

## Forts, Ships & Radars

# Achieving Strategic Innovation

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Association for Corporate Growth  
Oakbrook, Illinois

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## Share your vision. Change our world.

Kellogg Innovation Network at the Kellogg School of Management

**FEATURED KIN COMMUNITY MEMBERS**



### Colombia

Reinventing a country

Colombian visionaries will attend the KIN Global Summit to share their experience in restoring peace and prosperity to their country by focusing on improving the economy, community and the environment.

Photo Credit: David van der Woude

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## KIN Global Summit June 1 - 3, 2009

### BUILDING GLOBAL PROSPERITY: INNOVATION AND ACTION

#### ABOUT THE SUMMIT

On June 1 - 3, 2009, a group of 200 delegates from around the world will convene to build a path toward global prosperity. KIN Global is not simply a conference, but part of a larger vision, of a responsibility of great institutions to provide an independent platform for people to collaborate and address humanity's most meaningful challenges.

#### THE TOPICS

KIN Global seeks to discuss what prosperity means within various regions and contexts.

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#### FEATURED DELEGATES

A quick plug for  
my new book...

(...or just wait for the  
movie)

"The best account I have read about how companies can enable  
and support internal entrepreneurs to achieve innovation-led growth."

—Philip Kotler,

S.C. Johnson & Son Professor of International Marketing, Kellogg School of Management

# GROW FROM WITHIN

MASTERING CORPORATE  
ENTREPRENEURSHIP  
AND INNOVATION

ROBERT C. WOLCOTT AND  
MICHAEL J. LIPPITZ

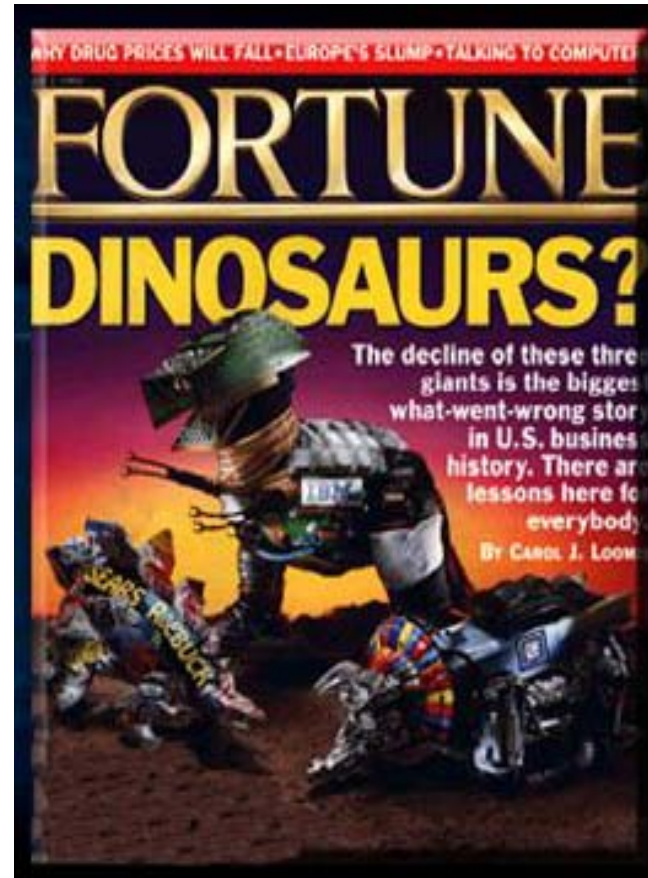
# The Success Trap



# IBM's near death experience... and recovery



1984



1992

Why do we believe small firms are more innovative than large firms?

# All about balance.

Large, fast growth firm?

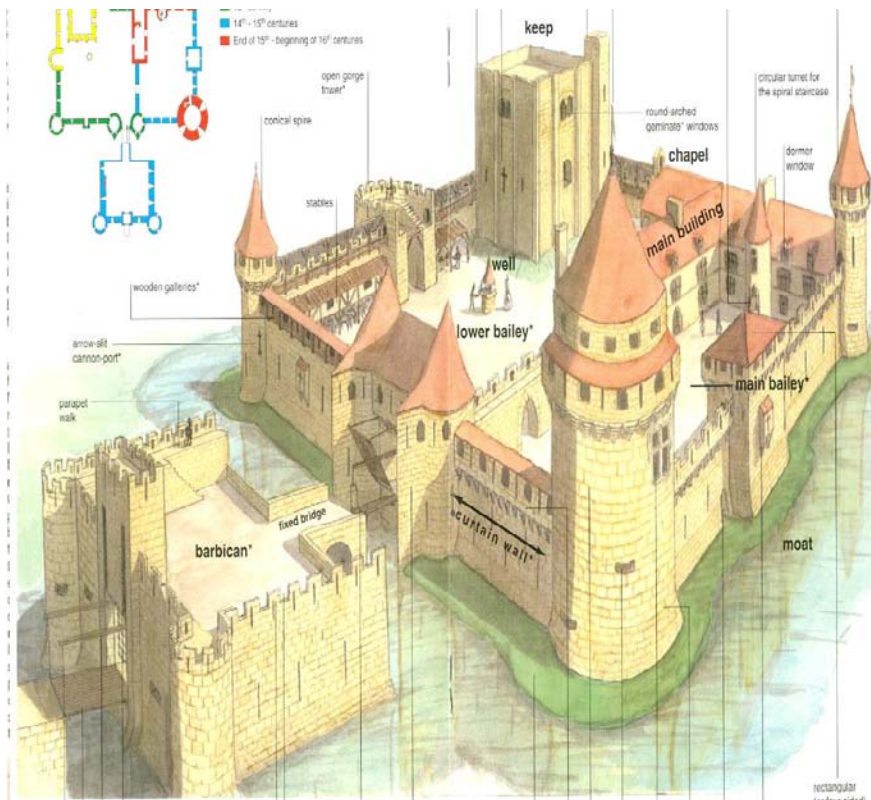
## Chaos “vs” Structure

Structure  Efficiency

What is the **problem** with efficiency?

