

SURFACING ROOT CAUSES OF INEFFICIENCY: CLOROX'S PROCESS COST EVALUATION

- ☞ **Company Information**—Clorox is the global leader in the production of bleach. Clorox also makes laundry and cleaning items (Formula 409, Pine-Sol, Tilex), cat litter (Fresh Step), car care products (Armor All, STP), the Brita water-filtration system (in North America), and charcoal briquettes (Kingsford). Its First Brands buy gave Clorox Glad-brand plastic wraps, storage bags, and containers.

Interim Chairman and CEO:	Gary W. Loveman
SVP and CFO:	Daniel J. Heinrich
2005 Revenue:	US\$4.4 Billion (€4 Billion)
2005 Employees:	7,600

- ☞ **Background**—In 2004, Clorox launched its “Right to Win” strategy with the goal of strengthening its market position and profitability by 2008. One of the key components of the strategy is a continuous focus on cost discipline.
- ☞ **Process Cost Evaluation**—Clorox’s approach to cost management is grounded on an in-depth understanding of its key processes and the resources consumed by these processes. Clorox conducts an exhaustive analysis to map its 25 key processes and, based on historical activity-based costing information, it assesses a gold-standard cost for each process. The company continuously evaluates the resources consumed by each process against this gold standard to uncover potential inefficiencies.
- ☞ The company’s process orientation is based on the belief that a total-value-chain view rather than a (traditional/redundant) isolated-activity view is key to understanding inefficiencies. The company tries to understand the interrelationships between each step in a process and between processes to identify unnecessary redundancy and complexity.
- ☞ **Key Insight**—CFOs should leverage the functions’ expertise to map key company processes and be able to identify the real sources of inefficiencies.

PROCESS COST EVALUATION



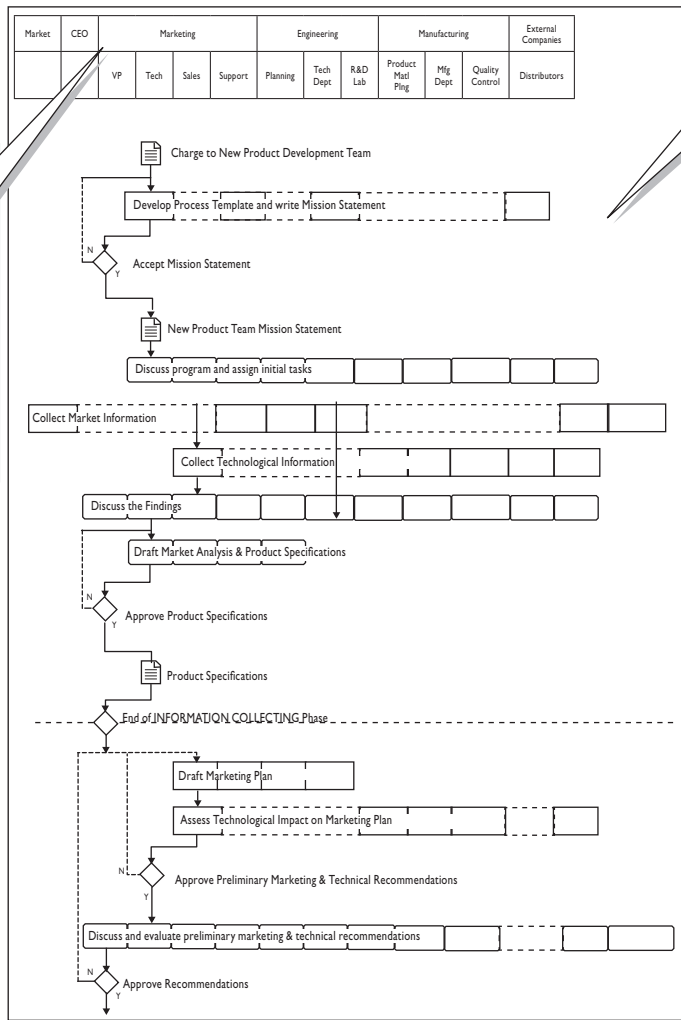
END-TO-END EFFICIENCY

Using historical information and business unit guidance, Clorox maps 25 of its key processes...

...and monitors resource consumption per process to identify potential inefficiencies

Product Design Process Map

Illustrative*



As part of Clorox's ESP implementation, a cross-functional Process Office worked with all key functions to map the company's 25 key processes.

Each process is managed and monitored by a process owner.

Clorox monitors both process productivity and efficiency to ensure effective trade-offs are made.

Product Resource Tracking

Illustrative*

Product Design Process Tracking			
		Expected	Actual
Productivity	Number of people involved in the process	20	25
	Expenditures associated to the process	\$3.0M	\$4.8M
	Process duration	40 days	45 days
Efficiency	Number of products designed	30	33
	Percentage of designs approved	60.0%	62.5%

The company sets expectations based on a profound analysis of historical data and processes. Actual data comes directly from Clorox' ESP system.

Process Monitoring

- Process monitoring is central to Clorox' reporting system. Key business scorecards include output metrics (e.g., sales) and process data.
- Process owners closely monitor variances and conduct deep dives to determine causes and potential solutions.
- A cross-functional "Process Council" meets regularly to discuss the productivity and efficiency of key processes and determine improvement opportunities.
- Special attention is paid to processes that consume a significant number of resources.

* Examples included are for illustrative purposes only and do not represent initiatives currently taking place at The Clorox Company.

Source: The Clorox Company; <http://www.hoovers.com>; TeamFlow, "New Product Development Program," (<http://www.teamflow.com>); CFO Executive Board research.

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