"I Think of My Failures as a Gift"

An Interview with **A.G. Lafley** by **Karen Dillon**

HBR: You're widely regarded as one of the most successful CEOs in recent history. But you had your share of mistakes, didn't you?

Lafley: Absolutely. A lot of mistakes and my fair share of failure. But you have to get past the disappointment and the blame and really understand what happened and why it happened. And then, more important, decide what you have learned and what you are going to do differently next time.

How did your failures over the years affect you as a leader?

They were all part of my growth and development. What's the single biggest reason that leaders stop developing and growing? They stop becoming adaptable; they stop becoming agile. It's Darwin's theory. When you stop learning, you stop developing and you stop growing. That's the end of a leader.

Can leaders learn as much from success?

No. My experience is that we learn much more from failure than we do from success. Look at great politicians and successful sports teams. Their biggest lessons come from their toughest losses. The same is true for any kind of leader. And it was certainly true for me.

Can you give me an example of learning from failure at P&G?

We learned much more from failed new brands and products like Dryel at-home dry cleaning and Fit Fruit & Vegetable Wash than we did from huge successes like Febreze and Swiffer.

This is one of my favorites: In the 1980s P&G tried to get into the bleach business. We had a differentiated and superior product—a color-safe low-temperature bleach. We created a brand called Vibrant. We went to test-market in Portland, Maine.

Why Maine?

We thought the test market was so far from Oakland, California, where Clorox was headquartered, that maybe we could fly under the radar there. So we went in with what we thought was a winning launch plan: full retail distribution, heavy sampling and couponing, and major TV advertising. All designed to drive high consumer awareness and trial of a new bleach brand and a better bleach product.

And then?

Do you know what Clorox did? They gave every household in Portland, Maine, a free gallon of Clorox bleach—delivered to the front door. Game, set, match to Clorox. We'd already bought all the advertising. We'd spent most of the launch money on sampling and couponing. And nobody in Portland, Maine, was going to need bleach for several months. I think they even gave consumers a $1 off coupon for the next gallon. They basically sent us a message that said, "Don't ever think about entering the bleach category."

How did you rebound from that setback?

We certainly learned how to defend leading brand franchises. When Clorox tried to enter the laundry detergent business a few years later, we sent them a similarly clear and direct message—and they ultimately withdrew their entry. More important, I learned what worked and was salvageable from that bleach failure: P&G's low-temperature, color-safe technology. We modified the technology and put it into a laundry detergent, which we introduced as Tide with Bleach. At its peak, Tide with Bleach was a more than half-billion-dollar business.

Consumers still use both bleach additives and detergents with bleach. So it ended up being a win-win for consumers, retailers,

and manufacturers. It created more category consumption, a better at-home cleaning experience, and a better value proposition for all concerned. But we learned that head-on, World War I–like assaults on walled cities generally end with a lot of casualties.

How did you use failure as a tool?

Many CEOs—including me—use innovation and acquisition to grow organically and inorganically in a balanced and sustained way. Both innovation and acquisition are risky and have high failure rates: 80% plus for new product innovation in our industry; 70% plus for acquisition. So I had a team at P&G do a detailed analysis of all our acquisitions from 1970 to 2000. And the sobering story was that only 25% to 30% succeeded in that period. "Successful" meant "met or exceeded the investment case and going-in investment objectives." Partial success meant "exceeded the cost of capital." We studied the failures in detail. We pinpointed the problems and discovered patterns in our mistakes.

Did you discover why P&G failed at acquisitions so often?

Yes—not surprisingly, it's not rocket science. We found five fundamental root causes of failure:

(1) The absence of a winning strategy for the combination. (2) Not integrating quickly or well. (3) Expecting synergies that don't materialize. (4) Cultures that aren't compatible. (5) Leadership that wouldn't play together in the same sandbox.

How did that analysis alter things?

Once we had identified the problems, we focused on what we had to change. How should we organize for each phase of the acquisition? What processes should we put in place? What interim measures would tell us whether we were on track or off track? It's just a disciplined process, and you put somebody in charge of each phase of the process.

Can you give me an example of using that process successfully?

When we acquired Gillette, in 2005, which was one of the 10 biggest acquisitions ever, we put a team and a process in place to avoid our past failures. We put Jim Kilts, Gillette's CEO, on P&G's board, and we put him and Clayt Daley, P&G's CFO, jointly in charge of the acquisition integration and value creation. We identified all the value creation elements. We identified the integration sequence and elements. We put a pretty senior manager in charge of every value creation initiative. Bob McDonald, the current CEO, was in charge of integrating global operations. Filippo Passerini was in charge of integrating the back room and IT; Rick Hughes was in charge of integrating all purchasing; and so on. We tracked progress for every value-creating initiative using a simple red, yellow, green process: "We're on track," "We're not on track." And we just drove every phase of the integration, every building block of value creation, to completion.

How do you measure success on that acquisition?

We ended up delivering more than 150% of the originally estimated cost synergies. So the cost synergies alone created enough value to make the Gillette acquisition a success. The revenue synergies, which continue to come in—for example, in oral care we combined the Crest and Oral-B brands and all of our oral care product innovation—all come on top of the cost synergies.

After you started using the new process, how did P&G's track record change?