# Fortification Versus Exploration

Tension Exists Between Defending the Existing and Dominant Positions...  
...and Creating New Growth Through New Business Creation



Sources: James March, 1991; Dr. Michael Clem, J&J, 2005

# On *what* can we innovate?

Traditional views on innovation tend to focus on the *what*:

Technology, New Product Development & R&D

We need to also consider the **how**, the **who** and the **where**...

## The Complete Business System

Research conducted in collaboration with  
Professor Mohan Sawhney & Inigo Arroniz

# Our definition of business innovation

“The creation of substantial or radical new value for customers and the firm by dramatically changing one or more dimensions of the existing business system, or by creating entirely new business systems.”

## Key points

- Radical innovation in *value created*
- Often *disruptive* to core business, though not necessarily so
- More *dimensions* than technological or product innovation
- Requires thinking holistically about the *business system*

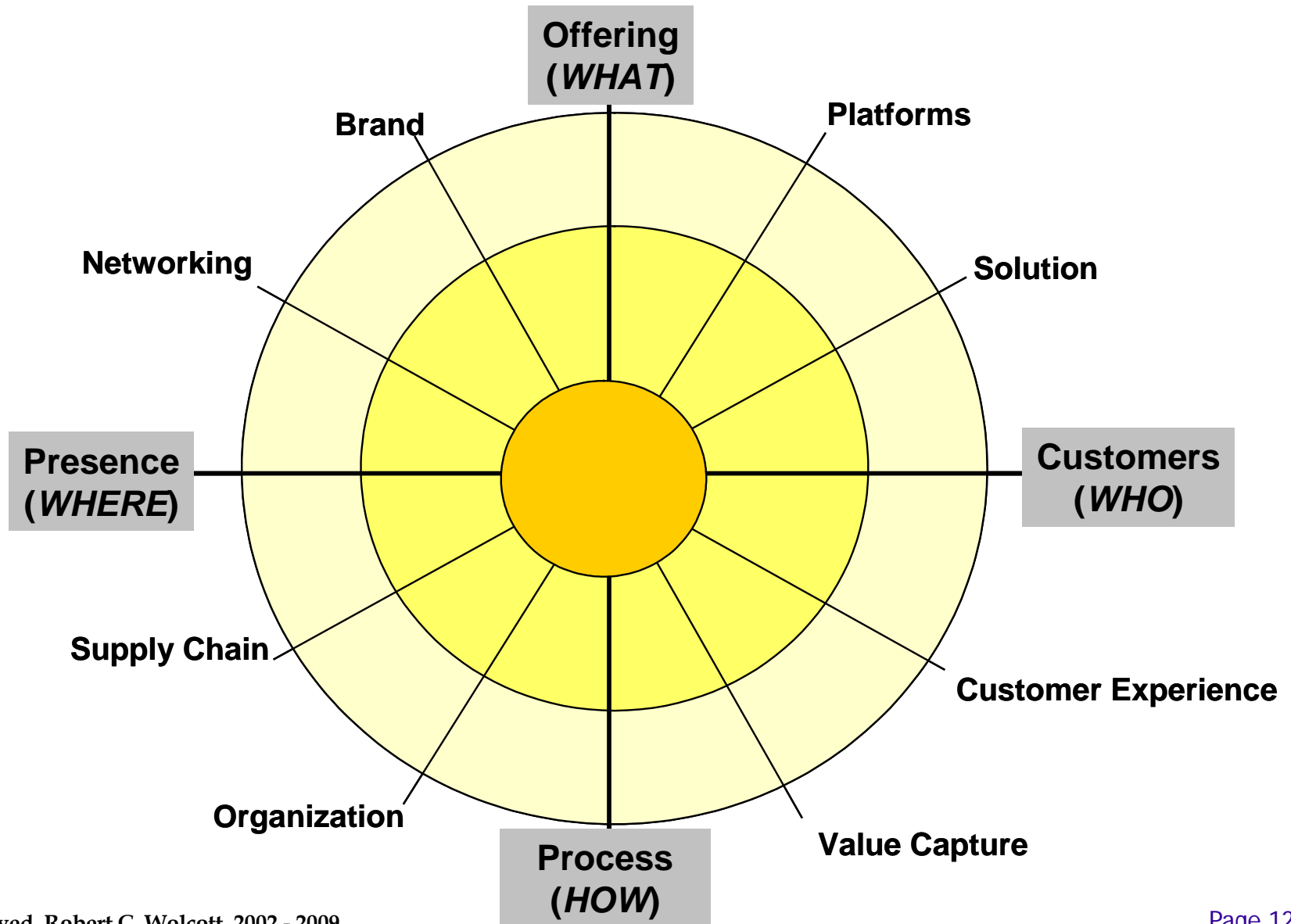
# Innovation Radar - the objective

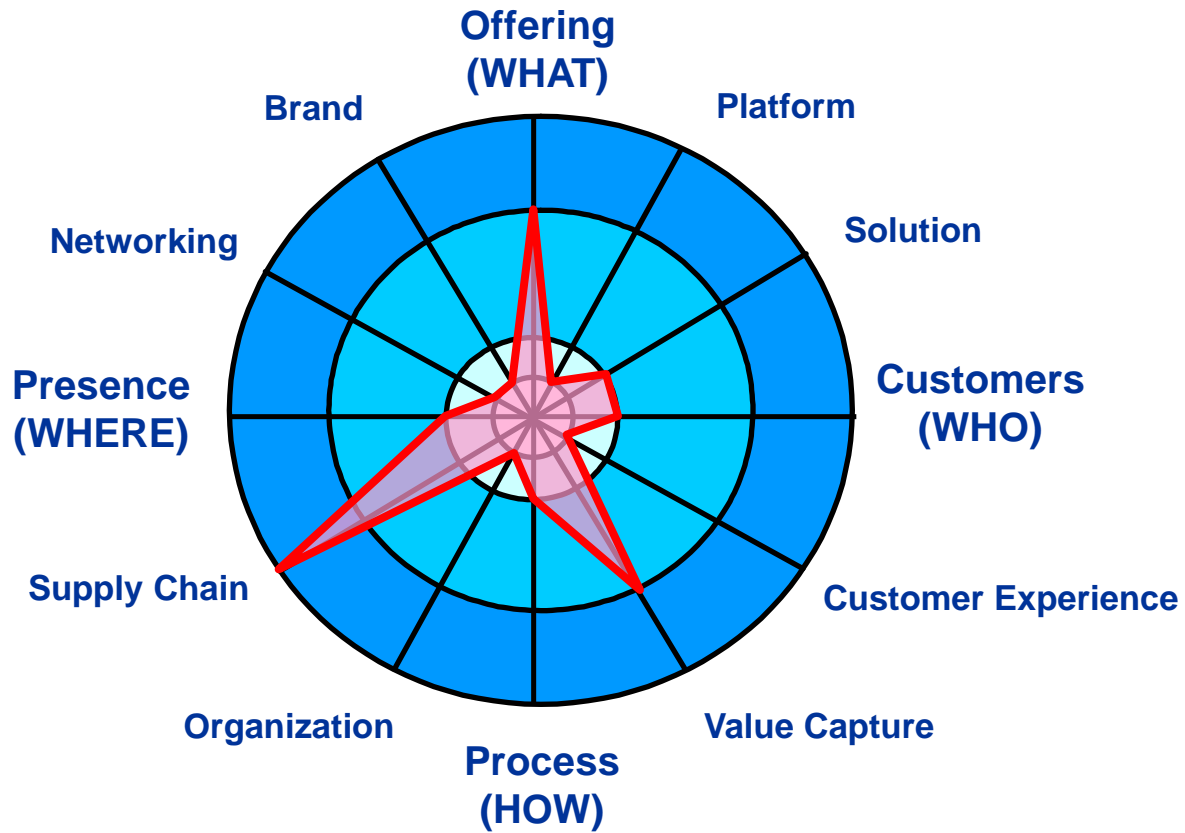
To create a holistic conceptual framework and a robust measurement methodology to visualize, diagnose, benchmark and improve the innovation performance of a business.

## Distinguishing features

- 360-degree view of innovation
- Compelling metaphor and visual tool
- Clear cumulative logic to innovation dimensions
- Robust measurement methodology
- Benchmarking database

# The Innovation Radar





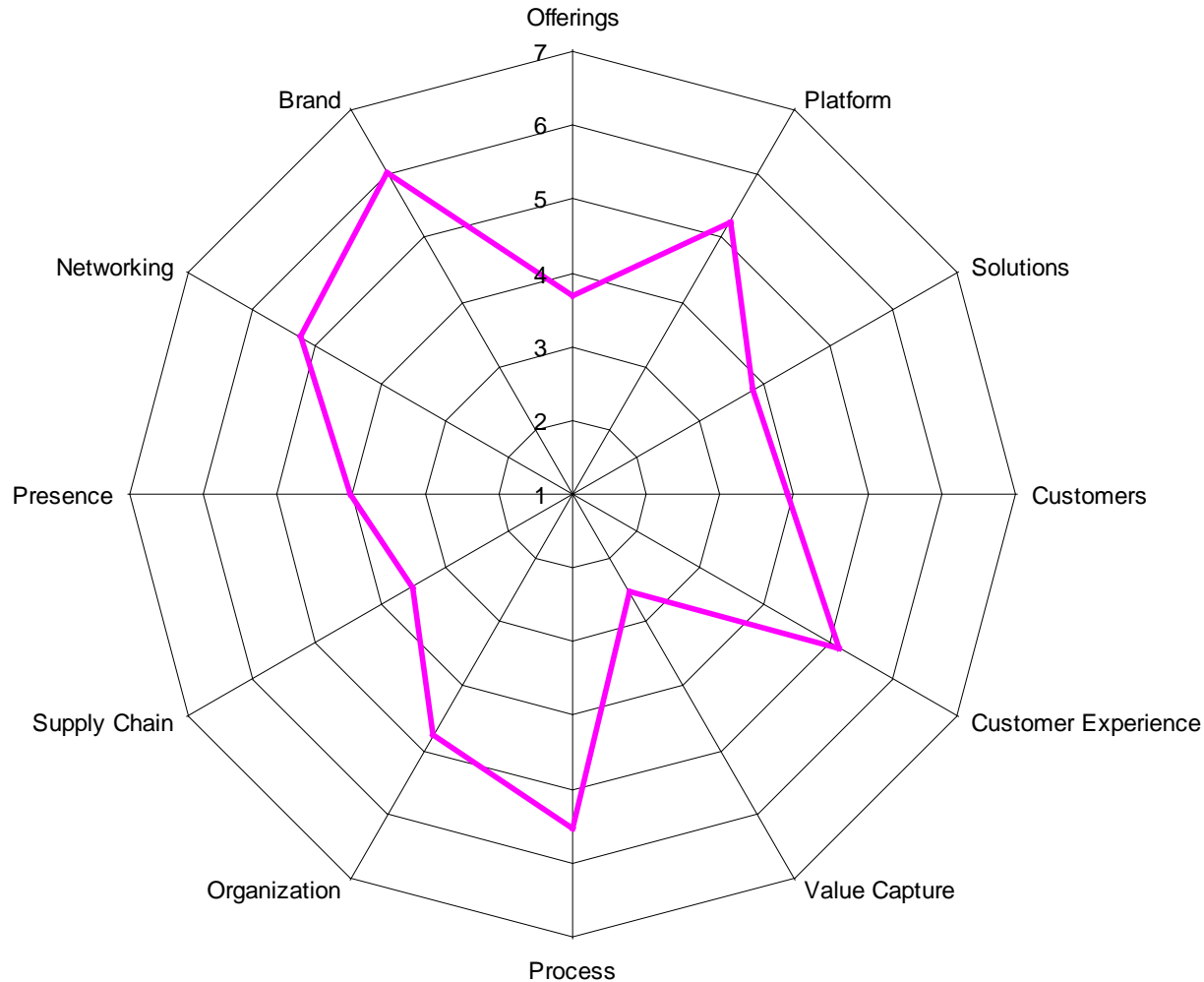
# Innovation Strategy Guidelines

1. Do NOT try to do everything. Select 2 - 5 dimensions and focus on them. (We have data to “prove” this.)
2. Look for dimensions of differentiation and parity your company from its competitors. Don't compete in the same way as everyone else.
3. Coordinate all internal functions and external partners to innovate and enhance performance around these differentiating dimensions of your business system.

