



LOST IN TRANSITION: INNOVATING FOR MARKETPLACE SUCCESS

Kellogg Innovation Network (KIN) SUMMIT 2007

On the individual's role: *"It's easy to keep doing what you know. There's all that language about how the world is changing and we're changing with it, but how do we put it into practice? How do we change our business model, how do we get them (top executives) to adopt what they need to do it? How do we get them to change the way they think when they walk in in the morning? That's my role."*

*-Scott Mordell, Executive Vice President
Chamberlain Group*

On the importance of senior leadership: *"If senior execs don't 'get' it, it's a case of not only swimming upstream, it's like swimming up a waterfall."*

*-Toby Redshaw, Corporate Vice President, Innovation, Data Enabling Platforms and Architecture
Motorola, Inc.*

On turning a projected \$106 million dollar loss into a viable long-term program: *"This wouldn't have happened if we didn't have some leadership at our company...willing to look at the problem a different way."*

*-George Mavko, Director, AMD/DEW
Raytheon Company*

On innovation at large companies: *"The (large) companies are good at coming up with...line extensions, but they aren't good at coming up with new things. The question seems to be, why try? Why go through all these machinations when you're almost doomed to fail?"*

*-Nelson Levy, CEO
Core Techs*

On failure: *"If you don't have some failures in the front end of the innovation process, if all your concepts succeed, you probably aren't pushing hard enough. If there's no uncertainty, there's no innovation."*

*-Professor Rob C. Wolcott
Kellogg School of Management*

EXECUTIVE SUMMARY

KEY SUMMIT INSIGHTS

- Everything should start with the value proposition
- Leadership is key
- “Telling stories” is critical

KEY SUMMIT OUTCOMES

- Answers to transition and scaling challenges exist within each company’s *business system*
- Innovate within your core competencies; Extend your core competencies to support innovation
- Must have commitment, ownership, and buy-in from top-level executives to make innovation work

FRAMING THE CONVERSATION: THE TRANSITION AND SCALING CHALLENGE

The focus of this KIN event, held at the Kellogg School of Management’s James L. Allen Center in Evanston on June 18th and 19th, 2007, dealt primarily with getting things to market. The first step was to identify the problems, challenges, and issues related to scaling and transition. Step two was discovering some solutions. What did the delegates identify as their primary concerns regarding innovation?

- Generating consensus from top executives on where to go with innovation.
- Achieving alignment of employees within the organization.
- The tipping point-- aligning the organization, strategy, and operations with sufficient momentum to create change.
- Resource allocation-- what portion should go to core versus innovation and new product development, and why?
- Advice on practical, organizational ways to make innovation real.
- Redefining the perception of risk.
- How and when to drive radical change.



FRAMING THE SESSION

Professor Rob C. Wolcott

Kellogg School of Management

For the past three years Professor Rob C. Wolcott and his colleague, Dr. Mike Lippitz, have done extensive research regarding *corporate entrepreneurship*, or how existing companies build new businesses; not just adding a line extension or doing incremental innovation, but actually creating truly new businesses. For a company to be successful, it must do this consistently, and on a repeatable basis.

Through the process of studying how companies innovate, Wolcott and Lippitz found the number one struggle among companies was not generating new ideas, but getting new products and services to market. Further study

indicated there wasn't much existing literature on this challenge, which led Wolcott to designate this KIN Summit to focus on what they call the "Transition and Scaling Challenge."

They have based their research to date on the Innovation Radar, a framework consisting of 12 vectors, or dimensions, that articulate all aspects of any firm's business system. The system pieces together everything businesses do to make money. The research team believes that most answers to the transition and scaling challenge are contained somewhere within the business system.

Also within the notion of business systems is the notion of "core competencies." Because you can't innovate on all 12 vectors of the innovation radar at once, there's a strategic selection involved in deciding which core competencies to address. You have to strategically select, evolve and innovate within your core competencies because if you're doing it just like everybody else, can you expect to be the global leader?

