

# **Succeeding at New Products the P&G Way: Work the Innovation Diamond™**

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# **Succeeding at New Products the P&G Way: Work the Innovation Diamond<sup>1</sup>**

**Robert G. Cooper and Michael S. Mills**

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*Abstract: New products are engines to growth and prosperity for many companies including Procter & Gamble. In this article, the authors explore the drivers of new product performance, with a particular focus on P&G's best practices. The Innovation Diamond is introduced as an integrative and guiding framework to help management focus on what's important to success: innovation strategy, a solid idea-to-launch process, portfolio management and the right climate and leadership. The best practices identified are grounded on research results from a major benchmarking study undertaken by one of the article's authors. And illustrations of these best practices in action are taken from P&G, which has implemented many of them under the guidance of the other author of this article.*

## **Exceptional performance in new product development**

Why are some companies so successful at new product development? And how do some businesses make it seem so easy – one new product winner after another? Consider Procter & Gamble: Total sales at P&G increased by \$8 billion in 2004, with new product winners playing a important role. The IRI cites P&G as the clear winner in its annual *New Product Pacesetters* report: In the non-food category, five P&G new products were in the top ten best-sellers, with Prilosec OTC and Crest Whitestrips Premium in the #1 and #2 positions.<sup>1</sup>

Exceptional performance in product development in companies such as P&G is no accident. Rather, it's the result of a disciplined, systematic approach based on best practices. This article highlights many of the key factors that distinguish best performing businesses, such as P&G, from the rest. To show proof that these best practices really do have an impact on performance, we present research conclusions from a recent major APQC study.<sup>2</sup> Not surprisingly, P&G, an exemplary company in new product development, has implemented many of these practices; thus, we use the company as a superb a case illustration to show many of these best practices in action.

Authors' notes: In this article, we use the term “new products” to mean any change to the product visible to the consumer or customer; these include true new-to-world products as well as new items in an existing product line, significant modifications and improvements, and extensions. The term “customer” means immediate customer, for example a retailer; and the term “consumer” means the end user.

## **The Innovation or Initiatives Diamond to guide new product development**

Four major factors or forces drive a business's new project performance, according to the APQC best practices study. The Innovation Diamond<sup>3</sup> in Exhibit 1 illustrates these *four points of performance*:

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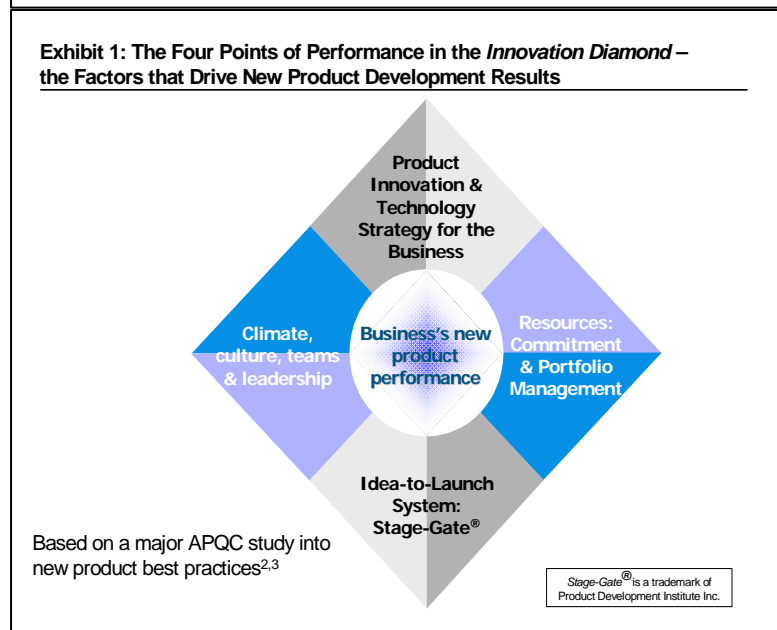
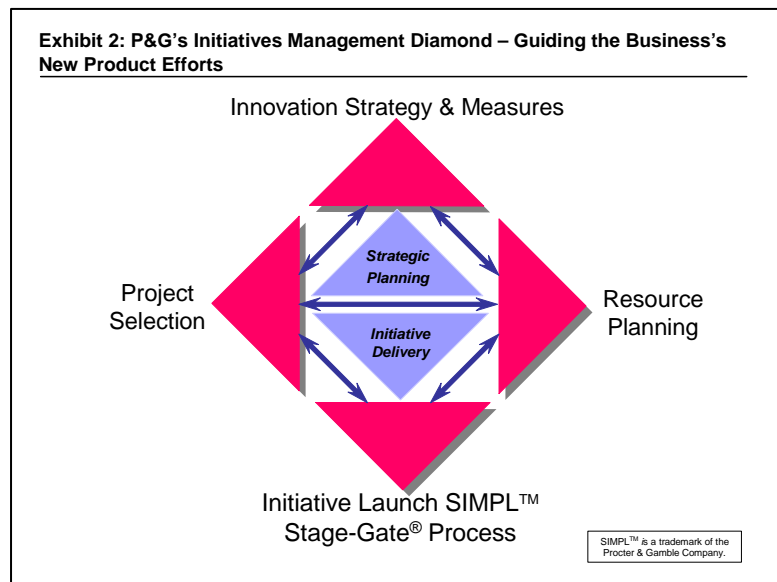
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- having a product innovation and technology strategy in place for the business;
- having an effective and efficient idea-to-launch process or Stage-Gate® system;
- resource commitment and focusing on the right projects – portfolio management; and
- people – having the right climate and culture, effective cross-functional teams, and senior management commitment to new product development.<sup>2</sup>