# Example: Retail Bank with a Single Focus Innovation Strategy



# Example: Retail Bank with a Focused, Multi-dimensional Innovation strategy



# Applications of the Innovation Radar

- **Visualize:** Help understand business innovation more holistically and systemically
- **Brainstorm:** Explore dimensions of innovation in a systematic manner
- **Diagnose:** Identify the gaps in innovation performance of firms / business systems
- **Benchmark:** Benchmark the innovative capabilities of firms within & across industries
- **Design New Ventures:** Design complete business systems
- **Manage across the Portfolio:** Enable a holistic view across the firm's innovation initiatives.

# Two Examples

Firm ABC: \$6.3 billion unit of a \$40 billion public firm

- 20 respondents... entire division Senior Management Team
- Now being employed as a new business venture tool

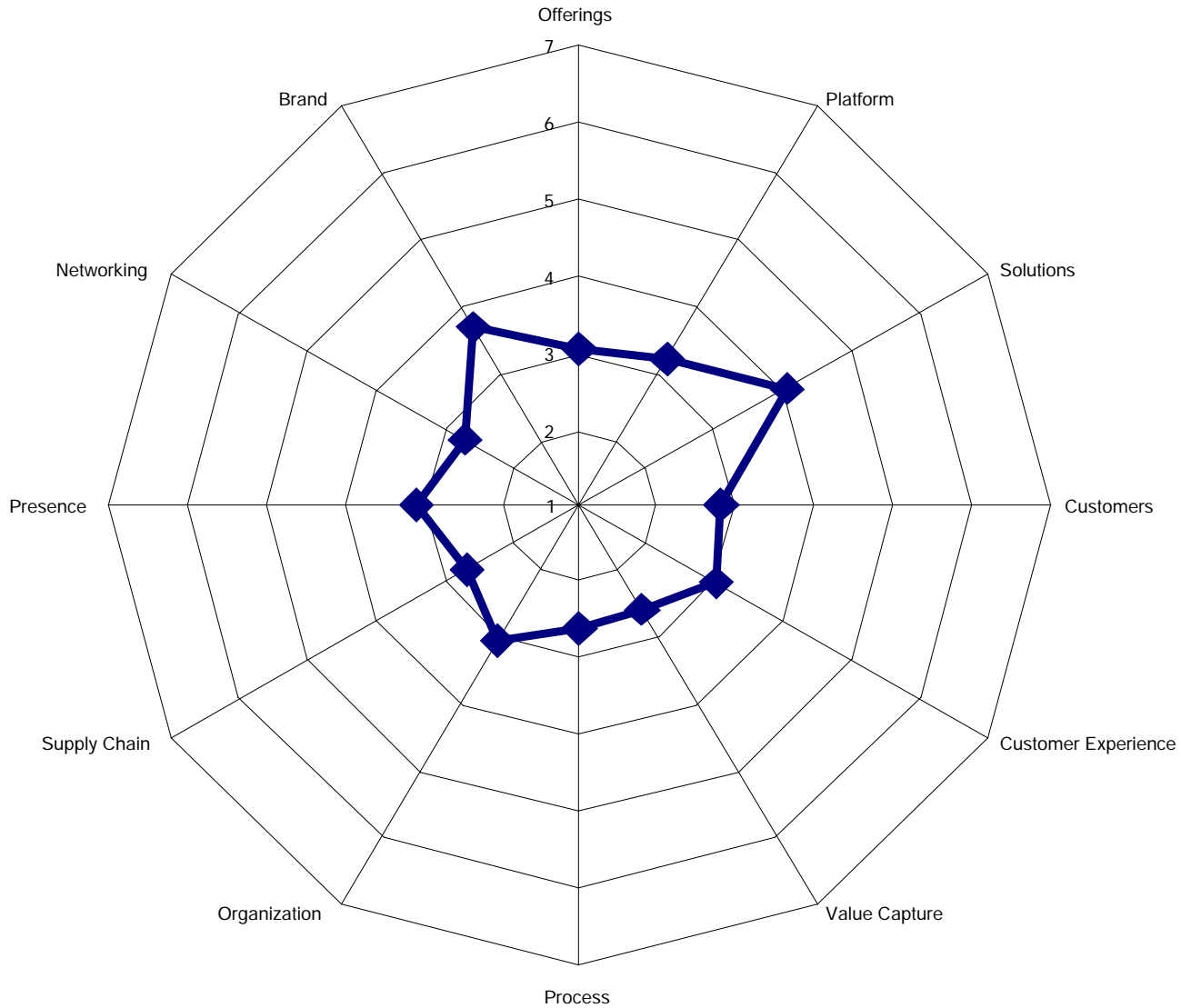
Two Fortune 200 US food products companies

- 20 - 30 senior management respondents from each company
- Neither knew the other was participating... until after....

