VESTED® For Success Case Study

How *P&G* and *JLL* Transformed Corporate Real Estate

A Report Authored By:

Kate Vitasek, Karl Manrodt and Jeanne Kling

HASLAM COLLEGE OF BUSINESS
THE UNIVERSITY OF TENNESSEE, KNOXVILLE

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EXECUTIVE SUMMARY

Procter & Gamble is known for changing the game to achieve a competitive advantage.[1] The changing marketplace was demanding change[2] and P&G executives knew that for P&G to continue to win in the marketplace, it meant a relentless application of what P&G did best: a laser focus on the customer and commitment to innovation. This would mean challenging the status quo and developing strategic moves that would continue to keep P&G on top with both customers and employees. P&Ger Filippo Passerini, a native of Rome, was asked to lead the Herculean effort to transform P&G's 70+ centralized overhead services into a high-performing Global Business Services (GBS) business unit – focusing on cost savings, better service and business transformation.

Passerini, a competitive chess player as a teenager, was the perfect fit for a job that would require the ability to think two, three or more moves ahead. He joined P&G in 1981 as an IT analyst and climbed the ranks at P&G for his ability to make quick and calculated moves. Passerini was now in charge of making big moves that would help take P&G into the 21st century and continue their 150-year streak of being the world's most popular consumer packaged goods company. "You need to plan your thinking time in a very wise way," Passerini says. "No matter how much you can anticipate what is coming next, there is a point where you need to make the move. That's very relevant to the way we do business."[3]

In 2003, Passerini made one of the biggest calculated moves in the history of outsourcing. He led his P&G team in $4.2 billion worth of outsourcing partnerships in IT infrastructure, finance and accounting, HR, and facilities management with Hewlett Packard (HP), IBM and Jones Lang LaSalle (JLL). Passerini's personal skills and ability to motivate would drive the new GBS unit, and its partners, to an entirely new way of working together. Today Passerini's GBS team has reduced the costs of P&G's GBS corporate functions as a percent of sales by 33%. In 2010, Passerini was named Chief Information Officer of the year by Information Week and was inducted into the CIO Hall of Fame.

This case study profiles one of the shining success stories in P&G's transformational outsourcing journey, sharing how P&G and Jones Lang LaSalle came together to transform P&G's corporate facilities and real estate portfolio using what the University of Tennessee refers to as a Vested Outsourcing approach. [4]

PROCTER & GAMBLE'S BATTLE TO LEAD

Innovation has always been important to P&G. P&G openly contributes much of its success to research and innovation – stating its ability to come up with new ideas as a "cornerstone of their success." In 2000, A.G. Lafley took the helm as P&G's CEO to help lead the organization into the 21st century. Lafley and his team identified five core enablers: consumer understanding, brand-building, innovation, go-to-market capability, and scale.

One of the core enablers – innovation - became a hallmark under A.G. Lafley's leadership.[5] Questioning the sustainability of the in-house-invent-it-ourselves model, Lafley bet looking beyond P&G walls could produce highly profitable innovations that would drive value for both P&G and the parties bringing innovation to P&G. P&G's efforts initially targeted product innovations. Lafley set a lofty goal to acquire 50% of new product innovations from outside of P&G. His strategy didn't call for the replacement of P&G capabilities, but ways to leverage P&G's core strengths better. "Half of our new products," Lafley said, "would come from our own labs, and half would come through them."

It was a radical idea. The thinking change required rejection of "not invented here" to enthusiasm for those ideas "proudly found elsewhere." To achieve P&G's overall growth objectives, P&G developed a new business model that applied available resources to the areas most certain to strategically impact top-line growth. As a result, in 1999, P&G executives decided to centralize non-core functions into a newly organized Global Business Services (GBS) group as a critical piece of their operational platform. The goal was to reduce costs by $500 million within five years as part of the "Organization 2005" initiative.

Passerini explained, "The objective was to eliminate duplication and, by doing so, reduce costs and leverage our economies of scale." Passerini believed bundling corporate overhead functions into a centralized shared services group was a sound decision. "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.[6]"

The direction was clear. The end goal for the P&G global business services team required innovative solutions that would transform "overhead expense" into an entirely new entity. And Passerini and his GBS team needed to work fast if they were going to keep up with the business needs.

Transformation Drives Outsourcing Decisions

By 2002, P&G executives knew that centralization could only take the company so far with efficiencies. P&G was fast approaching maximizing their internal ability to cut costs. As such, the GBS group began to explore outsourcing as a viable option. P&G believed that by working with a world-class outsource service provider, it could drive costs lower *and* ensure service offerings remained on the leading edge of best practice.

"The time was ripe for making the move to outsource," explained Passerini. "By consolidating and standardizing our services, we had paved the way where we could leverage the greater scale and unique expertise of outsourcing partners. Our objective was 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, enable ourselves to focus on innovation and developing new business capabilities for P&G[7]."

Guiding the decision process to outsource was the company's desire to do what was right for the business, the employees and shareholders. As part of the effort, a team of P&Gers began to explore four outsourcing options for its GBS unit:

1. Spin it off and create a P&G services company
2. Divest GBS and merge it with a services company
3. Outsource GBS to a single provider, or
4. Right-source services within GBS with best-of-breed providers.

P&G seriously considered the third option. It involved outsourcing as much as 80% of GBS' back-office work, including finance and accounting, facilities management, human resources and purchasing, to a single company. The initiative, valued at $7 billion over 10 years, would have been one of the largest outsourcing efforts ever. No company had ever bundled corporate real estate, human resources, information technology and accounting under a single provider. P&G perceived great benefits in doing so, but it also sensed great risks. Ultimately, P&G chose what they termed as right-sourcing – or choosing to work with a small number of best-in-breed suppliers.

In 2003, Passerini was asked to lead the outsourcing and transformational efforts of the GBS organization. Passerini knew if he were to be successful, he would need to motivate his team to look for ways to take P&G's shared-services offerings to the next level. Passerini recalls the time he spent in P&G line management. He couldn't remember any "or" options. The pressure was for higher profit *and* higher market share, better quality *and* lower costs. Passerini knew that to drive innovation in GBS, his team would need to think in terms of AND, not OR. "We brought this mindset to shared services," Passerini says. "It's and, and, and, and." [8] To this day, within the P&G environment, the "**Power of AND"** remains a guiding principle.

Passerini's leadership inspired confidence that the business was on track for renewed profitability and shareholder satisfaction. However, for employees within GBS, an area identified as NOT being core to P&G business, it created a group that became restless, and apprehensive, about their futures.

Consistent with long-held company values, Passerini opted to communicate with employees within an "adult business relationship," maintaining a high level of transparency to keep employees up to date. In addition, P&G developed processes that gave employees a "seat at the decision-making table." Employees from within all ranks of P&G would get to assist in designing how the company would approach outsourcing.

Last, P&G made a stance to protect employees' jobs. Whatever decision was made, P&G employees would not be labeled "redundant"; they would not lose their jobs because of the outsourcing efforts.

In 2003, P&G entered into $4.2 billion worth of outsourcing partnerships in IT infrastructure, finance and accounting, HR, and facilities management. Hewlett Packard 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, a global leader in Real Estate Services, was selected as the best partner to manage the transformation of offices and technical centers, including their maintenance and security, in over 60 countries. In all, about 550 P&G facility management employees were "rebadged" as part of the precedent-setting outsourcing deal.

While P&G deems all of its outsourcing highly effective, the business relationship with JLL has been, by all factors, wildly successful. In just five short years[9], JLL went from being a new supplier to P&G to winning "Supplier of the Year" two years in a row among 80,000 suppliers. The rest of this case study profiles the P&G / JLL outsourcing relationship, including how innovations in corporate real estate are managed, creating significant value for both companies' bottoms lines.

The Journey with Jones Lang LaSalle Begins

As P&G began its facilities management outsourcing journey, P&G challenged William Reeves to lead the efforts for the GBS organization. Reeves' charter was to lead P&G's Employee Workplace Design and Delivery Services. Over the years, P&G had built, leased, or inherited facilities on a country-to-country basis in five continents. P&G occupied 150+ office & research facilities spanning over 17 million square feet in 86 countries. P&G employed an extensive in-house crew of people who provided services for the buildings. In addition, for nearly 20 years, portions of hourly work had been contracted out locally. While the hodgepodge of local and regional contractors met local needs, P&G's overall approach for facilities management fell short of a coordinated, global approach. Services were duplicated across regions. There was a structural inability to take advantage of economies of scale. Staffing and budgets were inefficiently allocated.

The high variation of processes across countries meant that it was difficult to drive effective and efficient global controls and a compliance environment. For example, one thing that P&G's executives had always wanted to have was facilities management data collected and reported on a global basis. Gaining ready access to worldwide results and trends put transformation on the fast track.

Reeves set out to make Passerini's challenge a reality. Reeves started by challenging conventional approaches to outsourcing. Reeves knew if he and his fellow P&Gers were to succeed, they would have to solve a common paradox in strategic outsourcing. How could P&G outsource its current Facilities Management processes, and at the same time, transform properties to be more effective and efficient? If the potential supplier used current processes, what motivation would there be for the service provider to make substantial efficiency gains? After all, traditionally, more transactions and headcount meant more revenue for the service provider. What P&G needed was an unconventional approach that was not simply about outsourcing the work – but about outsourcing the *transformation* of the work.

If Reeves was to be successful, he needed a creative path. A re-invention of P&G's Facilities Management potentially could save P&G a great deal of money, generate efficiencies and process standardization, and enable resources to focus on key priorities. But, to fully realize the promise, it had to be effective long-term. Reeves knew he needed to create an outsource solution based on an accountable, reliable system for years to come.

The solution was to flip the conventional outsourcing approach on its head; P&G would focus much of the efforts of its business model around contracting for transformation instead of contracting for day-to-day work under a transaction-based or managed services agreement. Reeves no longer wanted P&G employees and vendors to simply take CARE of their buildings; he wanted to develop an outsourcing relationship where the future P&G service provider took CHARGE of their buildings.

Laying the Foundation: Getting to We

Once P&G envisioned the model, it explored the realm of possibilities through an RFP process aimed at market leaders that managed corporate Real Estate services.

In January 2003, P&G authorized Reeves to identify the best in breed partner for a long-term facilities management relationship. Leveraging the expertise of outside consultants and IT, Reeves led an inclusive, methodical process. Standardized scoring sheets ensured compatible comparisons and identification of key variables.

When the potential list was narrowed to a handful of applicants, P&G created a unique next step. Suppliers were asked to conduct three-day site visits at five locations around the world. The prospective firms' assignment was to study the sites, understand the P&G business and develop a five-year plan describing what they would do to manage the business if granted the contract.

An obvious advantage to this approach was the immediate weeding out of suppliers without global capabilities. Some suppliers held necessary visas, passports and general wherewithal about how to deal on a worldwide basis. Those suppliers who had limited international knowledge and ability to travel clearly did not meet P&G standards of being able to manage a global business.

More importantly, the process delivered critical insight into the supplier's competency. Reeves explains, "Some suppliers have good chase teams for sales, but not operations. Our process gave us a lens to see beyond a supplier's sales team. The five-year action plans each of the suppliers created allowed us to see who really understood our business and the challenges we faced. We had already streamlined significantly and, to get to the next level, we required true transformation. It was easy to see which suppliers did deep dives based on how insightful their observations were. The supplier report-outs showed if they could manage our processes in a better way – something that was key for P&G[10]."

From the very beginning, JLL knew that P&G would be a good client and took the assessment seriously. JLL's CFO / COO Lauralee Martin described what she refers to as chemistry from the beginning. "P&G set out saying they wanted a global, unified relationship, something JLL had not done previously with any client. JLL needed to rise to the occasion and rethink how to deliver on this deal. Right from the beginning – this was strategically important to both of us – beyond the deal itself. To be successful, both companies knew they would need to respect each other's capabilities. The discussions were around how 1 + 1 would equal far more than 2 by having the companies work together. We made a strategic decision to invest in getting to really understand P&G's business and to think creatively about ways to bring process innovation to P&G."