Some background: The Innovation Diamond in Exhibit 1 began as a triangle – process, resources, and strategy – the result of a 1990s Cooper-Kleinschmidt study of innovation across a broad range of businesses.<sup>4</sup> Procter & Gamble’s management in the 1990s subsequently transformed the triangle into their *Initiatives Diamond*, shown in Exhibit 2.<sup>5</sup> P&G’s major “aha” was that there is *no one key to success* in product innovation, and thus management stepped back from a focus on individual initiatives and looked at the broader picture. For example, having a great idea-to-launch process is not sufficient – it’s not a standalone driver of positive performance.

P&G’s Initiatives Diamond serves as a guide for each business’s product innovation efforts, and helps to focus management’s attention on what is important to success. Here’s what Bob McDonald, P&G’s Vice Chairman of Global Operations, says: “The Initiative Diamond played a significant role in improving the business results in P&G’s Fabric & Home Care global business unit. This work brought us a new discipline to manage our innovation programs, and yielded a major increase in the in-market success of our initiatives. We aligned our organization on how to use Stage-Gate® success criteria and portfolio and resource management to deliver better innovations for the consumers we serve.”

The top half of P&G’s diamond in Exhibit 2 is strategic in nature, and captures the business’s product innovation strategy: goals, the mix of new products required to meet those goals, and the required resources. Portfolio management (or project selection) is thus closely connected to strategy. The