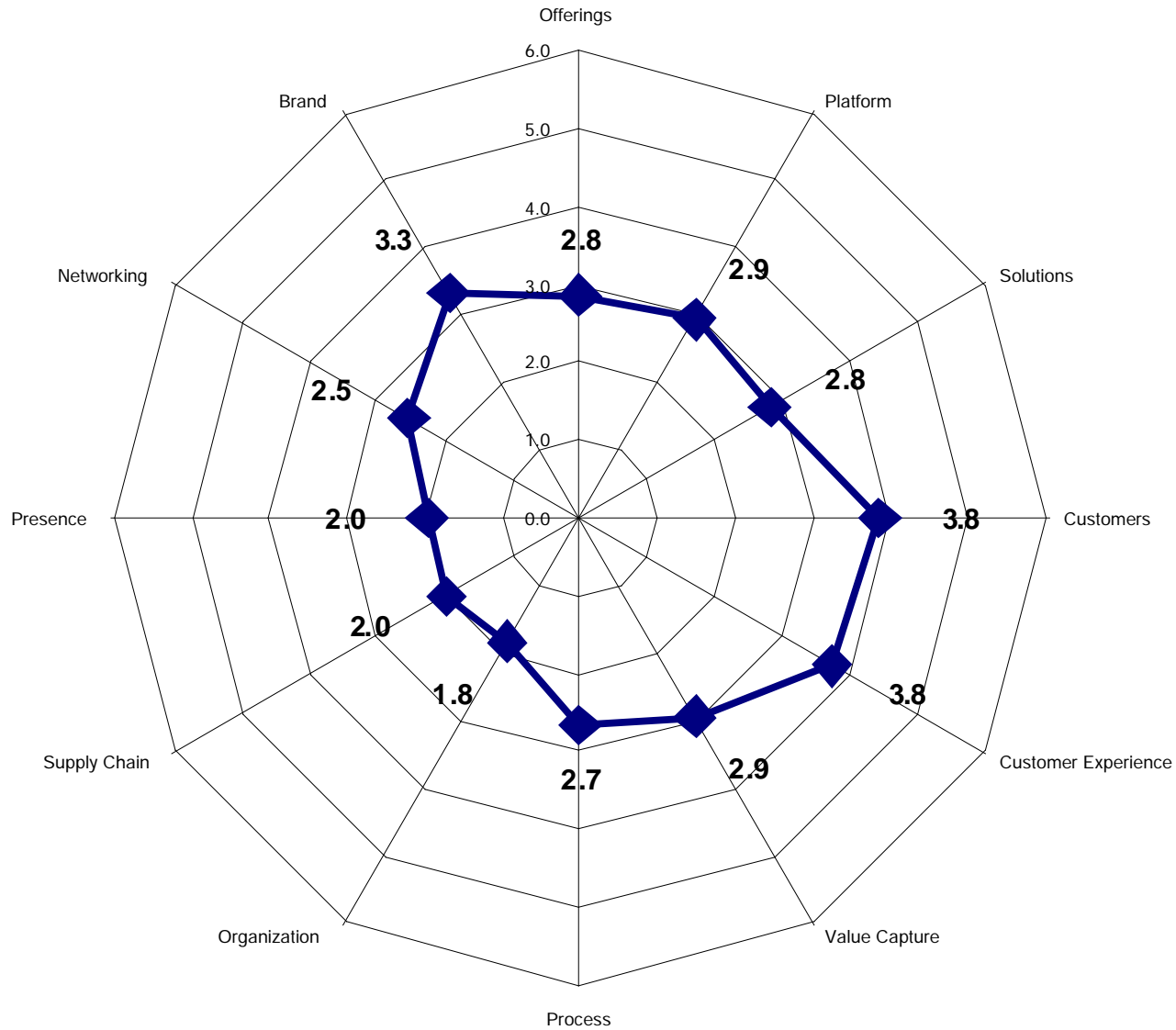


Two of the three firms are integrating the Radar into their ongoing Innovation Programs.