While suppliers were challenged to come up with an assessment of P&G, P&G also turned to internal employees to assess potential suppliers. P&G site representatives were carefully selected to participate in the supplier site visits and review process. These P&G employees not only experienced the face-to-face supplier visit, but they also joined the potential suppliers and P&G leadership team during the final supplier selection process.

In the end – the P&G team decided to move forward with Jones Lang LaSalle. Reeves was pleased JLL emerged as the selected candidate. Reeves had noticed during meetings when JLL and P&G folks met together in a room there were no discernible culture differences; it was hard to tell who worked for which company. Several others commented on it as well. Cultural compatibility is an important element of successful Vested partnerships. "JLL was a good fit. Both companies had impressive histories and records of performance excellence, but P&G and JLL shared something even more important – similar corporate ethics and commitments.[11]"

P&G PRINCIPLES

We show respect for all individuals. The interests of the company and the individual are inseparable. We are strategically focused in our work. Innovation is the cornerstone of our success. We are externally focused. We value personal mastery. We seek to be the best. Mutual interdependency is a way of life.

Jones Lang LaSalle "ETHICS EVERYWHERE"

As part of our commitment to create real value in a world that is constantly changing, we are determined to be a good corporate citizen in every corner of our global community. We hold ourselves accountable for the social, environmental and economic impact of our operations. We design our policies and business practices to reflect the highest standards of corporate governance, transparency and ethics. We support all aspects of the corporate social responsibility agenda, but one area is particularly relevant for us. We have the skills and opportunity to help minimize the significant impacts that real estate has on the environment. Our goal is to be the unquestioned leader in the real estate industry in environmental Sustainability and energy management.

Reeves summed it up when he met with Bill Thummel to let him know that P&G had decided to go with JLL as the service provider of choice. Thummel was the JLL Global Account Executive; he served as Reeves' counterpart regarding the FM operation. Reeves shook hands with Thummel to symbolically seal the deal, stating, "We know that you (JLL) and the other suppliers we evaluated have never done this before; and neither have we. But JLL has a culture that is much like P&G's. We think we have the best chance of being successful with you because you are so much like us."

Having a handshake deal regarding major initiatives is a common P&G occurrence. P&G, known for its ethical business practices, actually built a conference room in their executive building called the "handshake room." That is not its nickname; "handshake room" is etched on the door, lest anyone forget why they are there. It is a small room with two video screens and a dozen seats where business leaders gather to discuss potential collaborative projects; if the project is a go, executives shake on it and agree on how to charge ahead.

In essence, Reeves and Thummel set the tone of the relationship that day. Their handshake deal set the precedent with P&G vowing to respect and honor JLL's role as P&G's expert in facilities management and JLL accepting the challenge to jointly move into uncharted territory – together.

P&G made its decision. It was time to move forward, establish the details of the business agreements, and develop a contract. The P&G / JLL outsourcing effort was the largest facilities outsourcing deal in history. The contract, signed in June 2003, was groundbreaking due to its global scope (covering 60 countries) and multidisciplinary nature (facility management, project management and strategic occupancy services). The controllable operating expenses for these services were estimated at $700 million over five years and initially spanned about 14 million square feet. From a facilities management standpoint, this was the largest relationship that P&G had established with a single supplier in its history.

JLL's Martin recalls the strategic focus both companies put on the relationship and getting the deal right. "Right from the start the relationship enjoyed recognition, support, and drive from both P&G and JLL. It took courage. The focus, the objectives, it was a partnership. We kept this high-level connection all the way through."

Starting with values and moving through day-to-day operation, P&G and JLL set out to achieve alignment that would create a winning partnership. When P&G asked JLL what they needed to get off to the best possible start, JLL responded, "Leadership – we need people with knowledge and potential[12]." Fortunately, Tim McParlane – like many other P&G leaders - accepted positions with JLL.

McParlane acted as the senior point person for GBS Outsourcing in the Americas when P&G was exploring potential service providers. As the decision-making process moved forward, McParlane considered his own future. McParlane was excited about the challenge. He believed moving to JLL allowed him to grow his career in real estate management. McParlane says, "I felt very comfortable that JLL was a company with a culture similar to P&G. I knew working for JLL would not only be a good place to work, but that I had a formal career ladder in my chosen field, the professional real estate industry."

McParlane recalls his feelings after deciding to join JLL. "In the early days, I still had half my brain in the P&G world and half in JLL." One of McParlane's first roles was Contract Manager - working through clarifications and putting in procedures and norms on how JLL would do things. He understood the P&G culture and language and he played a critical role as counsel to JLL senior management on how best to approach P&G.

While the size and complexity of the deal was a first for both companies, the approach for the commercial contract was also a first. The companies created a commercial agreement that was "Vested" in nature. That is, JLL signed up for a risk/reward sharing provision. Under the agreement, JLL signed up for guaranteed service levels. In return, they had incentives for beating targets. The agreement focused more on overall results than individual tasks.

Both companies were used to focusing on results – and had a long history of being able to deliver results that added real business value to their bottom line. But the P&G and JLL relationship had a new twist. Both companies understood winning would need to be a shared experience. Creating a true win-win mentality meant changing the rules of the game whereby both P&G and JLL shared in the risk and reward associated with the transformation efforts. Instead of thinking about "What's In It For Me" (WIIFMe), it was time to think about "What's In It For We" (WIIFWe).

One example of this is how P&G and JLL respected existing employees. Conventional wisdom in outsourcing is to lay off existing employees and replace them with less expensive workers. This practice is often referred to as labor arbitrage and is a popular tactic in outsourcing.

P&G approached the situation differently. P&G was a promote-from-within company and many of the employees had spent years – if not their entire career – at P&G. P&G rejected any idea of turning their backs on loyal employees. Workers were advised at the beginning of the process that they would not be laid-off; their jobs would be transferred to whatever outsource provider was chosen.

Reeves explains, "Because P&G had strong internal skills, we were able to make the proposition attractive so that our people were all offered jobs by our partners. In short, P&G's own people became our service providers' employees, delivering the same services." The contract basically transferred all current practices, including vendors and P&G employees, to JLL with the starting point to keep things "As-is, Where-Is."

JLL also came out a winner in this approach. P&G had a loyal and trained workforce around the world that had been performing the work. JLL did not physically have employees in many of the countries P&G operated (such as Egypt and Greece). The agreement immediately expanded JLL's global footprint. In addition, transferring existing employees made for an easier transition. By January 2004, about 550[13] P&G employees were rebadged and the partnership took off.

Passerini was pleased with his team's selection of JLL. "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 partner. They hadn't even noticed it happen. So for them, it was mainly a change of badge[14]."

Accountable for Success

P&G made it clear that JLL was accountable to deliver service that greatly reduced P&G's costs and to create initiatives that would deliver real business value. Shifting work – often referred to as lift and shift strategy – was just the starting point for JLL. With a successful global transition under their belt, P&G and JLL knew it was time to focus on the real reason P&G outsourced – to drive transformation and achieve "the power of AND." In time, JLL needed to improve, streamline and bring JLL's global best practices to P&G's facilities management portfolio. JLL's expertise was expected to deliver on the P&G goal of transformation.

And the man expected to deliver was Thummel, the most senior JLL executive for the P&G account. Thummel worried that many of the former P&Gers would fall into what is often referred to as the Junkyard Dog syndrome in outsourcing. This is when employees hunker down and resist change because "they've always done the job this way." This was a real risk for JLL because of P&G's transition strategy - including transitioning employees to JLL that performed the same kind of work they used to - only now as JLL employees. While the strategy was great for reducing transition risk, it put pressure on Thummel to drive change.

Although daily work remained unchanged, Thummel immediately began to educate former P&Gers that being a JLL employee was fundamentally different. "Employees needed to learn how to be JLL employees and accept responsibility to drive innovations in jobs where they had worked for years," explained Thummel. "At JLL, the former P&G employees would need to understand they were a critical enabler to JLL's revenue-producing stream."

Thummel aggressively trained the rebadged employees to think about their jobs differently. Most of the former P&G employees had never worked for another company outside of P&G due to P&G's "promote from within" culture. JLL was on the hook for delivering transformation – not just for doing the work. As such, Thummel knew he had to come up with a creative way to change the mindset.

Thummel began by requiring managers to study the contract. The contract represented JLL's commitments to P&G and what it meant to deliver against those commitments. It also represented how JLL would make money delivering against those commitments. Thummel and McParlane had a farfetched idea. They would change the mindset by ingraining in the newly minted JLL employees what it would mean to deliver against the contract. For the first few months, JLL meetings started with reading and discussing a portion of the contract to help the top JLL managers (including some former P&Gers) understand the importance of the contract commitments. They started by picking areas they knew would be difficult or potentially contentious. In addition, McParlane developed written tests to verify the entire JLL team knew the contract. The goal was that all new JLL employees would learn provisions within the contract that defined and drove their daily decisions and actions.

While the JLL team jokingly referred to the contract understanding discussions as "the daily prayer sessions" – what set the contract apart was that it was flexible and dealt with dynamic changes that might arise in the course of business. Ask any business professional and they will tell you "business happens." It's important to stay flexible and position your company to take advantage of the dynamic nature of business – both the upside and downside.

Flexibility was an essential component of the JLL contract. The ink was barely dry on the JLL agreement when the P&G / JLL relationship was tested with the first challenge – how to handle the P&G acquisition of Wella which included transitioning Wella employees and facilities into the P&G family.

P&G assumed the lead to transition employees and properties, with JLL in the support role. If Thummel and McParlane (and their P&G counterparts Reeves and Larry Bridge, Global Facilities Operations & Governance Leader) wanted to help teach former P&Gers that their role at JLL was on the revenue side of the equation – the Wella transition was the perfect opportunity.

The Wella transition included specific goals such as establishing baseline Schedules of Services for each site, reaching concurrence on-site level budgets, and creating the appropriate administrative processes and metric tracking. JLL assumed Project Management for these moves, taking into consideration the human element of such massive upheaval as well as the physical requirements. JLL and P&G held weekly meetings that addressed progress toward goals.

Todd Hamiter held the Wella Transition Lead role for JLL in North America. Hamiter came to JLL as a rebadged P&Ger. For the previous seven years, Hamiter worked as a P&G Real Estate manager and led a team that provided services to special use offices. He voluntarily moved to JLL because he perceived added professional opportunity.

When P&G announced its investment deal to acquire Gillette in 2005, JLL was side-by-side with their counterparts to help transition the employees and facilities. JLL had earned the trust of P&G and received the Facilities and Project Management role under a no-bid contract extension. The big difference? This time JLL and Hamiter would lead the global team for the Gillette facilities transition. Hamiter and his team were eager to tackle the Gillette integration to leverage lessons learned to their full advantage.

The terms of the Gillette Transition Project were 100% at risk. If Hamiter's team did not deliver, JLL did not get paid. The contract defined success measures as data-driven, compensation based on performance, and schedule-driven metrics. Expectations were elevated for the project. P&G's commitment to employee transition was so high, many goals required achievement in the "stretch" category; Hamiter's goal was for JLL to earn the full fee, with no deductions and the full 50% share of cost savings.

On the day of the transition to P&G, the former Gillette employees were treated to fully operational workstations. Their benefits and paperwork were completed in advance. On "Welcoming Day", the hospitality was delivered across the globe to greet rebadged workers, but modified to be culturally consistent. For example, in South Africa, JLL employees lined the sidewalks banging drums in enthusiastic welcome. In Switzerland, JLL provided bicycles so people could easily ride back and forth between the two closely situated facilities.

Paying attention to details paid off; results for this new project were excellent, with JLL seamlessly integrating the entities under budget and time allowance. Stretch goals were exceeded and transitions were successful. Hamiter's prediction came true; JLL earned the 100% fee at risk and maximum cost-saving sharing. When asked if putting a maximum on the shared savings influenced JLL's motivation to achieve economies, Hamiter quickly replied, "Not at all. We want the work on the next large transition; working harder was never an issue. Our strategy was to get the next work."