So, what is the key take-away? Developing the ability to manage the business system through the innovation development process.

A few observations:

- CE moves a firm outside its business system comfort zone.
- Challenge your teams to say, "When is the earliest point that we can safely, legitimately go to a potential customer and engage with them?"
- Everything starts with value proposition. You have to get the definition, the value proposition, correct and accurate, between development and marketing.
- Look at the total market context, the ecosystem, and understand how you fit within that space.
- Teach your people to write down and articulate their ideas at the beginning, then work to expand them.
- Learn to speak the language of the CFO and the language of Marketing. Your job as an innovation advocate is to take your concept and translate it into something you can sell within the company.

EXECUTIVE PERSPECTIVE

Albert Manzone

President, Shelf-Stable Juices
PepsiCo



In the past, PepsiCo found it easier to navigate their competitive environment. Innovation was a relatively simple competitive advantage and they could rely on a repeatable formula that valued scale and reach. Being a "fast follower" was enough to win, and their portfolio was narrower, with competitive pressure coming primarily from Coke. Moreover, shelf-space was less of a constraint.

Not only were the parameters traditionally easier to navigate, PepsiCo had a formula for success based on a compelling consumer proposition, impactful marketing, an aligned operating envelope, sustained execution, and the right expectations.

Propel Fitness Water provides an example of how this earlier approach to innovation worked. By focusing on their target consumer, the "committed exerciser" whose needs were not satisfied by existing beverages, Pepsi was able to differentiate the product from the competition and leverage the value of Pepsi's Gatorade brand. They highlighted

Propel's key features of good flavor, low calories, and added vitamins. After beginning with a controlled market test in Colorado, Pepsi gradually expanded the product to other markets over a three-year period. Propel is, in Manzone's words, "one of the best examples of doing everything right in innovation."

Today, however, the world is changing. Customers are savvier, more sophisticated, and demand has fragmented. Pepsi requires innovative new products at a faster pace, while concurrently supporting a broader portfolio and facing more challenging shelf-space and logistics bottlenecks. The company cannot afford the sort of well-measured, three-year roll-out strategy afforded to Propel. These new realities challenge Pepsi's ability to innovate and require them to achieve a better balancing act with innovation while finding new ways to expand out.

How will Pepsi adjust? By providing stimuli to targeted customers for their interpretation. In other words, placing the right product in the right place, in the right hands, at the right time.

Manzone believes PepsiCo—and many other firms—have a lot to learn from small company entrepreneurs building premium products and brands from scratch. He shared the example of Izze, a premium sparkling fruit juice that appeals to an upmarket consumer, acquired by Pepsi in 2006. Izze employs a combination of beautiful presentation, retail demos, appearances at influential events, and associations with celebrities to build a powerful emotional connection with target consumers.

Follow-up points to Manzone's speech:

- "Horizons of management" terminology. If you aren't using it, you need to. When your people ask, "What kind of innovation is this?" and the response is, "Horizon three," they automatically know what the ground rules are. That's powerful.
- Not knowing which horizon "box" in which to put something. Not only does this lead to problems funding an innovation, it's difficult even to explain it to people within the company.
- Ownership within the divisions. Serious ownership, connections, and even buy-in are necessary for successful innovation.

REFLECTIONS FROM THE GROUP BREAKOUT SESSIONS

The KIN delegates then separated into small, leader-facilitated groups to articulate the challenges encountered by firms attempting to enhance transition and scaling throughput and success. When the group reconvened the next day, they shared a few key insights from the previous day's breakout sessions.



KEY INSIGHTS

- The importance of leadership
- Governance and metrics
- The definition of core
- Using the Innovation Radar as a way to grow your business
- Using the Innovation Radar as a tool to assess the friction within your own organization and its resistance to change
- Push vs. pull issues
- Developing your competitive strategy within a confined "space"
- Developing value propositions that won't get lost within a large company/nurturing the innovations that will create the next core

- “Rewarding” failure
- Telling stories as a way to socialize and talk about failure
- Fail early and fast, before you’ve spent a lot of money

EXECUTIVE PERSPECTIVE



Jim O'Connor

Corporate Vice President, Technology Acceleration;
Motorola, Inc.

