

## FOREWORD

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Since its beginning as a partnership between a candle maker and a soap manufacturer in 1837, Procter & Gamble has been a product innovator. Ivory (“the soap that floats”) was invented in 1879; Dreft, the first synthetic laundry detergent, in the depths of the Depression in 1933; Tide, the first heavy-duty laundry detergent, in 1946; Crest, the first ADA-approved fluoride toothpaste, in 1955. Pampers, the first disposable diaper, was introduced in 1961; Pert Plus, the first combined shampoo and conditioner, in 1986; the Febreze fabric freshener and Swiffer mop in 1998; Crest Whitestrips, the first mass-market in-home tooth-whitening system, in 2001.

So it’s not surprising that most people think the secret to P&G’s success has been steady product innovation. But to grow on the scale that P&G does for as long as we have requires more than steady growth in core markets. It requires changes to what Mark Johnson calls in this book “something more core than core.” It requires innovation in P&G’s basic business models—that is, changes to the way we turn a profit, to the value propositions we offer our customers, to the way we combine our internal and external processes to go to market. Innovations like those we made in 1919, when we hired 450 sales representatives to sell

directly to retailers rather than through wholesalers; or in 1924, when we set up the first market research department to understand changing trends in consumer demand; or in 1931, when we introduced the notion of fielding competing brands in the same category; or today, as we move into high-frequency stores in developing countries.

Over its history, in fact, P&G has reinvented itself about once a decade to respond to changes in consumer and market realities and to tackle barriers to realizing transformational growth opportunities. Innovation was among my top priorities during the nine years I served as P&G's CEO, and it remains a critical priority for Bob McDonald, who succeeded me. Over the course of my career, I've come to see business model innovation not as a static process but as a systemic, repeatable, and reliable capability, one that leaders need to build, strengthen, and eventually turn into a sustainable competitive advantage.

But how? *Business model innovation* has become a popular buzz phrase in the business press and in academia in recent years. Yet to my mind, it is a topic that few people understand at any rigorous level, and as a result it's not being accorded the importance it should have in most corporate and business-unit strategy processes.

That's why this book is so welcome. In *Seizing the White Space*, Johnson lays out a compelling case for business model innovation as the catalyst for robust growth, both through transformation of existing markets—the “white space within” that every company has—and through the creation of tomorrow's new markets—“the white space beyond” that so many companies find so hard to venture into.

It is welcome because Johnson has done the hard work of distilling just what a business model consists of: His interdependent four-box business model framework is a powerful synthesis, built from careful study of companies spanning a wide range of industries.

Equally important is his insight into just how relative white space is. One company's white space is another's home turf. That was an insight we used to great advantage at P&G, for example as we expanded Swiffer—a core product for us—into totally new markets where it represents a fundamentally new business model for our competitors.

Johnson's model sheds light on two areas that I have seen derail the best of management's intentions to seize white space. I've known situations in which we could identify new customer value propositions but were late to market, and times when we had conceived innovative new profit models but failed to commercialize them successfully. We were unable to put the right resources, external partners, or internal activity systems into place for those types of discontinuous innovation opportunities.

Reinvention at that level requires first that you know what business you're in. The four-box model—customer value proposition, profit formula, key resources, and key processes—makes the sources of a business's current success explicit. By extension, it identifies which ones need to change if a company is to capitalize on a new opportunity. *Seizing the White Space* provides top executives and innovation leaders with a comprehensive but user-friendly approach to making new-value creation a consistent, repeatable process.

Seizing white space is hard. It requires looking at markets and customers in new ways. It requires an openness to experimentation and uncertainty. It requires a willingness to challenge and change those well-honed systems and models that made your enterprise successful in the first place.

In recent years, Procter & Gamble has pursued three clear growth strategies: continue to grow the core business with leading brands in big, growing retail markets; develop fast-growing, higher-margin global businesses; and grow disproportionately in developing markets. On the face of it, these strategies might look

like simply staying the course for a large, packaged goods company. But delivering on those strategies required significant changes to the business model P&G had been operating under for decades.

It required that we open our approach to innovation. We were known for doing everything ourselves; now we are becoming perhaps equally famous for our “Connect and Develop” open innovation program. This new approach entailed significant process changes to our core R&D capabilities.

It also required us to think differently about the value proposition we offer to consumers. Consumer needs in the 1980s and 1990s could largely be satisfied by improving the performance and features of our products as we competed on the basis of functionality, something Johnson points out is common in early-stage markets. But markets in the consumer products industry developed in the same way that many in Johnson’s analysis do: competitors’ products improved, and we at P&G found the basis of competition shifting as consumers demanded more customized products delivered in more convenient ways. By 2000, we needed to reset the bar and focus on innovations that had an impact on all the ways consumers experience our products, from the first time they encounter them in the store, to when they take them home and use them, and on through their final disposition. We needed to shift to a more holistic approach to innovation that encompassed not just concept and performance but also changes in communication, design, packaging, and value.

And ultimately, we needed to move beyond product and technology to service, supply chain, and cost innovations. For example, success in reaching emerging-market consumers demanded that we compete in multiple price tiers, not just in the premium tiers where we had long been a leader. This meant rethinking supply chains to make our products dramatically more affordable to

greater numbers of consumers—and to people who had never been consumers of P&G products.

These are not innovations that develop only in R&D labs. Nor are they always innovations that require wholesale change. But they are all innovations that start with a deep understanding of your current business model—and how well suited it may or may not be to new opportunities. A solid understanding of current capabilities, together with a systematic approach to analyzing the business model requirements of new opportunities—like the one outlined in the following pages—makes the hard work of mapping out the white space rational and manageable. It takes it out of the realm of inspiration and serendipity and anchors it firmly in the world of strategy and executive leadership.

Recognizing this, P&G has put in place new business creation units at the corporate and business unit levels charged with identifying and developing opportunities both adjacent to our core and well outside it—opportunities that require us to be as innovative with our business models as we are with our products. As Johnson recommends, we are funding these ventures with seed money that is being kept away from the core and staffing them with “black belts” equipped with the best practices.

Johnson’s architecture fits the real world strategies Procter & Gamble is working to create. His model reveals in a practical fashion those elements that we have learned through practice are essential to discontinuous innovation. As Johnson suggests, *Seizing the White Space* is the playbook you would want to take with you as you seek to conquer the unknown.

—A. G. Lafley  
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