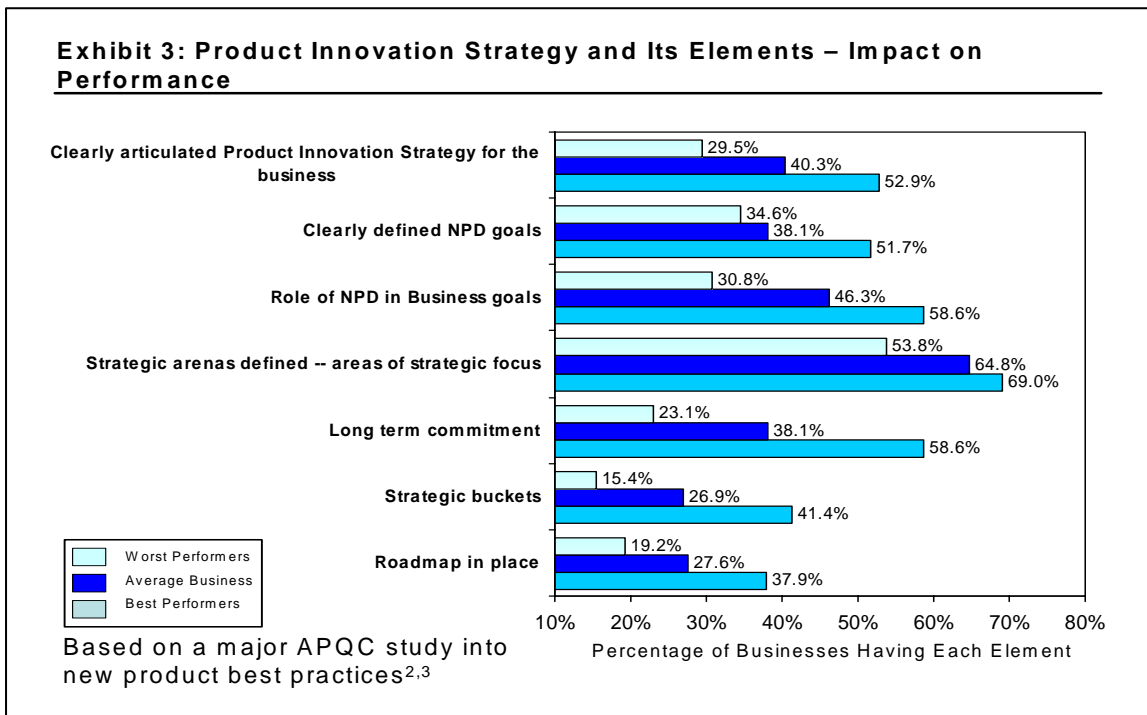
bottom half of the diamond is more operational and focuses on delivering specific new product projects or initiatives: what resources must be put in place for each project; and how individual new product projects are managed so they succeed, using P&G's idea-to-launch SIMPL™ methodology.

Coincidentally, the two diamonds – P&G's Initiatives Diamond in Exhibit 2 and the research-based Innovation Diamond in Exhibit 1 – are almost the same. And both or either can be used to guide your businesses new product efforts. Here is a quick look at the four areas of best practice – the *four points of performance* – that stand out as common denominators across the best performing businesses in the APQC study, with illustrations on how they work from P&G:

**Who Are the Best Performers?**  
 Best performing businesses in new product development were identified in the APQC study. Performance was judged on multiple criteria such as profitability for money spent and profitability versus competitors; percentage of projects meeting sales and profit targets; on-time performance, and the ability to open up new windows of opportunity.<sup>2</sup>

### 1. A product innovation and technology strategy for the business

Best performing businesses put a product innovation and technology strategy in place, driven by the business leadership team and a strategic vision of the business. This product innovation strategy guides the business's new product development direction and helps to steer resource allocation and project selection. Elements of this product innovation strategy are listed in Exhibit 3, along with their impacts, and include: the goals for the business's product innovation effort,



and how these goals tie into the broader business goals; and the arenas of strategic focus – in which product, market and technology areas the business will focus its product development efforts. Further, this strategy is more than just a list of this year's development projects; it has a much longer term commitment. Finally, an innovation strategy includes defining resource allocation across areas via strategic buckets, and mapping of anticipated major initiatives over a

multi-year period to yield the product roadmap. Note from Exhibit 3 how each of these strategy elements is most often found in best performing businesses, and by contrast how they are lacking among poorer performers. The point is that best performers boast an articulated product innovation strategy, including the elements outlined above and in Exhibit 3, much more so than do poor performing businesses.