By the time the Gillette transition was complete, former P&Gers learned what it was like to be a profit center and to rethink their work to drive costs down and service improvements up. The former P&Gers realized they now worked for a company where real estate and facilities management ***was*** the business. As JLL employees, they did not simply hold support positions; they had formal career ladders in the real estate profession. For example, McParlane now holds a Regional Director position within JLL and Hamiter also holds an Associate Director title. In fact, about 20% of the original transferred employees have received promotions, some within the P&G account and some for other clients.

Reeves remains in contact with many former P&Gers who transitioned to JLL. He shares, "It's one of the things I'm most proud about. We went through a process and found the right firm for a long-term relationship. It works and continues to work for the employees." Vested Outsourcing calls this a true Win-Win for employees also!

As time went on, employee satisfaction increased as the work became more rewarding and employees found the work more challenging. Indeed, JLL was well on its way to helping P&G improve how business is done.

From Transitions to Transformation

By 2005, A.G. Lafley's "Outside-In" innovation was the norm at P&G. The product side of P&G was increasing the rate of innovation substantially. By 2005, over 35 percent of new P&G products had elements that originated from outside P&G, up from about 15 percent in 2000. And 45 percent of the initiatives in the product development portfolio had key elements that were discovered externally. Overall, R&D productivity increased by nearly 60% while the cost of innovation fell.

With a successful transition behind all three of P&G's major outsourcing initiatives, Passerini challenged his GBS team to shift into overdrive within P&G's outsourced transformation process. "P&G needs to continue to innovate in every part of our business. Innovation is at the heart of P&G's business model. It is the primary way we delight consumers, create value with retail partners, and create new business models to turbo-charge consistent, sustainable growth at or ahead of the company's goals[15]."

The good news was the P&G / JLL relationship was up to the challenge. In the first year, JLL proved its ability to meet P&G's quality standards and delivered considerable savings. JLL / P&G also learned how to work together in a dynamic environment (such as with the Wella and Gillette transitions). JLL felt good about the relationship because it reaped rewards for its efforts, earning incentives based on performance. JLL had begun to deliver on its contractual commitments to transform P&G's global real estate operations.

Reeves and other P&G leaders were impressed by JLL's commitment that went beyond strict contract terms. For example, an incident occurred at a Clairol building that was not part of JLL's responsibility. JLL responded anyway. Within hours, JLL personnel were on site to complete an assessment and develop an action plan. "That level of initiative and cooperation earned credibility and trust for the partnership. We wanted a supplier that would step up, take initiative, and not say 'it's not in the contract' – and JLL was doing just that," explained Reeves.

By 2006, P&G upped the expectation for JLL to take on even more leadership in day-to-day site operations, and this required JLL to re-evaluate staffing strategies to support a dynamic portfolio, especially in growth regions of Asia and Central and Eastern Europe, the Middle East and Africa (CEEMEA). In response, JLL developed an Organizational Capability Program, an innovation focused on enhancing staff capability, building succession plans, and decreasing the amount of time it takes to fill key roles for the widespread global locations. Because of JLL's response to challenges like this, P&G awarded JLL an early five-year contract extension in 2007. In 2008, P&G rewarded JLL further by selecting them as the supplier for managing P&G's real estate transaction business. Under the second contract, JLL became accountable for executing all of P&G's corporate real estate needs worldwide. The companies set even more aggressive targets and worked more collaboratively to achieve transformation results.

Both parties had confidence their relationship could reach greater heights. The first step for JLL was to build a solid foundation for success. Patricia Becker, who is currently JLL Global Performance Manager, is a re-badged P&Ger who worked on the P&G account team from the start. She put it this way: "In the beginning, JLL was busy with transition; we had built the base. Now, the renewal contract can be all about transformation."

Martin – JLL COO and CFO – agreed. She felt confident JLL could continue to see results from the innovation efforts. "Many service providers are hesitant to step up and commit to continue to guarantee improvements year over year. We find the opposite is true. It's often actually easier to deliver results when the basis is from innovation and not simply cost-cutting. That is because results from innovation are like an evolving story. You find savings in one area and it unlocks the door to another. If you want to get to the ultimate end game, you leverage on previous innovations."

P&G's Reeves has a similar philosophy. He believes that innovation has the same principles that he knew growing up amidst the farm fields in Alabama. "You plant seeds, and you wait for them to come up. Then you cultivate them and do what needs to be done to help them grow.[16]"

Passerini was pleased with JLL's potential to drive the transformational change that P&G needed. "Jones Lang LaSalle brings global scale, deep management expertise and a proven track record of success that will further optimize P&G facilities management around the world."[17] The rest of our story illuminates the primary principles that propelled performance and provided profits for both companies as they set out to achieve one common goal – transforming P&G's real estate operations to achieve the power of AND.

PLAYING BY THE RULES

The P&G / JLL collaboration proved successful from its inception. In fact, it exceeded expectations. But what is in the proverbial secret sauce of how the two companies work together that enables them to be the most successful when they work together in a collaborative environment? We believe that the reason for this success lies in the fact that both P&G and JLL do not just say partnership – they put their pen and paper where their mouths are. Larry Bridge, the P&G leader in charge of contract governance, puts it this way: "As much as we give credit to relationships, we have a really good contract. It is simple and drives the right behaviors. The transparency, cost pass-through, and incentives features allow us to be aligned versus being on opposites sides of the table negotiating[18]."

P&Gers like to think of this approach as pulling on a rope in the same direction. The traditional approach is to have a buyer and supplier on each end of a rope, with each party having a give-and-take as they negotiate. The P&G way of thinking is to have suppliers on the same side of the rope as P&G, with both parties pulling in the same direction to achieve P&Gs cost and service objectives.

The end result of having JLL and P&G sitting on the same side of the table yielded an outsourcing agreement designed for transformation and structured with enough flexibility to allow the companies to embrace the dynamic changes that the business world throws their way. In short, P&G and JLL established a business agreement where both parties have a Vested interest in each other's success. They are most successful when they are both successful. Their secret sauce per se involved constructing a business agreement that rigorously adhered to five key rules – or tenets.

These rules are:

1. Focus on outcomes, not transactions
2. Focus on the WHAT, not the HOW
3. Clearly defined and measurable desired outcomes
4. Pricing model with incentives to optimize cost/service tradeoff
5. Governance structure based on insight, not oversight

The rest of this case study shares how P&G and JLL "played by the rules" when developing their business agreement. Each of the rules is discussed to demonstrate how the P&G and JLL agreement applies each rule.

Rule Number 1: Focus on Outcomes, Not Transactions

To focus on outcomes and not transactions is a big challenge for any company. For P&G, this was no different. “This was a big cultural change,” states Passerini. “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[19].”

The challenge Reeves faced was to create the right synergies that would remove distraction and energy expended on daily activity to the more critical areas of top-line growth. The P&G team spent significant time determining what outcomes they wanted to achieve. While cutting costs was important, P&G really wanted to create world-class processes and an infrastructure that would serve them as they continued to grow. The P&G / JLL global team developed the following mutually agreed objectives:

- Provide Services of equal or better quality at a lower cost
- Enjoy World-Class Supplier support, dedicated account management
- Build a global relationship to support P&G business objectives
- Have a supplier that guarantees the availability of resources
- Allow P&G to satisfy the FM needs of a world-class global corporation

A key P&G strategy was to establish a commercial agreement that would hold a service provider accountable for achieving results. The approach would rely on the service provider to bring new ideas and determine the best way to get results. In short – P&G would focus on buying transformational results for their Desired Outcomes rather than transactions and tasks. P&G believed that linking the service providers’ pay to achieving the Desired Outcomes would best meet P&G’s need to drive transformational changes in how the work was done, while still allowing P&G to have some control over the transformational efforts.

P&G’s vision is to transform the way business is done by delivering the “Power of AND”:

- Scale **and** agility
- Cost-saving **and** quality services
- IT-driven innovation **and** support
- Greater flexibility **and** flow to the work
- …**and** to offer a strong foundation for P&G Growth[20].

P&G shifted the economics of outsourcing to an outcome-based approach whereby P&G bought desired outcomes, not individual transactions or service level for a set book of business. P&G paid the service provider – JLL – based on its ability to achieve mutually agreed outcomes. Under this approach, both P&G and JLL shared a Vested interest in achieving P&G's strategic goals.

Once the contract was signed, Thummel was responsible to make P&G's transformation goals a reality. Achieving P&G's objectives was an ambitious assignment that Thummel realized could easily overwhelm JLL managers and devolve into P&G frustration if JLL failed to deliver. Thummel was the only person familiar with the entire process.

Early on, within the first four months, JLL identified every single commitment made in the contract. Thummel and his team spent three entire days going through and condensing the list so it became crystal clear what needed to be done. Thummel asserts, "The reason we did this was because the JLL team that was delivering on the contract was not the same as the folks negotiating the contract. I knew if JLL were going to be successful, I would need to educate every single person within JLL about how this contract was different. It was not about keeping the lights on – but on driving business value through innovation."

Thummel and his team created a project plan based on the commitments outlined in the contract. The plan was complete with phases and a timeline. Thummel explains the power of this approach. "Showing P&G the project plan distilled transformation into something that was doable and had a timeline associated with it. It was all clear. And, most importantly, it helped both P&G and JLL see the end game." All too often, in an outsourcing agreement, it's easy to fall into what is commonly referred to as the Activity Trap, which is delivering against the day-to-day tasks and failing to deliver on the overall end objectives of why a company outsourced in the first place. "We had to keep in mind P&G bought transformation – not just workers to do the job. If we simply just delivered on keeping the lights on, JLL would fail," explained Thummel.

Thummel went on to explain the significance of creating the transformation plan. "Creating the transformation plan was a big event in the whole relationship. This really helped us ensure P&G did not get frustrated with JLL because we were not delivering everything all at once. It set the tone that achieving results relied on an orderly process of taking good ideas and turning them into initiatives that generate real benefits once implemented."

The approach became known as the Glidepath because, as results were generated, P&G expected to see costs graphed out in a downward sloping line depicting lower costs over time – in essence, gliding downward. Thummel knew the real test would be for JLL to deliver on the Glidepath – and that could only happen by challenging existing ways work was done, plus working through the project plan. As JLL delivered, the results were clearly visible on the Glidepath as well as other critical performance indicators established by P&G. The Glidepath ensured JLL was optimizing for cost and service performance – not just slashing service to drive down costs.

By now, Reeves and Thummel had established a solid working relationship. In a typical friendly conversation, Thummel assured Reeves, “We will share this transformation plan again in four years and show you we delivered on our commitments and you will have no doubt you made the right decision for a partner and will renew us.”

The challenge to achieve transformation was exciting. JLL was eager to meet Glidepath objectives and developed a comprehensive list of new initiatives that would successfully cut costs. The well-formed ideas included recurring and one-time savings; they were clearly defined, with a matrix that measured for customer impact, difficulty, and time for implementation.

One of the key initiatives on the table was known as Bundled Soft Services. Bundled Soft Services was the term for an initiative to “bundle” work scope. Traditionally services such as cleaning, mail, package delivery, meeting services, etc. were performed by separate suppliers. Common sense said economies happened as cross-training/multi-role hiring occurred in place. If persons were hired to sort and deliver external mail, it made sense those persons could sort and deliver internal communications, flowers, etc. as well. Administrative expenses were consolidated and reduced. The idea was simple; it would mean replacing multiple soft services contracts with a vastly reduced number of second-tier vendor contracts. While simple in concept, the key was how to implement it.

McParlane had wanted to do this when he was a P&G employee. He knew it was a good idea, but he just could not get traction within P&G for implementation. The concept had never been done before in the facilities management industry. P&G felt it was too risky and did not want to devote the required resources to the project. McParlane and his JLL colleagues were confident that the timing was perfect.

