

THE FRONT-BACK MODEL:

HOW DOES IT WORK?

JAY GALBRAITH
November 2005

The front-back structure, when it works, rests on three strong legs. First, there is a strong front-end focused on customer relationships, shopper insights and mastery of channels. Second, there is a strong global back-end based on products and brands, user insights and a global product development process. Less obvious and equally essential is strong leadership – the third leg linking the front and the back.

Hewlett-Packard lags IBM because the company has not had the strong leadership to make the front-end an equal partner to the product lines. Carly Fiorina tried to be the link by herself, despite Board requests for a COO. Similarly when Procter & Gamble went to its *Organization 2005*, Jager tried to bridge the GBU-MDO gap by himself. He failed. He supported the GBUs, increased R&D spending and the MDOs were overwhelmed with new product launches. When Lafley took over, he immediately expanded top management capacity by adding a Vice-Chairman in charge of the MDOs. Driven in part by succession issues, Lafley has created four Vice-Chairmen in charge of clusters of GBUs (15 in total) and MDOs (7 in total). Jim Kilts, who is leading the P&G-Gillette integration, is the fifth Vice-Chairman. The result is sufficient enterprise management capacity to link the front and the back.

The means by which this leadership is exercised is through the management processes and personal networks. The management processes are necessary because the front-back model is an interdependent system of profit centers. A holding company is a system of independent profit centers. The leaders of the P&Ls in a holding company can be managed using a one-to-one management style and a monthly meeting of the GSLT. A front-back model running on the basis of innovation requires constant coordination of the portfolio of GBUs and MDOs. Each issue involves one or more GBUs and one or more MDOs. Therefore, a collective management process is needed to

bring together a knowledgeable group that can think and act on an enterprise-wide level. This collective process works when four factors are present:

1. There is sufficient enterprise management capacity available, as mentioned above.
2. The people participating in the process work well together. There needs to be a transparency of information about each other's areas of responsibility. At both P&G and IBM roughly half of the top group was new within a year or two after moving to the front-back model. Not everyone can work in this environment.
3. The group has to meet frequently enough to resolve issues on a timely basis. At Intel and P&G, the top group meets weekly for about half a day. Frequent, short meetings match the dynamics of the business.
4. The meetings are planned and issue-driven. At Intel the strategy head reviews the issues of the week that have arisen in Intel's equivalent to GBUs and MDOs. The planned meetings make efficient use of everyone's time. Furthermore, the leadership does not wait for escalation of issues, but rather seeks out the priority issues and acts on them.

So leadership in a front-back organization is a team sport. The closer we can get to an active, hands-on team at the top, the better the company will work. The other lesson is that destroying silos begins at the top. Cross-company teams rarely work better than the team at the top.

The linkage of the front and back at middle management levels takes place through business processes like the new product development process or your IMF. Let's look at a GBU and an MDO structure and then at the product development process that links them. Figure 1 shows an organization chart of P&G's Beauty Care GBU, circa 2002. The GBU is broken into regions in which the brands are developed and managed. The chart shows the Japanese Beauty Care unit called Max Factor Japan. P&G had a small beauty care business in Japan when it bought Max Factor. Today's business is a merger of the original business with the larger Max Factor unit. Japan, like each regional unit, is a functional organization responsible for the portfolio of

the brands in the region. The marketing and R&D functions take the lead in developing and building the brands. A Customer Development Liaison is a link to the MDOs, which distribute the brands. Each region has global responsibility for some brands in which it is a leader, and a local responsibility for brands led by other regions. For example, Japan has local responsibility for Olay where the global responsibility is in North America. But Japan, has global responsibility for SK-II and Lipfinity (a long lasting lipstick).