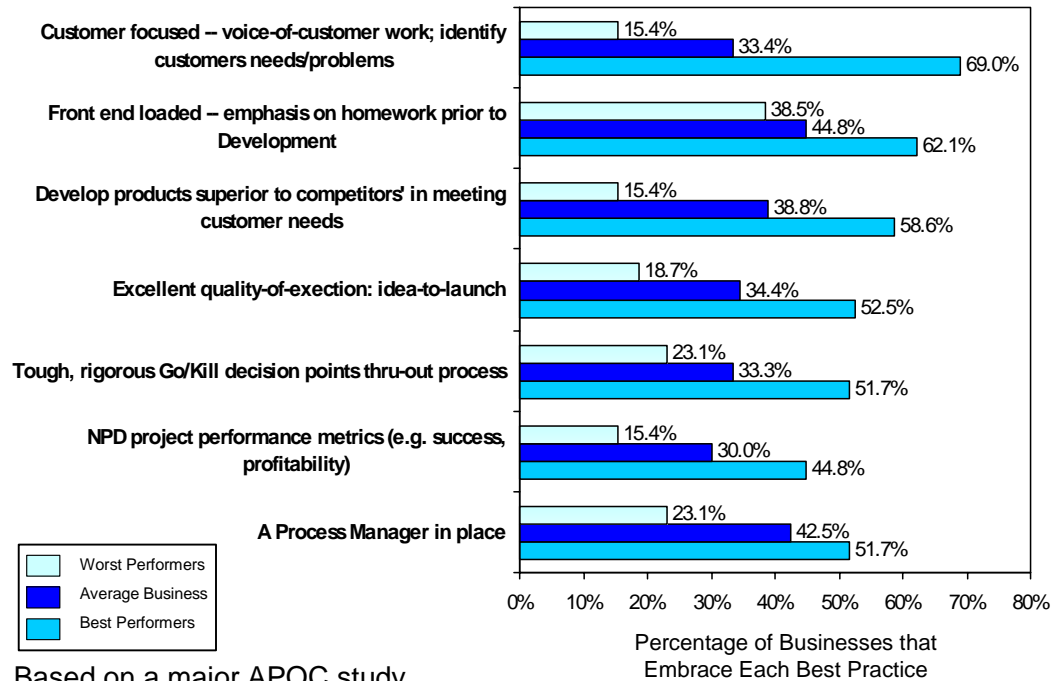
*An illustration:* Procter & Gamble's cosmetics business is a dramatic turnaround case which illustrates the use of several elements of the Initiatives Diamond. The story begins when P&G acquired the CoverGirl and Clarion cosmetics brands in 1989, and later Max Factor. The early days were tough, and through much of the 90s, senior management at P&G wondered if they should be in the cosmetic business at all. There was no real business strategy; and product development efforts were scattered as the business tried to do everything in many different product categories and segments to win with consumers.

The business turnaround started in the late 90s, when management turned to P&G's Initiatives Diamond philosophy (Exhibit 1). The first element of the diamond is a *product innovation strategy*. Indeed, the real breakthrough occurred when the leadership team began a rigorous business planning process leading to clearly defined objectives, goals, strategies and measures. A much more *concentrated innovation strategy* was elected, focusing on lips, face and eyes, rather than rest of the body. The battlefields had been decided! A second facet of strategy meant getting the supply chain under control: *end-to-end supply chain management*. By focusing first on an innovation strategy for the business, the stage was set for effective product development.

## **2. An effective and efficient idea-to-launch framework**

An effective new product process or Stage-Gate<sup>®</sup> system exists in top performing businesses – a system that drives new product projects from the idea phase through to launch and beyond. Many companies claim to have an idea-to-launch process, but the best performers in Exhibit 4 seem to get it right: they build in a strong customer focus and rely heavily on voice-of-customer research; they front-end load their projects, undertaking appropriate, often extensive up-front homework prior to development; and their processes focus on developing differentiated, superior products that meet customer needs better than competitors. In addition, these best performers strive for high quality execution of all activities from idea through launch; they build very tough go/kill decision points in the form of gates into their process (where mediocre projects really do get eliminated); and their process includes performance metrics to gauge project success. Finally, there is a process manager in place to champion the process and its proper use and implementation. Having such process, complete with many of the best practices in Exhibit 4, is a success driver for virtually all of the best performers in the APQC study.

### Exhibit 4: Key Elements of a Best-In-Class New Product Process



Based on a major APQC study into new product best practices<sup>2,3</sup>

P&G’s idea-to-launch process is called SIMPL™ – the Successful Initiative Management and Product Launch model<sup>6</sup> – and as noted in Exhibit 5, it is fairly similar to the standard Stage-Gate® model.<sup>7</sup> SIMPL™ is a methodology for driving new product projects from the idea phase through to launch and into post-launch, and incorporates many P&G best practices, including the success drivers listed in Exhibit 4. It is a rigorous product launch process using stage-and-gate decision-making complete with clear go/kill criteria and timing requirements.