A few months into the first year of partnership, P&G senior managers and their JLL counterparts from all over the world met at P&G headquarters to go over the list of ideas and proposed initiatives. It was at this meeting that the transformation journey hit its first significant bump in the road. During the joint leadership meeting, the two companies bantered around various initiatives, but no decisions were being made. A couple of hours into the meeting, JLL team members were getting frustrated; the P&G leadership team was not signing off on the initiatives. The clock was ticking down; the longer it took to implement new ideas, the fewer the savings and the less likely the companies would achieve the Glidepath objectives. There was what one might call a “healthy tension” in the room. When the topic of Bundled Software Solutions came up, the JLL team met with resistance to the idea with various P&G employees stating versions of “Oh, we’ve thought of that before …it will be too hard to do!”

Thummel stood and spoke out. Commanding attention, but with a grin, he proffered, “You say you want innovation, but you won’t accept change!” Thummel was chuckling because he knew Reeves would agree.

P&G’s Reeves instantly stood and offered a direct, simple response. “You are right. And that is precisely what we do not want to do.” Most folks in the room started laughing; they all realized Reeves and Thummel were right. The tone of the meeting immediately changed, and the joint team began to make progress. In 2006 / 07, the Bundled Soft Services initiative went on to provide a nimble global supplier network that consistently delivers competitive pricing, improved service delivery and streamlined processes. In the Europe, Middle East and Africa (EMEA) region alone, the simplified supply chain delivered a 60% reduction in service contracts and an overall supply base reduction of 45%. In total, JLL has driven Glidepath cost reductions of 20% within the first five years of taking over P&G's facilities management operations.

That encounter during the early days in the agreement is still recounted by team members from both JLL and P&G as an inflection point in how the parties work together.

Rule Number 2: Focus on The What, Not The How

When a company outsources, it is difficult for many of the personnel to accept one key fact – that the company is outsourcing for a reason – it has deemed itself as not being the experts. The P&G global team internalized this early on. Were they going to achieve their desired outcomes, they needed confidence that their partner would help them transform the work. Facilities management had been deemed as a non-core activity; it was logical to look into contracting the work to a service provider. However, changing the approach was essential to avoid a trap that the University of Tennessee calls "the Outsourcing Paradox". It's what happens when a company decides to outsource – yet tells the supplier how to do the work.

A key component for P&G was to focus on the *WHAT* – not the *HOW.* The contract negotiation was considerably simplified when P&G decided they were serious about trusting and delegating responsibility to JLL. Exhaustive lists of potential tasks/details were unnecessary because the entire responsibility was turned over. JLL is expected to accept full responsibility for facilities management operations and project management. P&G expects buildings to be clean, heated, provisioned, etc. It is JLL's job to figure out what is needed and how to get it done. P&G deliberately resists telling JLL "HOW" to go about their business.

Clear Accountabilities

P&G's focus on the WHAT versus the HOW started in how the contract's Statement of Work (SOW) was structured. The SOW started forming up to six months before the first transition date of P&G employees moving over to JLL. A SOW is a formal document that outlines the work scope a service provider is accountable to perform under the contract. Typically, the SOW is an attachment to an outsourcing agreement. For P&G, this SOW takes the form as one of many Schedules within their contract. The P&G / JLL SOW is a textbook example of how to structure a work scope designed to drive accountability yet enable flexibility and creativity.

A key component of the SOW was making sound decisions about what work would stay / what would move. The job of determining work scope was broken down into several areas. Eventually, the established scope defined key processes to be managed by JLL. People from each side lined up to look at each of the main areas and sense check to make sure work was being allocated to the best party to do the job.

The P&G / JLL team eventually created a 61-page SOW that clearly defines expectations of the Scope of Work for which JLL takes responsibility. That may seem like a long document – but considering the scope and scale of work, the P&G SOW pales in size when compared to other facilities management SOWs.[21]

There are over 40 separate areas of responsibility; a few of the services include:

- Facility Management
- Energy Management
- Compliance with Regulations and Standards
- Receptionists and Telephone Operators
- Shipping, Receiving, Dock Operations, Package Delivery
- Remodeling and Furnishing
- Flexwork Program Support
- Employee Convenience Services, including Dining, Fitness Centers, Banking, Company Store, Parking
- Vendor Management
- Facilities Procurement
- New Facilities Initiatives Support

Each main topic heading breaks down into sub-headings to provide a general overview of responsibilities. For example, the facilities management section includes 17 individual delineations, three of which include:

> 6. Providing maintenance and operation Services for specialty Equipment including CTCH rooms, fume hoods, local exhaust ventilation systems, dust control, central vacuum system, cafeteria equipment, uninterruptible power supplies, etc.
>
> 8. Maintaining the interior work environment of Facilities. This includes walls, doors, ceilings, windows, carpeting, flooring, display cases, door locks, restroom fixtures, plants, etc.
>
> 16. Providing a contact center or centers for tracking and managing all Facilities requests from users and/or other contact centers. Resolving those requests arising from or related to the Services. Promptly forwarding non-applicable requests to appropriate contact centers.

Note one of the most important words with #6 & #8 (and multiple other sub-headings) -- **"etc."** JLL's responsibility is total – not limited to what can readily be identified, but, also, those needs that "pop up" occasionally. Unforeseen and unexpected circumstances are the purview of JLL. It is JLL's job to spot and address whatever affects their areas of responsibility consistent with the "As-is, Where Is" principle.

Other descriptions of major areas of responsibility are as "short and sweet". For example, 4.0 ENERGY MANAGEMENT: "The Supplier's responsibilities shall include operating an energy efficiency program at all P&G Facilities in accordance with P&G's policies and guidelines." Simple. Direct. And unequivocal in the expectation that JLL can and will comply.

When we think about it, a 61-page work scope is remarkably short, considering 60+ countries, 40 areas of responsibility and 17.5 million square feet.

Defining Shared Responsibility

Other critical areas that require vigilant definition are those that remain shared responsibility. Blurred lines of accountability can cause less than sterling outcomes. The P&G/JLL contract was painstakingly clear regarding responsibilities where there was a joint sharing of responsibility. P&G uses a process known as PACE to help them clearly outline responsibilities and getting roles and responsibilities clear with the JLL relationship was a critical component of governance.[22]

PACE refers to the systematic approach in which P&G to clarify accountabilities. The PACE process identifies a Process owner for specific activities, as well as who is the Approver, who Contributes and who Executes. This is clearly communicated to all involved.

Using PACE, the companies create a responsibility matrix for any areas where there are questions about who did what. The end result is clarified process and accountability.

Flexible Scope of Services

Once P&G and JLL defined the work scope, JLL developed work instructions and procedures in line with the scope of service requirements. Remember, the contract is global and written with a standardized scope of services. That does not preclude, however, specific variations required at individual sites. For this reason, the scope of work also includes a companion agreement for each country that provides for differences in laws and other unavoidable considerations.

If a P&G manager at a local site requests something specific, JLL checks the contract first. Is the desired service an existing service? Could it be easily added? In general, any service offering a manager wants is possible. But it becomes a question of finances. Much as a family makes choices about what it can or cannot afford, the P&G site may have to make choices to attain new services to stay within the allocated budget.

The flexibility of the agreement was tested during the Gillette and Wella integrations. P&G consciously decided to not micromanage JLL. Instead, they held JLL accountable for all Transition Project Management resulting from the mergers, expecting JLL to accept responsibility for a smooth assimilation of space and people to P&G's operation. The added responsibility of integration and transition of Wella and Gillette was substantial. Overall, Gillette alone required 1,100 projects and over 11,000 office moves.

JLL is responsible for achieving all work outlined in the agreement within a set range of square feet based on a yearly projected budget. But flexibility is a key component. The fee is fixed for square footage defined as a range rather than a specific number. Volume can change 5% without a change in fee.

Flexibility Drives Innovation

Charlie Petit remembers clearly how seriously P&G took this *WHAT vs HOW* approach. Petit – a long-time JLL employee - joined the P&G team in 2005. Petit recalls one of his first client meetings when he came on board in 2005. Issues of governance were being reviewed and the discussion took a turn to operational detail. "Oh, I'm sorry," said Larry Bridge. "I'm telling you how, not measuring outcomes." Petit, well experienced in client relationships, was astounded. Here was a company, P&G, that was deliberately detaching itself from day-to-day operation to concentrate on Big Picture results.

Petit remembers thinking to himself, "Thummel and Reeves have certainly designed an outsourcing solution like none I had ever seen before."

JLL was now first in line for facilities management transformation. Former P&G employees like McParlane were able to appreciate firsthand why Passerini's approach was brilliant. "It simply boiled down to the fact that for JLL, real estate was the business. At JLL, I soon became impressed by a smaller, more nimble company capable of making things happen faster. In addition, JLL had the passion to tackle pesky real estate-related problems with which P&G had wrestled for a long time. At P&G, these pesky problems are referred to as Wicked Problems. One of the Wicked Problems I had tried to solve was the Bundled Soft Services initiative. Under JLL, we combined both passion and a vast depth of know-how to figure out how to execute on these never-done-before ideas."

Another impressive WOW result came when JLL successfully launched a global internet site for managing the facilities management operations within the first 90 days after taking over responsibility. P&G had wanted to do this for years, but despite trying, had not succeeded. Having the P&G / JLL global framework enabled an expedited technological approach. The original solution conveniently allowed P&Gers to access reports, procedures, and policies. The latest version – known as OneView - has evolved from a simple dashboard/document collection to become an entire suite of web-based applications providing real-time data. It is a one-stop-shop for facilities management information. Easy to use. Easy to read. Always available.

Bundled Soft Services and OneView are two clear examples of how it is better to focus on the WHAT and allow the experts to solve the HOW.

Rule Number 3: **Agree on Clearly Defined and Measurable Outcomes**

Metrics matter. P&G is a company that believes you get what you measure. P&G and JLL knew if they were to be successful, they needed to clearly define and measure their performance against their goals. It was imperative that P&G and JLL agree up front on clearly defined and measurable desired outcomes. Yet, in reality, this wasn't the only problem.

One challenge facing the P&G / JLL global team was to understand how metrics were interrelated with each other, and how they could be impacted by either P&G or JLL. Many of the metrics that were very important to P&G were, also, in the total control of P&G. However, for most processes, a large part of P&G's success depended on JLL and the flip side was also true. In fact, the more they dug, the more they observed what John Muir had so wisely stated, "When you try to pick anything out by itself, we find it hitched to everything else in the universe." If the P&G / JLL team truly wanted to measure "big picture" performance, they needed to understand the relationship between the metrics and keep their eye on the "big picture."

The global team sketched out how to measure success. The objective was to develop a process that connected the dots and created accountability for driving transformation, yet did not penalize JLL if P&G failed to deliver on its part of the overall process.

Making decisions that defined measurement was critical to performance. Both P&G and JLL understood that measurement drives behavior. You get what you measure. Instead of focusing on time and tasks, they focus on measuring success against P&G's business priorities. Together, the organizations work out the details of how they measure their success. Looking at various dimensions, they ultimately create a "balanced" approach to how to measure the business:

- KPIs – Key Performance Indicators. KPIs are a set of metrics that give the P&G/JLL team the broader perspective. KPIs are tracked and jointly discussed quarterly with the goal to understand what is limiting P&G performance improvements.
- CPIs - Critical Performance Indicators. CPIs track negative activity that can hinder success and penalize JLL compensation. On the rare occasion a CPI instance occurs, timelines are established for an acceptable "fix".
- Customer Satisfaction Surveys. P&G uses an annual Customer Satisfaction Survey (CSS) that provides P&G employees the opportunity to give feedback regarding the JLL facilities team's ability to meet their needs.
- Relationship Assessment Score (RAS). The RAS is a quarterly, global sensing tool used by P&G to provide critical feedback on the performance and relationship of JLL for the delivery of services. Each of the key P&G team members must complete the survey.