# Average Responses to Survey

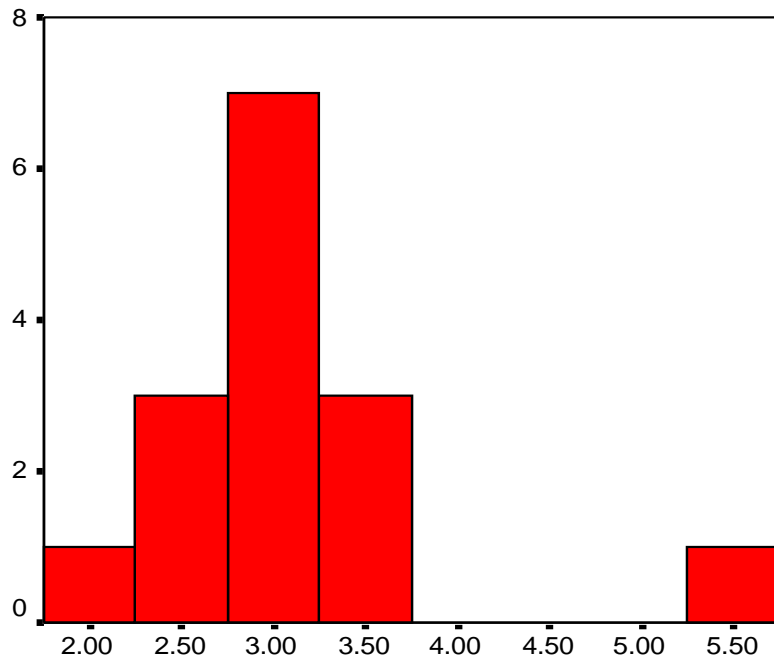


# Diverging Opinions

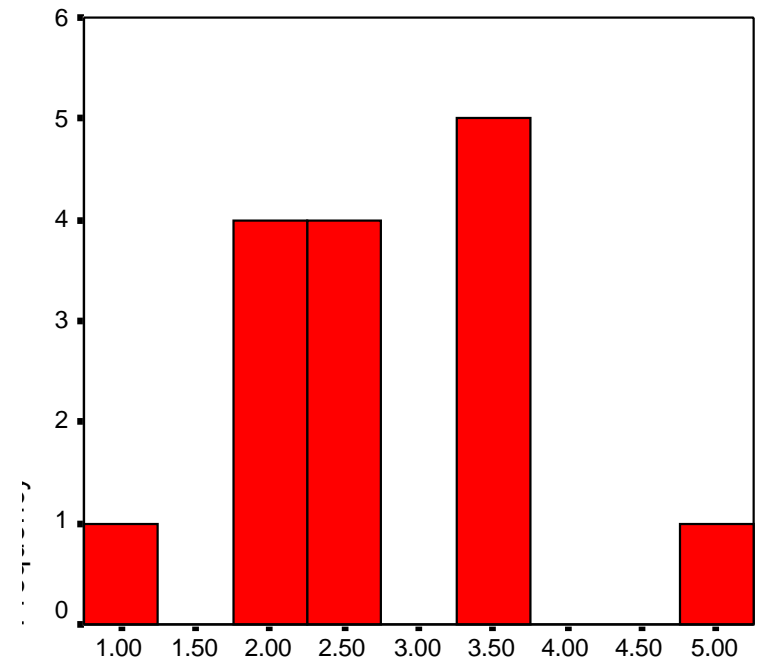


# Histogram Patterns

Platform



Customers



# Innovation Radar comparison between two leading food products companies

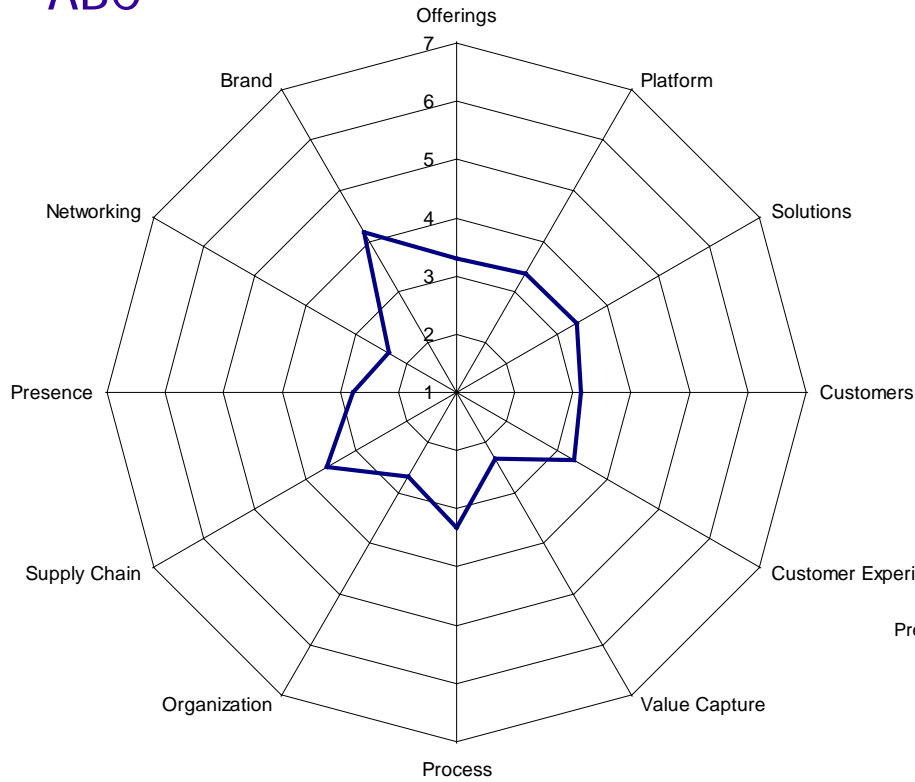
**Rob C. Wolcott & Inigo Arroniz**

Kellogg School of Management

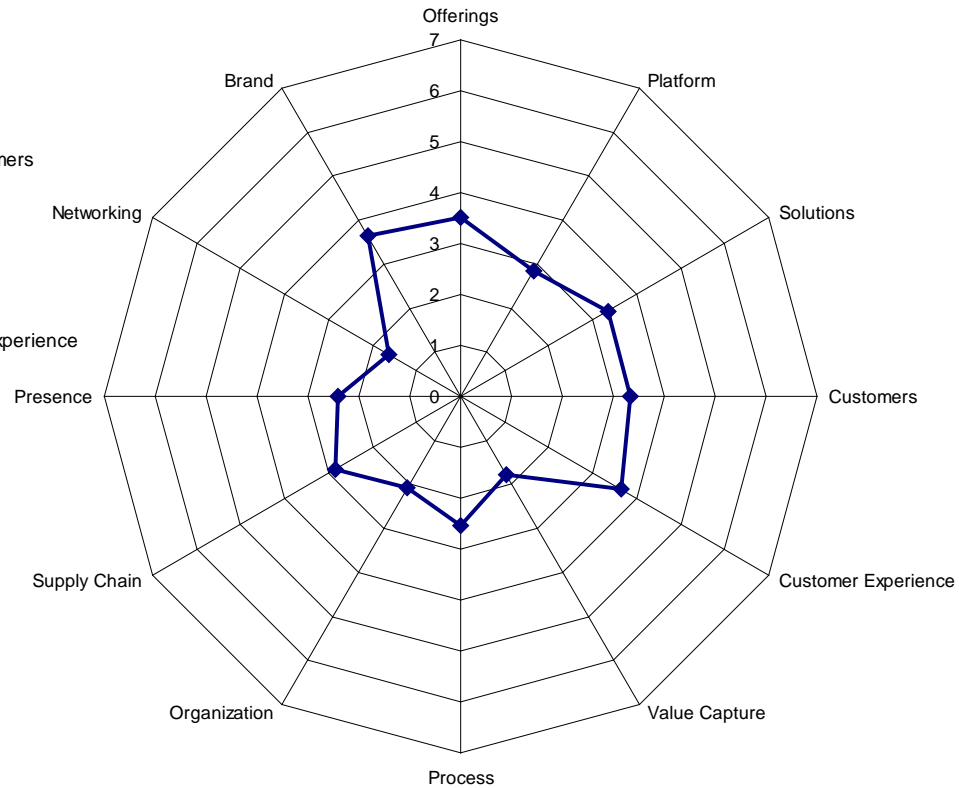
December 9, 2005

# Food Products Firms' Radar Profiles

ABC



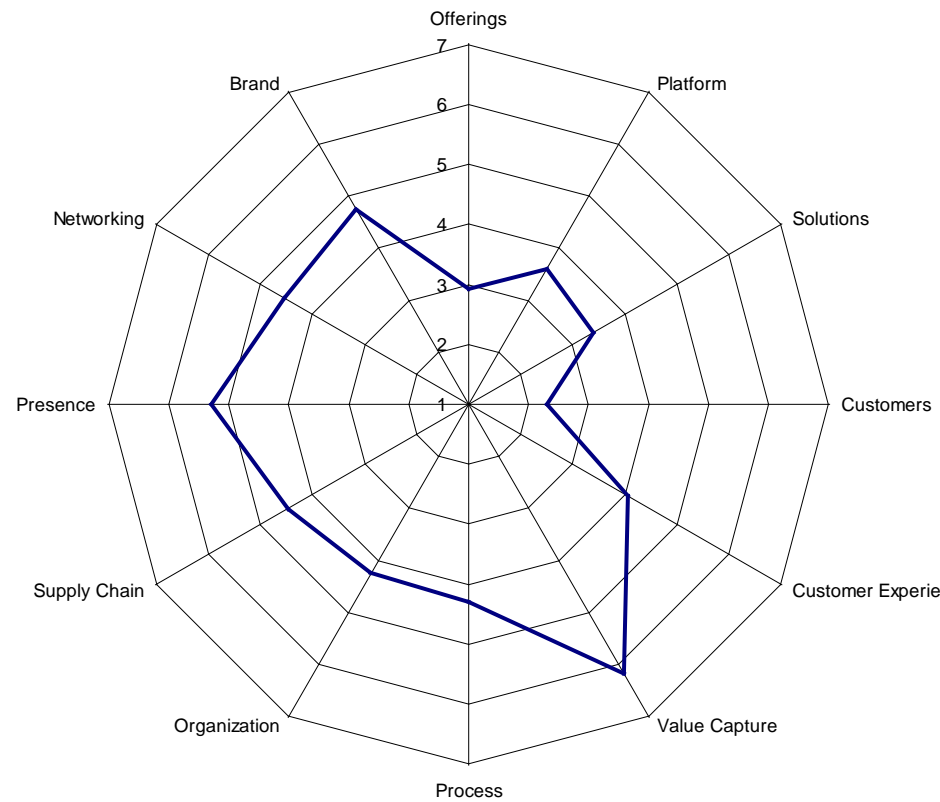