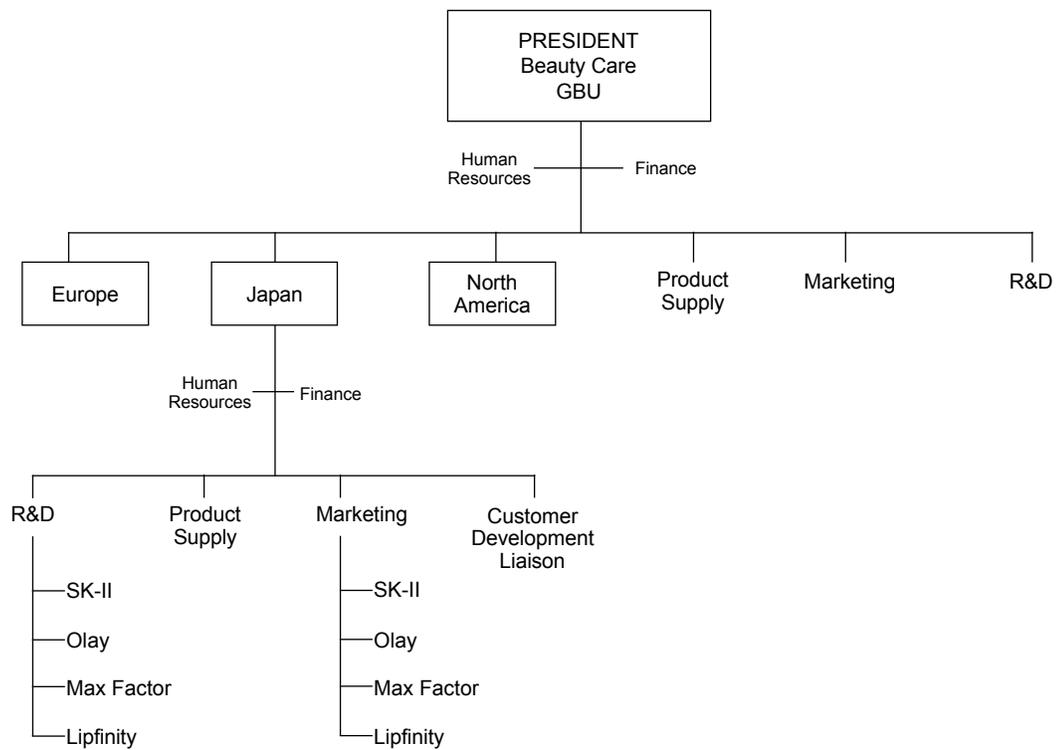


Figure 1 — P&G Beauty Care GBU structure (circa 2002)

An MDO structure for Western Europe is shown in Figure 2. It consists of the usual corporate functions with countries and regions (Scandinavia). There is a Product Supply function, which manages the product flow from the factory to the MDO’s customers. A key function is labeled “GBU Marketing Teams.” This function is a mirror image of the GBU structure. It is jointly staffed by the GBU and the MDO. Usually some of the marketing specialists rotate between their GBU and the MDO. This GBU Marketing Team function

was missing in the original 2005 reorganization. When Lafley replaced Jager, he added this function to (1) strengthen the MDOs, (2) strengthen the relationships between GBUs and MDOs, and (3) to help the MDOs manage their portfolios and product launches.

Each country is organized based on the scale of operations in the country. The UK is shown here. It is organized into regional teams, customer teams and channel teams. Each team is again organized according to the volume of business. On each team are customer development, marketing and product supply people, who are in turn organized by GBU category. GBU marketing and product supply report to the country manager and coordinate their category talent across the teams and link to the MDO marketing function.