In addition to the above measures of success, P&G and JLL agreed to pre-determine metrics that define success for the various projects that JLL manages as part of the work scope. This is important because it provides tremendous flexibility for P&G and JLL to measure success for various projects and business imperatives.

A unique aspect of how P&G and JLL measure the business is that each year the companies jointly review the metrics and determine their appropriateness against P&G's overall business objectives. For example, when JLL began their relationship, the focus was on a successful transition. Then, in 2005, the focus switched to the successful integration of the Gillette and Wella businesses. The annual review allows P&G and JLL to realign the focus based on business priorities.

A second key point is the lack of focus on detailed Service Level Agreements (SLA). Unlike most outsource contracts, there is no mention of SLAs. Because SLAs are variable and do not offer flexibility, there are no performance measures related to them. They may have documented service levels at the site level, but there are no documented and contractual SLAs. This assures focus stays on results, not minutia. Instead, the companies create foundational operating metrics that monitor the effectiveness of day-to-day operations. These "operating metrics" evaluate the performance of a process and act as "early warning" signs that feed into KPIs and CPIs. However, no financial penalties or incentives are associated with these metrics. Incentives fees are based upon performance metrics.

The final key feature of the P&G and JLL crafted agreement is a significant portion of JLL's fee is "at-risk", based on how well they achieve success against the established metrics. Ultimately, the pricing model (Rule 4) is linked directly to how well JLL performs against the business drivers. This is discussed later in more detail.

In all, P&G and JLL have a limited number of KPI and CPI metrics they use to define success – typically less than 20 in any given year.

JLL continuously monitors performance through the web-based OneView business performance-monitoring platform. The platform provides real-time, completely transparent performance. This "always-on" approach to measuring the business builds a strong level of trust that leads to a minimum need for joint, high-level meetings to analyze KPIs. The results are distributed via web scorecards that are available for real-time viewing by JLL management and account employees as well as the P&G Governance team. This allows the governance team to focus on strategy, planning and transformation initiatives rather than fall into the measurement minutia trap. When problems do arise – a formal governance structure kicks in to address and solve problems at the lowest possible level.

Rule Number 4: Optimize Pricing Model Incentives for Cost / Service Trade-Offs

Few topics will generate as much discussion in corporate meeting rooms as pricing: this was no exception for the P&G team. The pricing model would be the make-or-break point for the P&G/JLL global team to create a better way to outsource work. Unfortunately, the global team faced many complex challenges stemming from decades of P&G's global growth. Rapid growth across geographies and individual business lines left a decentralized approach to facilities management organization with uneven processes and systems. Work was arranged regionally and, while the work may be effective on a local level, a global solution was not in place.

The ongoing flux in economic, business and organizational models was only exacerbating the situation. Business models were being fine-tuned locally as the organization increasingly adapted to local market conditions even while retaining its global footprint. These challenges meant that P&G had limited ability to develop robust baseline comparisons of current costs across the multitude of countries in scope.

The P&G/JLL global team began to ask themselves how they could create a pricing model that would be fair, yet drive accountability and transformation. The following sections profile how P&G and JLL arrived at a fair pricing model that rewarded JLL for achieving P&G's business needs.

Cost Pass-Through

P&G understood JLL faced challenges as JLL priced the book of business. Unknowns and variability increased risks for JLL that would inevitably lead to a "super normal" risk premium over and above the "normal" business risks. It was an important concept and one that Dr. Oliver Williamson stressed many years ago in his Nobel Prize-winning work on Transaction Cost Economics. P&G discovered through their discussions what Dr. Williamson had written – that their service provider would have to raise their price if they were forced to contract for "unknowns." [23]

As such, P&G decided on a cost pass-through model where JLL manages the budget and the costs, but P&G retains responsibility for the bills. Using this approach, JLL is not responsible for costs out of their control. For example, if the cost of electricity suddenly doubles, P&G bears the burden of expense.

Base Scope of Work Management Fee at Risk

As P&G moved away from transaction-based thinking to an outcome-based business model, the pricing model followed. JLL's entire fee is structured to a management fee based on an established book of business denoted by square feet of property managed. Keeping exact track of changing square footage within the worldwide agreement would be a full-time job. Thus, variation is allowed within a 5% range up or down. Not getting overly worried about fluctuations in the portfolio helps keep eyes on the priorities.

One of P&G's goals was to hold JLL accountable for delivering results. A creative way to do this is to use a concept known as a "management fee at risk." This approach is not used widely, but is a very smart approach when combined with a cost pass-through approach. Under this arrangement, JLL places a portion of their management fee at risk pending their ability to achieve results against how well they perform. P&G pays the "at-risk" portion only after JLL achieves success against three key factors:

- Success against the Critical Performance Indicator metrics
- Success against the Key Performance Indicator metrics
- Success against subjective performance criteria referred to as "Governance Discretion"

"Governance Discretion" is a catch-all that includes how JLL performs against P&G's less quantifiable goals such as Organizational Ability and Succession Planning, Supplier Diversity, performance against the various initiatives, and overall relationship satisfaction. It is important to note that "Governance Discretion" is subjective in nature and totally discretionary on the part of P&G. One way to think of it as is a "Happy Factor" because the happier the client – the larger the incentive payment.

In the strict definition of Vested Outsourcing principles, inclusion of the "Governance Discretion" portion of management fees would be what the French call a "Non-Non." It does not meet the definition of mutually agreed-upon measures. In fact, this discretionary portion of JLL eligible payment was not even up for discussion and – as the name implies – is solely up to the P&G team.

Having a portion of the fee be totally out of a service provider's control is pretty intimidating for most service providers. In fact, having a discretionary portion of a service provider's payment at risk is unusual in the industry. JLL accepts the fact that part of their management fee rests on their team's ability to make their P&G counterparts "happy."

However, the subjective provisions cause little worry because JLL's faith in the partnership over-rides reservations. The JLL team is confident they will satisfy P&G. And they believe P&G acts in good faith. If JLL does not receive the full portion of the discretionary fee, the executives truly believe there is good reason that will generate great discussions and opportunities for the firms to learn how to work better together. JLL concentrates on the long term and does not allow occasional "hiccups" to disrupt the ultimate flow of progress.

For instance, the same year JLL accomplished the Gillette transition, their year-end performance scores were lower than expected. Yet P&G was appreciative of the Gillette success—an organization of nearly 30,000 had been integrated onto the P&G platform. P&G estimated that overall synergies from integrating the companies amounted to around $4 million a day and the faster JLL could help with facilities integration, consolidation and moves, the quicker P&G would benefit from their acquisition. Lydia Jacobs-Horton, P&G GBS Director, Global Facilities and Real Estate, relates, "JLL did such an excellent job on Gillette properties, we were happy we had the (contractual) option to offer them a larger bonus than the scoring represented." Basically, it all comes down to trust in playing fairly.

One way to ensure fair play comes from what P&G called the Relationship Assessment Score (RAS)[24]. The RAS is a quarterly, global sensing tool used by P&G to provide critical feedback on the performance and relationship of JLL for the delivery of services. JLL has steadily improved its performance based on this feedback and the RAS helps align JLL's business priorities and objectives. The RAS allows the companies to learn through formal feedback how to work effectively together.

Thummel refers to the RAS survey like this, "At the end of the day, our job is to make sure P&G is happy. Yes – you can measure performance against the KPIs and CPIs. But at the end of the day, what good is that if your client is not happy? The discretionary governance portion of our fee at risk helps make sure our JLL team members are critically aware of how important it is to keep P&G happy. The RAS survey provides 360-degree feedback that ensures the JLL folks stay aligned with their P&G counterparts."

Above-Base Scope Work (Additional Fee)

While the management fee is a great approach when there is a stable book of business, P&G knew it would not be fair to ask JLL to absorb the costs when additional scope was added. For this reason, P&G created a structured approach for JLL to charge P&G an additional management fee for any work above the base scope of work. Projects adding significant cost to the annual budget or requiring over 2,000 hours to accomplish trigger P&G to increase JLL's management fee to accommodate this "out of scope" work.

The identified process requires JLL to submit proposals for separate fee structures. At times, JLL may be requested to submit a preferred pricing proposal for a project of P&G's choice. In those cases, JLL must bid but is not required to perform the service.

Integration of new acquisitions, new services (not identified by contract), and work outside the scope of GBS generate separate fee structures. The Gillette and Wella integration is a good example of why this flexibility is needed.

Glidepath and Shared Savings

A key reason for outsourcing was to decrease P&G's overall cost structure in facilities management. P&G and JLL agreed to what management refers to as a "Glidepath" approach. That is, savings results that, when displayed in graph form, will gradually and consistently point in a downward direction. Much like the last few thousand feet of an airplane, successfully making a smooth landing.

P&G wanted to compensate JLL for reducing P&G's cost structure above the Glidepath expectations. As such, they added a shared savings incentive. The incentive fee is evaluated separately from the management fee. If JLL has a proposal for cost-cutting, the idea must be pre-approved before implementation. Cost-sharing is only allowed when relevant parts of the budget are underspent.

Rule Number 5: Establish a Governance Structure that Provides Insight, Not Oversight

For far too many companies, thinking about how to manage a deal is an afterthought that happens once the contract is signed and the transition is complete. Often a year+ down the road, people are still sorting out how to manage the agreement. P&G and JLL wanted to nail how to manage the agreement early and hit the ground running. P&G and JLL decided it would be important to design governance into the agreement itself – in essence contractually obligating the firms to manage the business, changes and relationship proactively.

By Day One of the legal contract, 90% + of the governance structure was in place. In fact, work on the governance structure started forming up six months before the first transition date of P&G employees to JLL. In accordance with P&G's proactive workplace policies, McParlane started thinking about transitioning the work about three months before the actual transition. “How is JLL going to manage the account? What key people will manage the contractual pieces?” thought McParlane as he set out to not only convert himself to a new JLL employee – but to convert how P&G would manage the relationship in the most effective manner.

Early into the process, P&G contract governance manager Bridge and JLL developed a governance document that clearly lays out the process and desired culture of how the companies manage the business and the relationship. An overarching theme of the governance is to ensure JLL has the freedom and empowerment – yet the support – to help drive transformation.

Partners in Governance

One of the most important aspects of the P&G / JLL governance structure is that the companies live (and manage) the business following the Vested “Win-Win” philosophy. They do this with what they have coined as a “2 in a Box” approach. The “2 in a Box” concept is simple. For key areas, P&G and JLL identify both a P&G and a JLL person as owners of the process. JLL is unsuccessful unless P&G succeeds, and vice versa. Shared goals are consistent across the relationship. The “2 in a Box” encourages communication at the process level and assures business plans and action plans are aligned between P&G and JLL. For example, if P&G has a global finance leader, JLL has one as well. P&G has a global sourcing leader. So does JLL. It goes down through leadership categories[25]. Creating alignment between similar positions creates a free flow of information and discourages misunderstandings. It is important to understand that the 2 in a Box alignment does not duplicate work, but rather creates an environment where both companies are using their expertise to succeed. “It’s our role at P&G to support our JLL counterparts –not to duplicate their work or micromanage them. When JLL succeeds, we succeed”, explains Jacobs-Horton.

Inspired to achieve Win-Win, “2 in a Box” has the potential to be functionally Lose-Lose. If one partner in the Box fails, so does the other. Shared function. Shared Win. Shared Disgrace. It motivates folks to do everything possible to enable their box mate to succeed.

At the onset of the P&G / JLL agreement, Reeves and Thummel represented the ultimate “2 in a Box” relationship. As co-owners of the overall facilities management process for P&G, Reeves committed to Thummel that he would work side-by-side with Thummel to ensure the relationship got off to a good start. In fact, Reeves was not joking when he told Thummel they would work side-by-side. At P&G headquarters, Thummel sat close to Reeves. Closely enough, that if they wished to, they could fold notes into paper airplanes and send them back and forth. The proximity of desks provides a metaphorical example of Thummel and Reeves’ overall approach to their relationship.