Knowing what went wrong from 1970 to 2000, we were able to shift our acquisition success rate from below 30% to above 60% over the past 10 years. The whole idea of really studying, really going to school on failures, is so important. Because failures aren't the opposite of success. A lot of people think there's success or there's failure.

Failure is, in my view, all about learning. It's about learning what you can do better.

As a result of your new knowledge, was Gillette a perfect case study of incorporating an acquisition?

No, Gillette was not perfect. We conducted ongoing evaluations of every element of the Gillette acquisition. There were a lot of things we could have done differently and better. Especially on the people development and growth front. I personally spent a lot of time trying to ensure that the people on the leadership development list at Gillette got the right kinds of assignments, but we lost a few people we didn't want to lose—and we didn't get every Gillette player in the absolute right position to start out. We will capture those lessons—and apply them to the next one.

Did you ever make a mistake in what you didn't do—rather than in what you did do?

I had some big misses in my 10 years as CEO. I missed two potentially transformational acquisitions: one of a leading global beauty and personal care brand and one of a health care Rx to OTC switch [from a prescription to an over-the-counter brand]. In the first, I had the majority partner on board but couldn't close with the minority partners and lost the deal. In the second, I had a promising discussion with the CEO of the health care division, who was very open to swapping his Rx to OTC product rights for a P&G prescription drug in late-stage development. The CEOs were aligned; the CFOs were working together to get the valuations right for each company and to pin down the terms of the deal. It would have been a terrific deal for P&G.

Why?

When I came into the job, in 2000, we were de facto in the health care business. We were in the prescription drug business, the over-the-counter brand business, and the branded nonregulated health care business. I liked consumer health care, but I was skeptical of the prescription drug business. It isn't a consumer-driven business—doctors write prescriptions, health insurers pay most of the cost. It isn't really a branded business. On top of that, prescription drugs typically took 10 to 15 years to develop—at huge expense—and the lifetime of a prescription drug was limited to, at most, the length of the patent or 14 years. Prescription drugs weren't really in P&G's competitive sweet spot. They didn't match up well with P&G's core strengths.

So I thought we needed to migrate or sell out of the prescription drug business and invest more in over-the-counter nonregulated consumer brands. A conversation about this was going on with management and with the board when this opportunity came up and we learned that a major drug was going to be switched. Our idea was to trade one of our prescription drugs in the final phase of clinical trials for the drug they were going to switch to OTC. In proposing that switch, I was trying to get some level of commitment from the board and the management team for the strategy I wanted to pursue, which was ultimately to exit the pharmaceutical business. [P&G eventually sold its pharmaceutical business to Warner Chilcott in 2009.]

What went wrong?

At the last minute, the heads of our health care business, the head of R&D, and a prominent board member from the health care industry all surfaced opposition to the deal. And as I thought about it, it was perfectly rational behavior on their part. The leaders of the P&G health care business wanted to keep the assets and businesses that they had—they didn't want to give up one of their promising prescription drugs. The head of R&D had put a lot of time, money, and personal effort into developing the drug we were going to swap. And the prominent board member believed that we had promising prescription drugs in development and that we should see that development through to the end.

So you abandoned the deal?

Yes. And it ended up being a huge mistake. The switch was eventually done by the parent health care company and it turned out to be the third biggest switch from prescription to over-the-counter ever, after Tylenol and Prilosec. So that was just a huge disappointment.

What lesson did you take from that failure?

That the deal really wasn't about the rational business case, it wasn't about strategy, and it wasn't about the economics and financials. Those were all buttoned up and, frankly, pretty attractive. It was about managing the human motivators and human behaviors and the different personalities. I just didn't see this alliance forming between the leaders of the business, the leader of R&D, and one of my more influential directors. This is a case where politics was stronger than economics. A case where the long-term strategic merits really didn't matter; the shorter-term interests of individuals carried the day. We got trapped in a debate about whether P&G's prescription drug or the OTC switch was going to be a bigger and more profitable business—and not whether the prescription drug business was a good strategic fit for P&G. Or even a better strategic fit than other health care and personal care businesses we could have put our cash and talent against. We were playing small ball instead of looking at the big picture. Color me naive on that one.

What did you do differently after that?

After that, I tried with any major decision to think not only about the strategy, economics, and financials and the business case, but also about who was going to be influential in the decision and how I could manage that individual and not ever be caught off guard again.

What advice would you offer other CEOs about learning from failure?

First, some of the most important and insightful learning is far more likely to come from failures than from successes. Second, the learning has to be institutionalized to endure. Otherwise you keep making the same mistakes over and over, and you don't learn from them. That's why we did in-depth analysis of innovation failures and in-depth analysis of acquisition failures. We were forcing ourselves to come to grips with reality and to report to both management and the board annually on the failure rates of these two critical growth drivers. It doesn't do any good for me to learn something personally if the institution doesn't learn the same lessons. You create institutional learning. You create institutional memory.

It's not enough to take responsibility for your failures. It's important to create a culture that turns failures into learning and leads to continual improvement. If the leader of the company doesn't do that, it's very difficult to get the culture right. It's crucial to creating a culture of courage and openness to change and continued improvement.

The topic of failure is very important, and it gets more lip service than good practice. I think I learned more from my failures than from my successes in all my years as a CEO. I think of my failures as a gift. Unless you view them that way, you won't learn from failure, you won't get better—and the company won't get better.

Karen Dillon