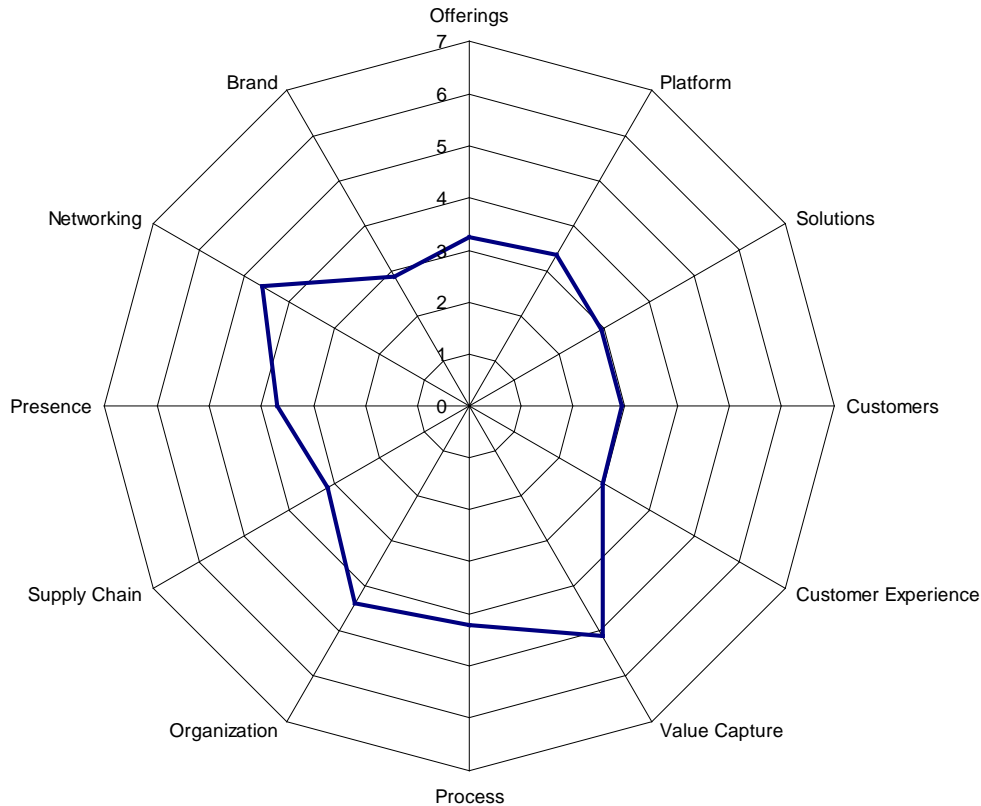
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# Divergence Comparisons

ABC

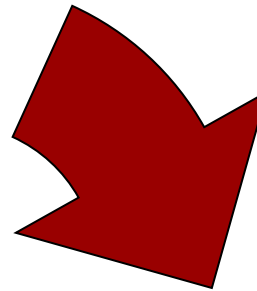
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# The Radar Applied

## Envision

- Strategic Dimensions
- Desired Future State

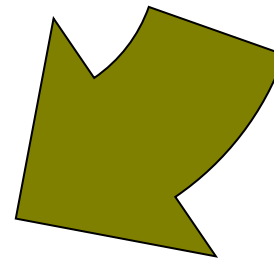


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## Enable

- Communicate
- Educate
- Empower

3



4

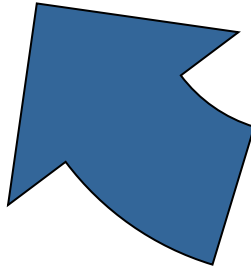
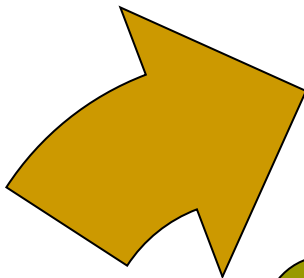
## Track