But the proximity of desks was not sufficient if the two companies were to ensure early alignment. Reeves and Thummel aligned schedules, attended meetings together and presented visual role models of how the relationship worked. Reeves described the approach, “I share with Bill our business plans, what we need to achieve, what my objectives are as an organization, and set expectations for the organization. We do joint leadership team meetings to discuss where we are from a business standpoint, what’s working well and what’s not working well. It’s important for our customers, for JLL’s organization and for our governance organization, to see Bill and I together and see that we are aligned and have common objectives.” In fact, Reeves and Thummel attended virtually every meeting together for the first 18 months of the relationship.

Joint responsibility did not stop at the top. It filtered through all levels of the organization. For example, at the individual site level, the P&G Client Site Service Leader does not direct any day-to-day work activity for their JLL counterpart. Rather, he or she manages the stakeholders, helps to break down barriers, and reinforces the rules to the customers.

One of the best aspects of the “2 in a Box” approach is that it is a simple approach that mirrors the key relationships across all key players. For the P&G and JLL, this entails 40 relationships. The peer-to-peer approach allows for players to change during the natural course of business when people get promoted or shifted to work in other parts of the organization.

The “2 in a Box” approach allows new people to come on board and assume the leadership roles needed to run the different aspects of the business. Careful attention is paid to ensure that the key resources are teamed appropriately based on skills and personality making certain the integrity of the solid rapport remained. A case in point is when Thummel was promoted, Thummel gave Reeves a “heads up” that Jim Redmond would be his successor. Reeves made efforts to get to know Redmond early. When the transition occurred, it went smoothly.

In 2006, Jacobs-Horton assumed the P&G lead and Peter Bulgarelli became the P&G Account Manager for JLL. The new leadership team of Bulgarelli and Jacobs-Horton brought a fresh set of eyes and new skill sets. Neither had prior experience in Facilities Management – Bulgarelli ran national transactions services for JLL and Jacobs-Horton ran Real Estate for P&G. Thummel, Reeves and Redmond had built a robust worldwide capacity and achieved workplace transformation. As the base was already created, Bulgarelli and Jacobs-Horton took it to the next level. They stepped away from day-to-day business to discover bigger levers that would dramatically improve and significantly change the whole way space is consumed in the P&G

business. Their efforts focused on working with corporate clients to change space usage and the larger team to gain customer satisfaction.

The 2011 leaders are Jacobs-Horton for P&G and Joe Stolarski for JLL. Building on past efforts, they look to the future of workplace organization and how the physical environment affects employee performance. For example, P&G plans to digitize the company from end-to-end which will add challenges for facilities management.

Throughout the years, many people have changed, but the principle remains the same. And the alignment that Reeves and Thummel worked so hard to achieve continues to enable future successes that have outlasted both leaders.

Process in Governance

A Vested governance structure uses a relationship management structure and joint processes as controlling mechanisms that lead the organizations to make proactive changes for mutual benefit. As a rule, effective governance maximizes the potential for successful agreement implementation. It also provides a framework for decision-making, re-negotiation and modification as circumstances change.

P&G and JLL embarked on the process to create the foundation to be effective partners in governance. Yellow pad sessions yielded great insight into how to proceed. Personnel from both P&G and JLL met informally in a large room, with only their personal perspectives and yellow pads. Casual conversations ensued, with questions asked and answered, and potential issues identified.

Reeves and Thummel actually met for the first time at a yellow pad session, but they didn't talk. Thummel and his team had no clue Reeves would be the P&G leader, particularly because, during the meeting, he was quiet and unassuming. Later, things were put into perspective. Reeves came from an IT background, sitting among P&G people who clearly understood and articulated Facilities Management. Reeves was there, soaking it all in, learning, and getting ready to bring his leadership skills when it was time, and not before. For Reeves' part, he immediately perceived Thummel to be a man who quickly understood people and situations. Thummel's clear perception and ability to organize and follow through built confidence for an effective partnership.

Before mapping out frameworks, it is essential to remember that JLL is wholly in tune with P&G's philosophical priorities. The 2010 P&G Annual Report is unequivocal, "But if you really want to get at what drives our company's success, the place to look is our people. Our people are deeply committed to our Purpose, Values and Principles. It is this commitment to doing what's right that unites us." Every employee is required to be trained on the Company's Worldwide Business Conduct Manual, and every employee is held personally accountable for compliance.

P&G's CEO Bob McDonald passionately explains, "Fulfilling P&G's Purpose is not merely a noble ideal. It is potentially a game-changing growth strategy because it unleashes creativity and capability. Our purpose as individuals inspires our performance as professionals. The congruence of our Company Purpose and our personal purpose captures our imagination and passion. It focuses us on the consumers we serve and inspires empathy for them that, in turn, leads to insights, big ideas and innovation that drive growth. Simply put: Touching and improving people's lives motivates peak performance. I believe that to my core."[26]

Ultimately, three critical components for the P&G / JLL governance process emerged. These are a tiered governance structure, cadence, and contract administration.

Tiered Governance Structure

P&G and JLL use a tiered structure and formal process reviews to achieve a sound rhythm of the business.

At the lowest tier, the day-to-day operation, JLL employees execute the operations. This includes activities such as routing, tracking, project accounting, transactions, design, construction, tactical delivery relations and site operations. JLL site leaders manage operations with the support of their P&G peers. Each site creates its own leadership team to monitor activities, proactively address emerging issues and be on the lookout for innovative possibilities.

Monthly governance reviews address financial data, business processes and emerging issues. Surprisingly, the official reviews involve just a few key people and usually last an hour or two.

The second tier concentrates on governance for general and tactical issues. These managers concern themselves primarily with things like regional oversight, reporting, approvals, city strategies, capital planning, and business unit relationships. P&G employs a couple of overarching leadership committees to assure compliance with stated objectives. The Global Leadership Council is actively involved — from understanding strategies to reviewing key initiatives, financial performance, and control assessments. The intent is to ensure that P&G remains objective, identifies potential issues, continuously challenges one another, and ensures that recognition and rewards appropriately align with results.

Aiding P&G in working with internal customers is an organization called Client Services, another part of GBS. The Client Services organization is pressed up against internal customers and in many cases is part of their leadership team. Their mission is to enable P&G insight into the future business needs of internal customers. They perform regular reviews and work on joint business plans, looking at the overall portfolio of the customer and making proposals and recommendations as to what could be done with their portfolio to add greater value.

The highest tier has a strategic focus. Senior P&G and JLL managers concentrate on relationships and business leadership. Global portfolio, templates, technologies, compliance, global communities, guidelines, technical standards, consistency, program leadership, and sustainability are all within their purview. They meet periodically in formal strategy meetings, but, more often than not, communication is accomplished by simply picking up the phone and informal lunches.

Contract Administration

Earlier in this study, we talked about the lengths JLL went in order to make sure rebadged workers and managers understood their role to deliver the contractual obligation. Starting meetings with readings directly from the contract, testing, and recurring discussion all keep top-of-the-mind awareness of expectations.

Yet, commitment to knowing the contract is just part of responsible governance. Comprehensive data collection that verifies performance is essential. The Corporate Governance section of the P&G website is crystal clear about how seriously record keeping is to overall performance. "We maintain a strong internal control environment. Our rigorous business process controls include written policies and procedures, segregation of duties and the careful selection and development of employees. The system is designed to provide reasonable assurance that transactions are executed as authorized and appropriately recorded, that assets are safeguarded and that accounting records are sufficiently reliable to permit the preparation of financial statements conforming materially with accounting principles generally accepted in the U.S. We monitor these internal controls through an ongoing program of audit self-assessment and internal and external audits."[27]

JLL conforms to the desire for aggressive data collection. In JLL's FY0910 P&G account annual report, they list a comprehensive variety of tools. These include Facilities Sourcing Opportunity Assessment, New Site Budget Creation Process, Global CQV Quality Checklists, Agile Office Calculator, On-Line Auction Tool, Market Barometer, and Innovation Tracking Tool. The tools not only track results, but also identify opportunities and streamline operations.

After years of effective transition, JLL's FY0910 P&G account annual report states, "Finally, we are strengthening the depth, breadth and quality of leadership at all levels of the Company to make P&G a more demand-driven, real-time, future-focused organization… with continued success brings future challenges, and JLL will continue to leverage our strengths – our teams – to transform the way business is done through highly relevant GBS end-to-end solutions that enable P&G to 'Touch and Improve More Consumers' Lives in More Parts of the World… More Completely'."

Communications Cadence

Having formal governance with tiers facilitates a "Rhythm of the Business." It creates a regular and established communication cadence that is an important aspect of the governance structure because it serves as a formal mechanism for managing the business. Typically, the executive layer meets twice yearly, the operating committee meets quarterly, and the sourcing/functional teams meet monthly. But formal meetings are only part of the communication cadence.

The JLL creation of a global platform, OneView, that delivers real-time reporting results as well as a platform for work requests, provides immediate access to current activity and progress. Having easy access to information leads to free-flowing communication.

Informal communication is important too. “We have relationships with these business units because we’ve worked with their leaders and members over many years,” Reeves said, explaining that P&G’s “promote from within” philosophy builds career-long internal relationships. “They know us, we know them. You meet each other in the hallway and talk. You have lunch. So there are also these more informal processes to enlighten and inform what is needed to serve our employees and communities.”

Contract Change Management

Circumstances can change, and so can the contract. In fact, the P&G / JLL contract is designed to be changed as business requirements and priorities change. As such, the firms established a Contract Administration System to ensure the business and contract remained in harmony. The way it is set up, P&G and JLL use the “2 in a Box” approach to manage the contract – with a contract manager from both sides being responsible for keeping the business and the contract aligned using a formal change control. “Early on, the contract was clarified a couple of dozen times the first year,” explained Thummel. For example, a section defining the transition costs was amended with the following instruction:

> “Revise the table heading from “Not to Exceed Amount” to “Estimated Breakdown” to avoid the need to update the table in the future. The intent was to fix the total transition spending, not to control each element independently, etc.”

Today the changes are few and far between, with most of the changes centering on how transformation projects impact the business and the contract.

But what happens when things are not in harmony? The parties have set up a formal approach to manage problems and disputes when they arise. The theory is that disconnects are best decided at the lowest level possible. Escalations occur when the contract administrators cannot agree – which is seldom.

Transformation Management

Transformation was a fundamental driver of why P&G outsourced. Perhaps no better example shows how the companies work together to transform and drive value for P&G business and customers is through their work in environmental sustainability efforts. When P&G and JLL set out to renew their contract in 2007, they knew they wanted to make a meaningful difference in the area of environmental sustainability. P&G aspired to aggressively shrink energy use and resource waste throughout the entire supply chain. And they wanted JLL’s help.

JLL set out side-by-side with their P&G counterparts and embraced the same goal of global environmental sustainability.

“JLL was excited about the challenge for much the same reason as P&G was,” explained Colin Dyer, JLL’s CEO. “JLL is the leading global real estate services and investment management company. Buildings typically contribute 40 percent of a country’s total CO^2 emissions. Amid growing concern about rising greenhouse gas emissions, JLL accepts responsibility - and welcomes the opportunity - to contribute to solving this worldwide challenge with P&G." The philosophy was – and still is – that together P&G and JLL can combine their collective skill sets and tackle this "wicked problem."

JLL accepted the challenge. Martin sums up JLLs philosophy, "When we made our commitment to sustainability, we embedded real talent in this area. If you are just going to look at something from just the cost perspective (energy reduction) – you miss the whole value chain (driving culture change)." Shared values matter.

JLL assigned Cindy Hill to join P&G's first Site Sustainability team. The team was chartered to develop a toolkit to drive the P&G corporate sustainability initiative and included personnel from P&G Research and Development Group, GBS, and JLL. Together, they tackled how to reduce P&G's environmental footprint measured in energy use, water use and waste reduction.