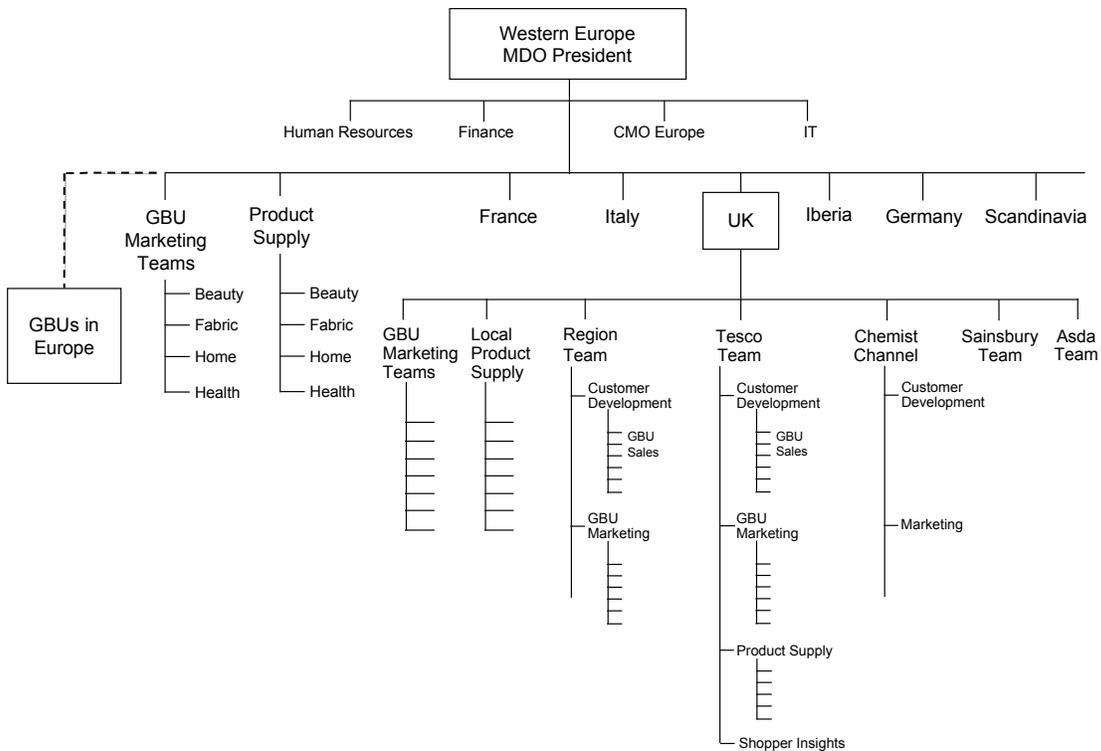


Figure 2 — P&G MDO structure in Western Europe

Part of the ‘magic’ is now visible. In each MDO, there is a GBU team, like Beauty Care, for each GBU doing business in the MDO. There is a Beauty Care representative in each function, country and channel in the MDO. There is a clear Beauty Care line-of-sight across the MDO and back into the GBU. The rotation of talent and formation of teams create networks for coordination

and communication at the working levels. When these networks are unable to resolve issues at their level, the escalation to the top team takes place.

The new product development business process takes place across regions within a GBU. Let's follow an initiative within the Beauty Care GBU. Consumer research is done on a country-by-country basis and collected by the GBU. Despite some regional differences, the Beauty Care leadership team found a worldwide unmet consumer need. There was no one product that both cleaned and moisturized a woman's skin. This need got a top priority and a team of technologists and marketers from each region gathered in the lead lab in Cincinnati. Here they were to develop a platform and a core product concept for meeting this need.

The team discovered a woven substrate that was developed by the paper labs. It subsequently discovered that a 10-micron fiber could be woven into a mesh that would provide the foaming action and trap the dirt particles. The mesh could be impregnated by dry spraying a formula of cleansers and moisturizers that would activate at different times. That is, the cleansers would activate first and clean the skin. The moisturizers would follow and finish the treatment. With this platform, the regional teams returned to their labs to localize the product.

The Americans used the Olay formula for their moisturizer. They positioned the product as a "daily facial." It was sold in a box of Olay Facial Cloths for \$7.00. In Japan, the team used the more expensive SK-II formula. The product was positioned as a "foaming massage cloth." It was sold as SK-II Foaming Massage Cloth in an elegant dispensing box for 6,000 Yen (US \$50.00). In this way, global team working in the US lab developed a global platform (the woven substrate impregnated with dry-sprayed and time-release cleansers and moisturizers) that was easily modifiable locally. When the team members went back to their respective countries, they could insert the locally preferred cleansers and moisturizers.

When *Organization 2005* was implemented, the Japanese Beauty Care unit received a new president: an Italian national. Previously he ran the European Facial Care category. One of his first activities as a member of the Beauty Care Global Leadership Team was to suggest and lead the development of Lipfinity, a long lasting lipstick. Shiseido had introduced such a product, which was a short-term sensation but faded quickly (pun intended). Backed by P&G consumer research, the Beauty Care GLT made

Japan the lead market for the product. Lipfinity has a two-step process of painting on the color in the morning and then applying a clear moisturizer throughout the day. The product followed the same development process as the cleansing, moisturizing cloths. Lipfinity was a success and was launched in other MDOs as well.

The Italian president's second task was to extend SK-II as a global brand. SK-II had a small but loyal following in Japan. The first step was to relaunch SK-II in Japan. Using P&G technologies for anti-aging and skin whitening, he broadened the SK-II product line and launched it with an ad campaign featuring a popular, middle-aged Japanese actress. SK-II soon captured 20% of the Japanese market. The women in Hong Kong, Taiwan and Singapore usually follow the Japanese market. Soon department stores in those countries began requesting the product. In his role as an SK-II global brand leader, the Beauty Care Japan president began to work with the Beauty Care marketing team in the Greater China MDO. The Beauty Care marketing team leader in China and the country manager for China both liked the idea of a launch of SK-II in China. They would reposition Olay as a lower tier product and maintain their space in department stores with SK-II.

Next, the Italian president of Beauty Care Japan went to his old boss, the president of Beauty Care Europe. Both of them thought it would be difficult to introduce a new product in the crowded European market. But in the UK, they had succeeded in launching the sale of fine fragrances like Hugo Boss and Valentino. There was a 25-person sales force calling on department stores and the Boots pharmacy chain. They could use another product. So SK-II was quietly launched in the UK. Using the same approach, SK-II is now finding its way into Saks Fifth Avenue in the US.

Through a combination of personal networks, formal interfaces into the MDOs and his seat on the Beauty Care GLT, the president of Beauty Care Japan was able to exercise his global SK-II mandate. He could approach his old boss and work out a European strategy. He could work with the Beauty Care Marketing Team in the Greater China MDO to work out a China strategy. The marketing team was interested in growing the category and SK-II fit with their growth goals. So it is the networking at middle management levels aided by personal networks, rotational assignments and formal mirror image interfaces across GBUs and MDOs that provide the magic of the P&G front-back organization.