The SIMPL™ model consists of four main stages; each stage builds in a set of “current best practices” in the form of key activities, and also clearly defines expectations for project team in the form of “end-points”. There are also four gates or go/kill decision-points in the model; each gate is comprised of a *team recommendation* and a *management decision*.

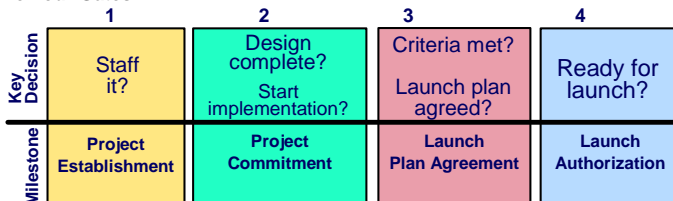
*Illustration:* In the P&G Cosmetics business example, developing an innovation strategy was a solid first step,

### Exhibit 5: P&G’s SIMPL Process – An Idea-to-Launch Stage-Gate® Model

#### The Five Stages:



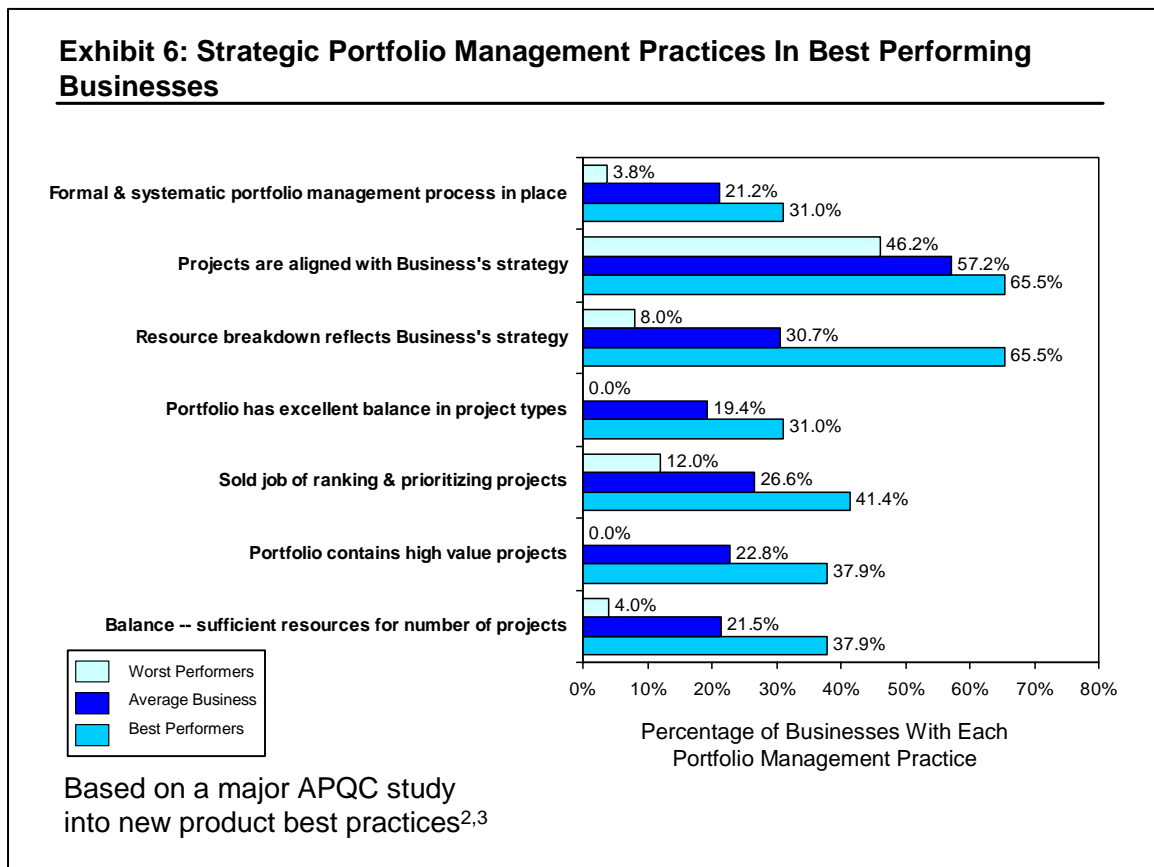
#### The Four Gates:



