from delivering one large initiative in the world in six years to doing seven in parallel in two to four years.

This challenge is not unique. Other divisions within P&G face similar ones. The world is changing, and GBS must be one step ahead of change, so that we can control our destiny. That is really what the third phase for GBS is all about, and that is what inspires our people. Q

About the Authors
Michael Bloch is a principal in McKinsey's Paris office, and **Liz Lempres** is a director in the Boston office.

Notes

[1] IDS

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