O'Connor offered the delegates a number of lessons on transition and scaling. Motorola is a venerable company with a strong tradition of innovation. O'Connor shared how some of Motorola's processes, successes and failures are, in many respects, based on the historical references they so frequently invoke.

Storytelling, as mentioned earlier in the summit, is also a big part of what Motorola does, particularly in a tough

environment, to drive innovation. O'Connor recommended that illustrated storytelling, or telling stories about how things come to life, can be a critical component when building innovation. Don't just tell the good stories and don't just tell the bad stories, he advised. Use a combination of stories to demonstrate how innovative ideas evolve within *your* company.

Motorola's present-day success parameters for innovation can be summed up as:

FOCUS: Knowing what they are innovating against and spending a lot of time defining their strategy up front each year. There is a very rigorous process within Motorola's senior leadership team to define where they want to go.

DISCIPLINE: Motorola institutes discipline within their research labs and advance tech teams.

COMMITMENT: Institutional innovation can't happen unless you have the CEO behind you, the money behind you, and the whole innovation mantra behind you. You can't just innovate by persuasion; you have to back it up.

“PANEL” DISCUSSION: EXPLORING SOLUTIONS

During their second breakout session the delegates again divided into small, facilitator-led groups. They discussed what each of their companies were doing regarding the challenges of bringing new concepts to market. Then the delegates reconvened as a group to share what they discovered. One member from each team shared insights and brief cases from the companies involved.

NOTE: POTENTIALLY CONFIDENTIAL INFORMATION HAS BEEN REMOVED FROM THE FOLLOWING SUMMARIES.



GROUP #1**Presented by Jim Mitchell**

Vice President, Pharmaceutical R&D

Hospira, Inc.

The lead research and development team meets every month to screen ideas and look at where they're going to invest on a broad company portfolio. They manage the opportunities through a traditional stage-gate process.



The team has recently been re-organized into two strategic groups, one in the pharma area and one in medication management, which includes pumps, software, and other means of controlling the delivery of their products.

From there they established Venture Teams composed of innovation leaders, people who want to push the envelope and have shown evidence of unique, valuable thought and action. The Venture Teams explore new project concepts prior to official funding. One goal is to keep the team members protected from the group that actually determines what's going to get funded. Once funding occurs, the process becomes very structured and stage-gate driven.

Within the past few years, Hospira was spun out of traditional product divisions of Abbott Labs. As a result of the traditional products on which they worked, most of the employees who joined the new company had not been encouraged at Abbott to innovate. The Venture Teams are designed to change that, and the company is currently building a new innovation strategy, process and culture.

One objective of the Venture Teams is to drive differentiation. For example, one Hospira Venture Team is working on developing an important new concept. In their first pass at funding they received \$350,000 to start a project that will last about a year and is designed to gain approval. (We have omitted details to protect confidentiality.)

The Venture Teams have been successful thus far for two reasons. First, the teams understand that they can't always turn to the next level to get decisions made. They need to take responsibility for the growth of this part of Hospira. Good ideas must come forward quickly and receive action.

Second, when the response to an idea is no, or "no, not yet," that is not necessarily the end. Hospira allows people to go back and continue to massage the concept. If someone really believes he or she has a good idea, he or she will have an opportunity to carry it further.

Venture Teams are funded by the company, but remain fairly restricted in terms of scope. The teams are limited in what they can do financially so when a project reaches a certain level, it must move forward from Venture Team to funding.

GROUP #2**Presented by George Mavko**

Director, AMD/DEW

Raytheon Company

Raytheon

George Mavko shared a case in which, with some creativity and leadership, a company can take what was otherwise an anticipated loss, work with a lead customer, create an enhanced value proposition for future development, and commit what would have been a projected loss to a new co-development program that leads to future success. They turned a loss maker into a win-win situation.