but the means of implementing strategy must be in place too. So management turned to a second element of the diamond, P&G's SIMPL™ new product process. The SIMPL™ idea-to-launch model forced project teams to do their homework early in the project; for example, much consumer research work was done, and consumer insights were gained that led to winning new product concepts. One big success is Outlast™ by CoverGirl. This 10 hour lipstick – a kiss-proof, long-lasting lipstick – uses a unique two-part application system (first a color and then a gloss) to produce an enduring lip color and gloss. A second winner – Lipfinity™ by Max Factor – was also introduced, again using the SIMPL™ idea-to-launch framework. Both new products have been huge successes not only in the U.S., but around the world. The turnaround of the cosmetics business was underway!

### 3. Resource commitment and focusing on the right projects – portfolio management

Best performers have an effective portfolio management system that helps the business leadership team effectively allocate resources to the right areas and projects, as shown in Exhibit 6. Development projects are aligned with the business strategy; resource breakdowns in the portfolio mirror the business strategy and there is the right balance of projects in the portfolio (for example, between long-term and short-term projects). Best performing businesses also do an excellent job ranking and prioritizing projects, and their portfolios generally contain high value projects (by contrast, poor performing businesses have portfolios with many low value projects!). Finally, best performers manage to strike the right balance between resources available and numbers of projects underway, so that a resource crunch, so typical in poor performers, is avoided. The formal portfolio management systems seen in many best performers rely on a variety of tools – effective gates, scorecards, the productivity index, strategic buckets and product road-mapping – to help select and prioritize new product projects.



P&G splits this resource commitment facet of the diamond into two parts: project selection and resource planning. The company relies primarily on success criteria to help make better go/kill decisions on projects. Specific success criteria for each gate relevant to that stage are defined for each project, and are agreed to by the project team and management at each gate. These success criteria are then used to evaluate the project at successive gates, and are also key evaluation criteria at the post-launch review: did the project team achieve what was agreed to? In addition, a number of businesses have developed general screening tools and scorecard methods to assist the leadership team in selecting ideas that will enter the SIMPL™ process.

*Illustration:* In the Cosmetics business, portfolio management, a third element of P&G's Initiatives Diamond, was next employed to enable management to look at its entire portfolio of new product initiatives and secure the right balance and mix. Through portfolio management, the business built a pipeline of new and improved products that established the needed initiative rhythm for each product line (face, lips, eyes): new products and upgrades that created news and excitement in the market.

The result: Today, P&G's cosmetics business is a healthy, growing, and profitable enterprise, and the business is seen as a key growth engine for the company.