In her new role, Hill led the JLL site facility team to harvest the "low hanging fruit" by documenting energy use, studying behavior and coming up with ways to impact workplace performance. Ultimately, a Green Office Tool Kit was developed out of the P&G pilot; it advised the types of people to enlist on the team, what areas to look at, how to do it cost-effectively, and how to engage employees. To deploy to the rest of the JLL-managed facilities around the world, Hill became the first JLL resource on the P&G account dedicated solely to environmental sustainability.

Impacting environmental sustainability as a Facilities Management supplier is a tricky concept. How much can be quantifiably changed? How to factor in older research buildings that require 2 to 5 times the energy of an office building? Is it fair to hold JLL accountable for results that depend on the cooperation of individual P&G employees? "After all," Hill thought, "we can put recycling bins in every corner, but we can't force people to drop in their cans and paper."

JLL works with dedicated P&G teams at each location responsible for energy, water and waste reductions, and to deploy P&G Earth Day programs to raise employee awareness of corporate sustainability objectives. In addition, sustainability criteria are part of any future space assessment to ensure new locations align with corporate goals.

The P&G and JLL Governance Relationship creates the environment for success. Through this partnership, ongoing efforts aim to educate employees and influence more sustainable workplace behaviors. Hill's "2 in a Box" partner is Bridge,[28] the P&G manager who oversees the governance of the contract. They work with the JLL Global Energy Manager to meet energy goals using three primary strategies. First, prompting energy reduction through remodeling improvements – new boilers, better windows, more efficient lighting, etc. Second, they tighten processes and procedures for efficiency (i.e., managing hours of operation, installing smart printers and motion-controlled lighting). And, finally, they facilitate employee education and behavior modification.

A great example of how the two companies work together is the approach to sustainability awareness programs in P&G's facilities. P&G liked a JLL-developed sustainability e-training and used it as inspiration to develop P&G-specific training that is made available for all P&G employees. JLL worked with GBS to use P&G branding strategies to communicate sustainability programs to encourage employee engagement in recycling, re-useable tumblers in cafeterias, etc.

Since JLL and P&G joined forces for facility management, global energy consumption has been reduced by 14%. Environmental sustainability is considered in every capital investment, renovation, and space re-utilization. And, just as importantly, when the low-hanging fruit is long gone, it is incremental, sustainable savings that add up to long-term results.

On a micro-scale, P&G's 1.5 million-square-foot headquarters facility in Cincinnati received an Energy Star label in February 2007, becoming one of the largest of the 650 private-sector office properties to gain such a distinction. This resulted directly from the P&G, JLL site operations and project teams.

Transparency

A core philosophy of the P&G and JLL governance structure is transparency. Transparency starts at the center of the business with P&G and JLL jointly agreeing on the budget and performance goals and extends deep into how the companies view and manage the metrics – which form the foundation for a large percentage of JLL's management fee which is "at-risk" based on their performance against how well they achieve success against the metrics.

While focusing on the numbers is important – the spirit and depth of transparency between the firms run deep. A good example is the significant percentage of JLL's management fee based on performance against a "discretionary" component. Feedback is at the heart of the relationship and helping P&G and JLL learn how to closely work together to achieve mutual success. The firms use the "RAS" – or the Relationship Assessment Survey – for critical feedback on the JLL's performance.

Initially, the Relationship Assessment Surveys were used primarily to gauge performance and incentive awards. Results were generalized when shared to enable JLL to learn trends and possible issues. This approach proved too vague for Bulgarelli when he came on board. He immediately proposed transforming vaguely defined summaries into learning, action tools. Bulgarelli wanted the RAS to be shared openly between the "2-in-a-box" teams, an action that immediately ratcheted up accountability for all. Disclosure would kick-start real, specific individual plans of action. Before the next meeting, JLL folks can go to their counterpart to ask relevant questions, "Based on last quarter's feedback, this is what we did. Are we hitting the mark?"

Bulgarelli argued the advantages of his plan to disclose RAS results strengthened overall governance. By using RAS as an improvement tool, P&G:

1. Gave feedback
2. Cleared the decks to allow JLL to do their job
3. Manage relationships within the companies
4. Helped JLL deliver new ideas

Jacobs-Horton agreed and the more transparent approach was implemented. The RAS results alert JLL to emerging issues often not evident by KPIs. JLL has steadily improved its performance based on this feedback and the RAS helps align JLL effectively with P&G's business priorities and objectives. JLL has had 17 consecutive quarterly increases in the global average. But the RAS scores are only one part of the equation.

Due to the tight working relationship and candor between the firms, JLL gains valuable insight not only about how to better serve P&G, but also about its own business as well. For example, in the original 2003 agreement, JLL did not perform Real Estate transaction work. JLL knew that P&G was looking to globalize their Real Estate contract and hoped it would get a chance to expand their business in this area with P&G. JLL previously approached P&G about taking on this new portion of the business. Disappointment reigned as P&G honestly shared, "We love your service –and we think you'd do great in Asia and Europe. But you don't meet our standards in the United States and we will need to competitively bid this work." These candid discussions inspired JLL to rethink its business strategic future. Ultimately, JLL acquired the Staubach organization, strengthening its capabilities and enabling JLL to win the Real Estate portion of P&G's business in 2008 fairly in a competitive bid process. "P&G's candor ultimately made us a better service provider. As Chief Operating Officer of JLL, it's important to our future success that companies like P&G can feel good about having these transparent and fact-based discussions. In the end, it makes us a stronger and more viable provider not only for P&G, but for all of our clients," explains Lauralee Martin.

VESTED FOR SUCCESS

P&G takes pride in Passerini's GBS organization that is innovative in structure, scope and philosophy. "The model we have created for shared services is considered one of the most progressive in the industry," Passerini says. "It is not an easy one to approach, but it is very powerful in the way it blends offshore and outsourced services, with centralized and consolidated operations, and de-duplication of services.[29]"

A true Vested Outsourcing agreement is designed when all parties are winners. After eight years, the P&G / JLL deal has proven that it is possible to develop a true win-win partnership. JLL has proven it can balance what some would call a paradox – achieving high service levels AND reducing costs. P&G proved it could truly outsource work – manage the what not the how and work for the betterment of both companies. P&G has gone on record saying that GBS has reduced cost as a percentage of sales by 33%. These savings were not achieved at the expense of customer satisfaction. P&G's "customers" – the employees that use the facilities – are the real customers of JLL. JLL has exceeded the satisfaction target for six consecutive years. In addition, JLL exceeded the fiscal year minority supplier spend goal for the sixth consecutive year.

Regardless of how you measure it – P&G is happy with how well the JLL outsourcing relationship has grown. In fact, P&G has been so happy that JLL is the only supplier to be awarded the GBS Excellence Award three years in a row and was also awarded the coveted P&G Supplier of the Year award in 2008 and 2009[30].

Ask any JLL team member and he or she will tell you JLL wins as well. While incentive pay is good – equally important is the opportunity to earn more business. In 2007, P&G decided to do an early renewal of its contract. In 2008, P&G further awarded JLL Real Estate Services for the entire P&G portfolio. Earning the second contract provides JLL opportunity to provide more strategic value. JLL's Martin explains, "The thing about doing the leasing piece of business – we are really close to the company's strategy. Where are they thinking of growing, adding locations, reducing locations? When we are part of that dialog of the portfolio – which is a future look – the relationship tightens in a whole new perspective, to a very different dynamic."

But for P&G – developing a winning relationship with JLL is only part of their success. They work hard to develop long-term value-based relationships with other suppliers as well. They have taken what they have learned from these initial partnerships and have scaled them to a network of partner excellence – a model few other companies can claim.

In a *McKinsey Quarterly* article,[31] Passerini related the continuous flow of GBS transformation, "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 the project portfolio."

Passerini leads by thinking ahead and continually transforming GBS to meet emerging challenges and conditions. As a result, overall GBS results are real – and quantifiable:

- Reduced GBS cost as a percentage of sales by 33%
- Service levels up 17 points (from 80 to 97)
- Speed to market 2x faster
- Delivering 75% more service scope than 7 years ago
- Managing 3x the number of complex initiatives
- Acquisitions & Divestitures time cut in half
- **And** more capacity to innovate

"This kind of achievement can only be achieved by challenging the status quo and bringing innovation – the power of the AND," explains Jacobs-Horton. "We expect our suppliers to bring innovative ideas to help us with our toughest problems and that is exactly what JLL has done."

Today, GBS has been recognized externally as the best shared-services organization in the world – with Passerini receiving InformationWeek's Chief of the Year recognition and being inducted into the CIO Hall of Fame in 2010[32]. Internally, GBS has dramatically improved in the annual employee satisfaction survey, moving from last just a few years ago to the top spot for two years running. The P&G website sums it up nicely: "P&G's Global Business Services (GBS) extends and multiplies the company's abilities by streamlining operations, accelerating internal collaboration, and by scaling systems, services, and processes globally. The GBS organization has been in operation for more than 10 years and has provided the company a competitive advantage through new business models, unique partner relationships and distinctive strategies."

Innovation continues to be the lifeblood of P&G's success in both improved products and processes. An example is P&G Connect & Develop program. The P&G website invites anyone with a winning idea: academia, small and medium enterprises, global companies, individuals, NGOs and government labs. They claim C+D as "*Partnering with the World to Create Greater Value - A key part of P&G's innovation strategy is to find innovation, not just develop it."*

While P&G's innovation traditionally revolved around product development – the JLL outsourcing agreement shows that innovation can be found in even the most basic of processes such as facilities management. P&G and JLL have demonstrated that innovative initiatives can power lucrative, overall transformation.

Pressing On To What's Next

In June 2009, Bob McDonald took the helm as CEO of P&G. McDonald was already a respected leader within the Company. He described the transition as "a period of what we would describe as continuity with change." He pledged to "reach another 1 billion customers in the decade ahead. We want to be a better, more integrated brand-building company, and an even more networked company inside and outside."

McDonald has audacious global business plans. He intends to grow the worldwide customer base to 5 billion by 2015. It is well on its way. A Fortune 500 Company, P&G products are sold in over 180 countries, generating 2010 sales of $79.9 million, a growth of 5.2%.

McDonald is also committed to digitizing the company from end-to-end, an endeavor that will significantly affect facilities management. P&G continues to lead after 174 years. And JLL is right alongside.

P&G and JLL are doubling down on the promise of innovation. Having been in the relationship for over 8 years, the "low hanging fruit" of cost savings is long gone. Best practices and reapplication of ideas are not enough to accelerate employee productivity and deliver actual innovation. P&G and JLL need to jointly accelerate the process of innovation in facilities & real estate.

In mid-2010, the companies created an Innovation Council, a small group to identify business needs and solutions that can be deployed within P&G. The basic premise behind the Innovation Council came from Xerox. The approach worked so well P&G extended the idea with JLL. The Innovation Council meets quarterly and prioritizes potential solutions[33] which flow down to the Innovation Team, a cross-functional group of leaders that approach each issue more tactically. The Team is chartered with the deployment of the ideas.

The process the Innovation Council uses is best described as a pipeline. The council looks for ideas that are material by nature; things that can be measured and solve real business problems. These innovations are then converted into initiatives and then implemented.

Idea → Innovation → Initiative → Implementation

This concept of leveraging innovative ideas across suppliers is not new to P&G. In 2007, P&G began an annual event called Goldmine. This event brings GBS's top strategic partners together to push the boundaries of innovation and collaboration.

P&G believes that it is not only good to leverage ideas for P&G from its suppliers, but it is also good for suppliers to work well together.

Goldmine's objective fits a primary focus of Passerini's leadership. He believes it is shortsighted to simply go for a bigger piece of the pie. Instead, Passerini wants to grow the pie, believing there is plenty for everyone. By encouraging suppliers to share innovation not only with P&G but also with each other, P&G believes they expand the proverbial pie even faster. From the early efforts to build strategic Vested Outsourcing agreements, P&G has learned that there is definitely an advantage to creating a Win-Win for everyone.