As Mavko explained, “This wouldn’t have happened if we didn’t have leadership at our company... willing to look at the problem a different way.”

In the process of taking this new direction, Raytheon was also able to test the “box” in which they thought they operated. “Test what you believe are your boundaries from time to time to see if they’re still there,” Mavko advised.

GROUP #3

Presented by Rick Cloyd

Business Development Manager
Caterpillar, Inc.

Caterpillar, which spends two million dollars a day on research and development, approaches innovation through a number of initiatives.



Strategic Planning Committee (SPC)- The Strategic Planning Committee is a high-level governance team chaired by the chairman of the company and consisting of 15 people, most of whom are vice presidents or potential vice presidents. The SPC meets five or six times a year and always in face-to-face meetings, never in teleconferences. The committee becomes the final arbiter on what projects get launched and what gets handed off to the business unit for further development.

An example of a successful recent innovation at Caterpillar involves a powerful new technology that Caterpillar developed internally, through research and development. This potential game-changer is a business that Caterpillar spun out. It’s being treated as a separate entity and the company is still deciding, “Do we want to get into this new business, or do we want to develop this technology and license it?” For Caterpillar this is a very different business model and it is still too early to tell how it will, or will not, work within Caterpillar’s larger business.

This raises an important question regarding determining when to spin something out. How do you know when the time is right?

GROUP #4

Presented by Jeff Jansma

Director, New Product Commercialization
Herman Miller, Inc.



Herman Miller, the company that invented the office cubicle and the iconic Aeron chair, has long been known as an innovator in the world of office furniture. Now they want to become an “innovative company that happens to make furniture.”

How does Herman Miller generate new ideas? The inventors and designers, the idea innovators, generally come from *outside* the company and are encouraged to share their ideas with Herman Miller. The company contracts with some inventors and researchers to further develop their ideas and present their solutions to management. “We listen to them, we invent together, we work together to innovate,” Jeff Jansma explained. From all the ideas presented, Herman Miller chooses a select few designs and develops them. In this respect, a core competency of Herman Miller is the ability to select the best concepts and designs.

One of the KIN participants raised a question regarding whether Herman Miller saves costs by not employing their own designers. Jansma explained that the company doesn’t look at it that way. First, this form of “open innovation” isn’t new. It has been Herman Miller’s approach for decades. Second, they don’t necessarily work with well-known big-name designers; they look for the people with the best and most innovative ideas and develop long-term relationships with a cadre of designers.

As the New Product Commercialization Director, it is Jansma's job to stretch the "Innovation Radar" to maximize the potential of the business, to do whatever is needed to bring in more customers and increase distribution. (Note that Herman Miller applies the Innovation Radar methodology during the early stages of their development process. This helps explain Jansma's terminology.)

CONCLUSIONS: WHAT DO WE DO NOW?

Rick Cloyd: Use upcoming trade shows to do major innovation ideation with customers. In other words, better leverage industry trade shows.

Alan Landry: Create "Program Council" forums in which company vice presidents meet every two weeks for 3-4 hours with a focus on growth.

Scott Mordell: Think about transition and scaling in a more organizational context. "We need to figure out a way to better institutionalize innovation. It still tends to mean only new products. How do we institutionalize it?" Get the focus and commitment from senior executives; get the right vocabulary and the right discussion with like-minded people.

Bill Fluharty: Remember that senior leaders are in the same boat. Senior leaders don't know what they don't know. Package your ideas in a way that they can't say no. If they say "no" to a product, keep trying because they might instead say "yes" to the overall target market.

Betsy Holden: Challenge yourself. The problem is not just at the top. Don't just blame upper management for failing to take the initiative on innovation.

And finally, a closing thought from Professor Wolcott...

Very few of us here have more than 50 years of life left, and 50 years goes by fast. If you're not in a place where you can manifest your vision, go find a different place. Somebody once said, 'Love it, change it, or leave it.' That's really what it's all about.

Many thanks, again, to all of our participants for their insights.

To the future,

Rob C. Wolcott