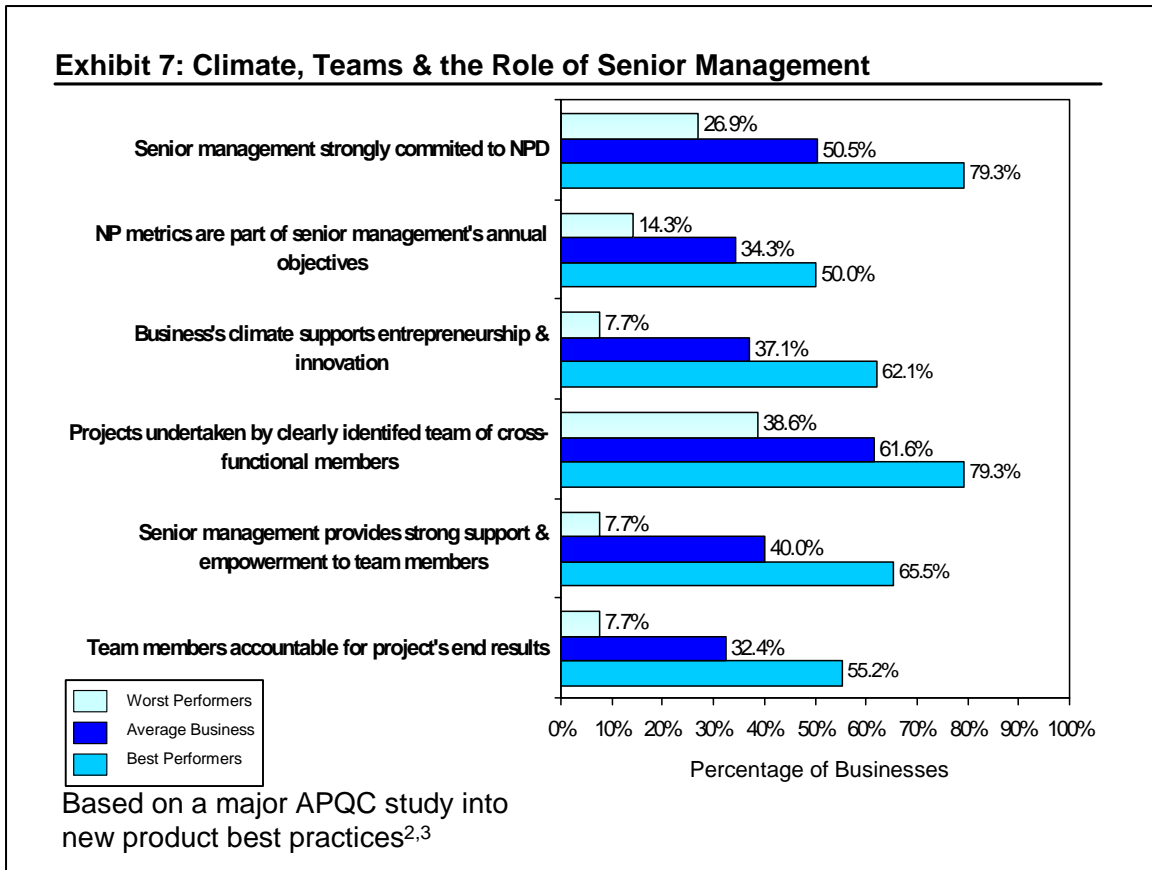
When it comes to resource planning for projects in the portfolio, P&G's methods vary depend on the nature of the business. Many businesses find they benefit from a resource profiling approach to resource planning. The resource profiling method helps to assess future project resource needs based on learning from past projects, and it anticipates peak resource periods of time. This is enabling businesses, such as Fabric Care, to improve the overall portfolio decision process by allocating scarce resources to the highest priority projects globally. The most technically complex, resource-intensive businesses have been working with purchased resource management software. These software tools look at head counts and detailed task activities on individual projects to focus on near-term resource constraints.

P&G's deliberate approach to portfolio management and resource planning (the resource facet of the diamond) has a strong positive impact, according to Martin Riant, President of P&G's Global Feminine Care and Antiperspirants/Deodorants business: "Using the diamond has had a remarkable effect on our business results. It has forced a much higher level of discipline in how we allocate our resources, how and when we make investment decisions and in accountability of projects to deliver what they promise."

#### **4. A positive climate and environment for innovation**

People, culture and leadership is the fourth point of performance of the diamond (Exhibit 1). Senior managers in best performing businesses lead the innovation effort and they are strongly committed to new product development (Exhibit 7). This senior commitment is most evident at P&G, where A.G. Lafley, Chairman of the Board, President and Chief Executive, makes it clear: "Innovation is a prerequisite for sustained growth. No other path to profitable growth can be sustained over time. Without continual innovation, markets stagnate, products become commodities and margins shrink."

In the best performing businesses, senior management also creates a positive climate and culture for innovation and entrepreneurship; they foster effective cross-functional teams and provide strong support and empowerment to these teams; in return, project teams are held accountable for project results – see Exhibit 7.