GBS is also aggressively taking the stance with its most strategic suppliers encouraging them to make investments in P&G as a way to test new ideas. One such success story is with Cisco's Collaboration Studies. Instead of Cisco *selling* the studios to P&G, Cisco *invested* in P&G to test the concept and prove the value. Cisco made the investment in P&G to place four studios in P&G buildings. The pilot sites worked very well. Once the concept proved to be a valuable resource for P&G, P&G in turn invested in Cisco by ordering 48 more units. It is a perfect example of Win-Win. P&G got to test out new technology with no upfront investment, and, ultimately serve as a test case for Cisco. As Cisco markets the Collaboration Studios broadly, P&G provides video documentation and recommendations. More sales are made when Cisco reports, "If it works for P&G…"

The arrangement gives freedom to suppliers to bring new ideas and test innovations at P&G. If the ideas succeed, P&G makes investments in the supplier by expanding the pilot. It creates a virtuous circle aimed at one thing – growing the pie.

ABOUT THE AUTHORS

Kate Vitasek is an internationally recognized innovator in the practice of supply chain management and outsourcing. Vitasek's approaches and insights have been widely published with over 150 articles in respected academic and trade journals such as the Journal of Business Logistics, Supply Chain Management Review, Forbes, Chief Executive Magazine, and Outsourced Logistics.

Author of seven books and a Graduate and Executive Education faculty member at the University of Tennessee Haslam College of Business, she has been lauded by World Trade Magazine as one of the "Fabulous 50+1" most influential people affecting global commerce. She's been recognized as a "Woman on the Move in Trade and Transportation" by the *Journal of Commerce*, and honored as a "Woman of International Influence" by *Global Executive Women*. She has served on the Board of Directors for the Council of Supply Chain Management Professionals and has been called a "Rainmaker" for her tireless effort in educating the supply chain profession. You can reach her at *kvitasek@utk.edu.*

Karl Manrodt serves as a Professor of Logistics at Georgia College & State University. He is also the Director of the Master of Logistics and Supply Chain Management program, an online master's program for working professionals. Dr. Manrodt served on the Board of Directors for the Council of Supply Chain Management Professionals as well as other leadership roles with WERC. Besides serving as an editor, reviewer or editorial board of numerous academic and practitioner journals, and co-author of six books, he has given over 150 presentations across the globe. He has also served the industry by leading two national studies in logistics, transportation and metrics. Dr. Manrodt was recognized as a "2004 Rainmaker" by DC Velocity Magazine. You can reach him at: Karl.Manrodt@gcsu.edu.

Jeanne Kling is a Research Associate with the Vested Outsourcing team at the University of Tennessee. Before working with the University of Tennessee's Vested Outsourcing research team, she was a freelance creative writer and marketing specialist. Her passion for education runs deep, having been elected to public office three times and serving as President of the Minnesota State Board of Education. She held national office as Chair of the National Healthy Schools Network (a joint venture of NASBE, National Association of State Boards of Education, and the Center for Disease Control) and Chair of the NASBE Resolutions Committee. The Business and Professional Women Association named her "Minnesota Business Woman of the Year".

ACKNOWLEDGMENTS

The University of Tennessee and the authors want to thank P&G and Jones Lang LaSalle for sponsoring this case study in an effort to help outsourcing and procurement professionals procure outsourced services more effectively. We would like to give the following people special thanks for their time and effort in making sure this case study accurately reflects the tremendous work of the entire team.

- Lydia Jacobs-Horton, Global Business Services Director, Global Facilities & Real Estate, P&G
- Larry Bridge, Global Facilities Operations & Governance Leader, P&G
- Julie Desylva, External Relations, Global Business Services, P&G
- Joe Stolarski, International Director, Jones Lang LaSalle
- Bill Thummel, Chief Operating Officer for Corporate Solutions, Jones Lang LaSalle
- Jim Redmond, International Director, Jones Lang LaSalle
- Pete Bulgarelli, Chief Operating Officer for Healthcare Solutions, Jones Lang LaSalle
- Lauralee Martin, Chief Financial Officer and Chief Operating Officer, Jones Lang LaSalle
- Colin Dyer, President and Chief Executive Officer, Jones Lang LaSalle
- Charlie Petit, Regional Director, Jones Lang LaSalle
- Tim McParlane, Regional Director, Jones Lang LaSalle
- Heidi Fulcher, Knowledge Manager, Jones Lang LaSalle
- Patricia Becker, Associate Director, Jones Lang LaSalle

We would also like to thank the entire P&G / JLL team for sharing their stories and making this case study possible. Their time and commitment to the success of the business is apparent and the results speak for themselves.

For more information about Vested:
Visit the University of Tennessee's website dedicated to Vested at www.vestedway.com where you can download white papers, watch videos, read articles and subscribe to our Vested Outsourcing blog. You can also register for one of the Vested classes.

Email the authors:

- Kate Vitasek – KVitasek@utk.edu
- Karl Manrodt – Karl.Manrodt@gcsu.edu

ACRONYMS

C+D	Connect & Develop
CEEMEA	Central and Eastern Europe, Middle East and Africa
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CPI	Critical Performance Indicator
CQV	Commissioning Qualifications and Verification
CSS	Customer Satisfaction Survey
EPS	Earnings Per Share
FM	Facilities Management
FY	Fiscal Year
GBS	Global Business Services
HP	Hewlett Packard
HR	Human Resources
IT	Information Technology
JLL	Jones Lang LaSalle
KEA	Key Element Assessment
KPI	Key Performance Indicator
LA	Latin America
NA	North America
P&G	Procter and Gamble
PACE	Process owner, Approver, Contributor, Executes
Q	Quarter (followed by 1, 2, 3, or 4)
R&D	Research & Development
SLA	Service Level Agreement
SOW	Scope of Work
WE	Western Europe
WIIFMe	What's In It For Me
WIIFWe	What's In It For We

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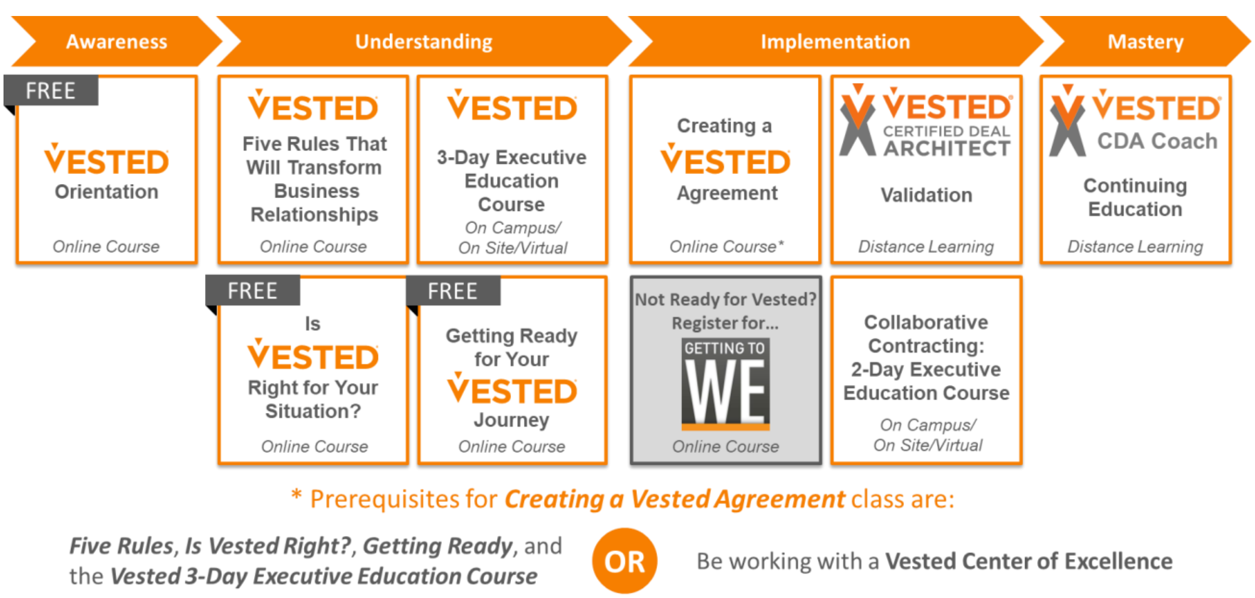
FOR MORE INFORMATION

The University of Tennessee is highly regarded for its Graduate and Executive Education programs. Ranked #1 in the world in supply chain management research, researchers have authored seven books on the Vested business model and its application in strategic sourcing.

WHY | WHAT | HOW | WHEN | NEGOTIATE THE RELATIONSHIP | TELLS THE REAL STORIES

We encourage you to read the books on Vested, which can be found at most online book retailers (e.g., Amazon, Barnes and Noble) or at [www.vestedway.com/books.](http://www.vestedway.com/books)

For those wanting to dig deeper, UT offers a blend of onsite and online courses including a capstone course where individuals get a chance to put the Vested theory into practice. Course content is designed to align to where you are in your journey ranging from Awareness to Mastery. For additional information, visit the University of Tennessee's website dedicated to the Vested business model at http://www.vestedway.com/ where you can learn more about our Executive Education courses in the Certified Deal Architect program. You can also visit our research library and download case studies, white papers and resources. For more information, contact kvitasek@utk.edu.



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[2] In the late 1990's – early 2000s, a weak economy drove customer interest in private label products to a new high. It was unusual for P&G to lose market share and profitability. In 1998, P&G's Earnings Per Share (EPS) fell below the 14% to 15% that Wall Street had come to expect. Revenue growth, which varied between 1.4% and 5.5% between 1995 and 1999, also was well below P&G's internal target of 7%. Between 1990 and 2000, the company failed to double its sales—a goal that it met every previous decade since 1940. Procter & Gamble: Organization 2005 and Beyond, Ravi Madapati, Faculty Member, ICMR (IBS Center for Management Research, http://www.icmrindia.org/free%20resources/articles/procter3.htm

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[6] *The* McKinsey *Quarterly, From internal service provider to strategic partner: An interview with the head of Global Business Services at P&G; Michael Bloch and Elizabeth C. Lempres; July 2008*

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[8] Information Week, Chris Murphy, December 4, 2010, Procter & Gamble CIO Filippo Passerini: 2010 Chief Of The Year

[9] JLL won this honor in 2008 and, again, in 2009

[10] Personal interview held at P&G headquarters, May 12, 2011

[11] P&Gers frequently refer to "PVP" driven decisions. PVP stands for the Principles, Values, & Purpose that define ethics and mandate behavior.

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[21] For comparison, it is not uncommon to see a SOW exceeding 200 pages in for a facilities management outsource agreement spanning just the United States. We have actually seen a facilities management contract that was over 800 pages in nature that was not as complex in scope or geography.

[22] At the time of the contract, P&G used a process known as RACI (Responsible, Accountable, Contributor, Informed). P&G has since adopted the PACE model

[23] Vitasek, Manrodt, Wilding and Cummins, "Unpacking Oliver: 10 Lessons to Improve Collaborative Outsourcing", University of Tennessee, 2010

[24] Originally referred to as Key Elements Assessment (KEA)

[25] Interestingly, the P&G folks involved in "2 in a Box" ultimately determine the annual customer satisfaction scores that determine incentive award. This spurs cooperation and great working Relationships

[26] 2010 Letter to shareholders from Bob McDonald, Chairman of the Board, President and CEO

[27] http://www.pg.com/en_US/company/global_structure_operations/governance/index.shtml

[28] Larry Bridge is also the "2-in-a-box" partner with both Charlie Petit and Tim McParlane

[29] Global Intelligence for the CIO, The I Blog, This Way Up, Filippo Passerini, Posted by Kevin White, July, 2009

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[32] http://www.cio.com/article/630233/CIO_Hall_of_Fame_Inductees_Took_Risks_Reaped_Rewards

[33] P&G often refers to these as "Wicked Problems" and focuses innovative thinking to solve them