P&G has focused much effort on this fourth point of the diamond in recent years, and efforts here have helped create a step level improvement in results. The entire innovation effort, together with the Initiatives Diamond and SIMPL™ process, is sponsored and owned by both the commercial (sales and marketing) and technical (R&D and engineering) communities. A key to this was the creation of initiative success managers reporting to each of the company's business unit presidents. These initiative success managers make the diamond and SIMPL™ work: Their job descriptions include facilitating strategy development sessions, managing gate meetings, leading resource planning sessions, ensuring appropriate capability, and training.

Next, P&G tracks results from new products annually or semi-annually. Senior management reviews these results, and places heavy emphasis on them – they are key performance indicators in the business unit. And horizontal networks – communities of excellence – have been established across business units, so that experts can share leanings.

Effective cross-functional teams are vital to driving new products to market. P&G has developed a common model to structure teams, with a focus on developing cross-functional team leaders, who can be from any functional area (Marketing, R&D, Engineering, etc). These leaders are evaluated and rewarded based on how they deliver in the market against their project success criteria.

### **Winning at product innovation**

There is no magic to winning at product innovation. Indeed, the APQC study and others have identified countless success drivers (as shown in Exhibits 3, 4, 6 and 7), which are integrated into the Innovation Diamond. The diamond works, so *work the diamond!* It impacts many facets of new product development. For example, Jane Wildman, Vice President of P&G's Baby Care business, says, "Baby and Toddler Care has leveraged the business management diamond to look at our portfolio much more holistically. This has led to ensuring we not only look at financials and technology, but that the consumer voice inspires innovation and holistic design. The diamond has served to align our leadership team and to enable organizational capabilities to deliver our plan."

The real challenge is making the Innovation Diamond and its drivers work in your business. And here is where P&G excels. Product innovation is embedded in the very fabric and nature of the company, so much so that it's central to P&G's fundamental statement of purpose: "We will provide products and services of superior quality and value that improve the lives of the world's consumers. As a result, consumers will reward us with leadership sales, profit and value creation, allowing our people, our shareholders, and the communities in which we live and work to prosper." A simple statement perhaps, but with profound implications to action. And to achieve its purpose, P&G employs the main practices that separate the best performers from the rest. The four themes – innovation strategy, a solid idea-to-launch process, portfolio management and climate and leadership – make up the four points of performance of the Innovation Diamond and provide a sound framework for guiding your business's product innovation efforts, as they have at P&G.

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<sup>2</sup> R.G. Cooper, S.J. Edgett & E.J. Kleinschmidt, *New Product Development Best Practices Study: What Distinguishes the Top Performers*, Houston: APQC (American Productivity & Quality Center), 2002; and: R.G. Cooper, S.J. Edgett & E.J. Kleinschmidt, *Best Practices in Product Innovation: What Distinguishes Top Performers*, Product Development Institute, 2003 ([www.prod-dev.com](http://www.prod-dev.com)).

<sup>3</sup> Details of the Innovation Diamond are in: R.G. Cooper, *Product Leadership: Pathways to Profitable Innovation*, 2<sup>nd</sup> edition. Reading, MA: Perseus Books, 2005.

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<sup>5</sup> As outlined in: M. Mills, "Implementing a Stage-Gate™ process at Procter & Gamble", Association for Manufacturing Excellence International Conference, "Competing on the Global Stage", Cincinnati, Ohio, October 2004.

<sup>6</sup> SIMPL is described in: M. Mills, "Implementing a Stage-Gate™ process at Procter & Gamble", Association for Manufacturing Excellence International Conference, "Competing on the Global Stage", Cincinnati, Ohio, October 2004.

<sup>7</sup> R.G. Cooper, *Winning at New Products: Accelerating the Process from Idea to Launch*, 3<sup>rd</sup> edition. Reading, Mass: Perseus Books, 2001.



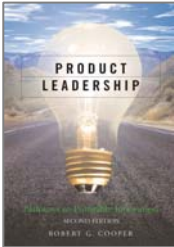
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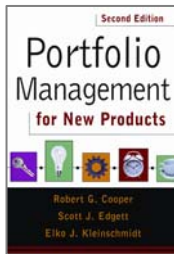
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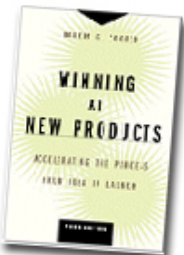
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