- Progress
- Performance

1

## Profile

- Current State
- Competition
- Diverse Perspectives



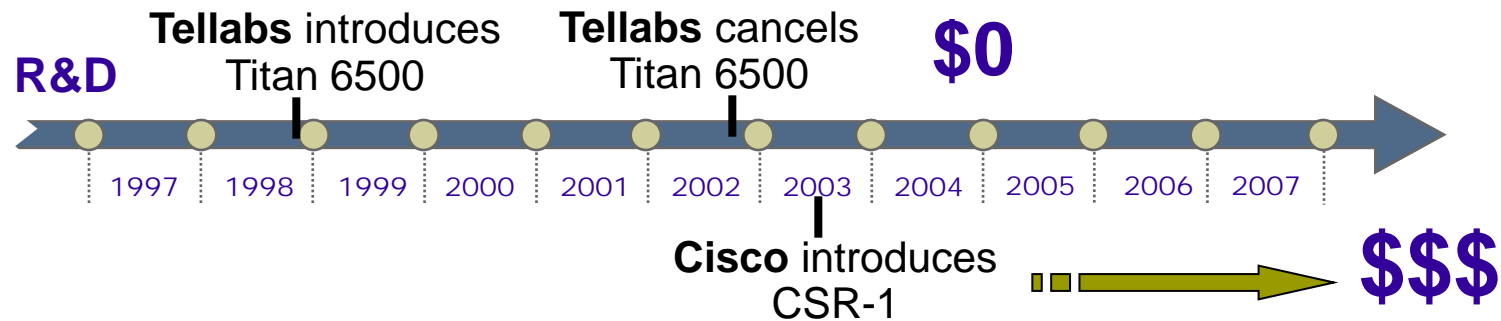
# Critical Point: Innovation is a Systems Challenge.

The way we do business creates constraints  
to doing new things--  
business system constraints.

# How to Fail



VS.



- Old buyers
- Kept same organization and channels
- Part-time team members
- No executive sponsor

- New buyers (same customers!)
- Created new organization and channels
- Full-time team members
- Senior executive sponsor

# Ultimately...

Innovation is about more than technologies or products.

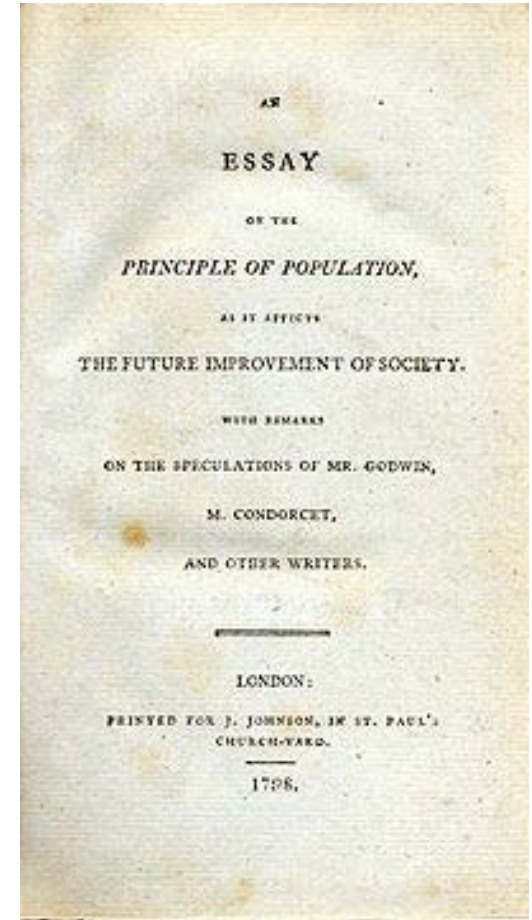
The point is *new value* creation, not 'new' creations.

The **business system** provides a complete view of where to look for innovative opportunities.

There are many paths to value. “**Differentiation**” is as relevant to the entire business system as it is to products.

# You have a *true* mission

Malthus & the end of the world...



Thank you for your time, and many thanks to the ACG.



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# Appendix

## Innovation Radar Vector Summaries

# 1. Offering - creating new products and services

## Definition

Products and services that your business provides to external customers.

## Offering Innovation

Creation of new products/services or a significant augmentation of features or functionality of existing products/services.

## Examples

- Colgate *Total* toothpaste with Triclosan anti-bacterial ingredient
- Toyota Hybrid cars
- Sony's four generations and 150 variations of the Walkman over a 10-year period
- Merrill Lynch's Cash Management Account

## 2. Platform - exploiting commonality

### Definition

A set of common components, processes or technologies that serve as building blocks for a portfolio of derivative products and services.

### Platform Innovation

Creation or a significant augmentation of a platform system or subsystem that can:

- increase speed of introduction of derivative products
- reduce development, production, and servicing costs of the product line by sharing components, processes, and technologies
- create powerful strategic control points by exploiting direct and indirect network externalities.

### Examples

- Microsoft Windows
- Airbus common cockpit designs
- Disney animated movies

# 3. Solution - solving complete problems

## Definition

A customized combination of products, services, and information that addresses an end-to-end problem for specific customers.

## Solution Innovation

Creation of integrated, complete, and seamless offerings so that customers can reach end-goals more effectively without having to deal with multiple vendors, channels, products or services.

## Examples

- UPS Logistics Services supply chain management, warehouse design, reverse logistics management and transportation network management offering
- IBM's bundling of its consulting services and financing services with sales of its hardware
- DuPont selling "painted cars" to Ford Motor Company

# 4. Customer - serving unmet needs

## Definition

The end-users individuals or organizations that use or consume your offerings to satisfy a specific set of needs

## Customer Innovation

Discovering entirely new customer segments; uncovering unmet, unarticulated or latent needs of existing customer segments; resegmenting the market in creative ways.

## Examples

- Chrysler's creation of the Minivan segment
- Home Depot's targeting of "do-it-yourself" customer segment
- Federal Express' segmentation of package delivery market by time instead of volume

# 5. Customer Experience - redesigning the customer interface

## Definition

What customers see and feel when they interact with the company and its products across all touch points and all moments of contact.

## Customer Experience Innovation

Redesigning the interface between the customer and the firm across the customer buying and ownership lifecycle and across customer touch points to make the customer interaction more efficient, more personal, more seamless, and more appealing to all five senses.

## Examples

- Saturn's no-haggle pricing
- Amazon's 1-click ordering and returns management process
- Lufthansa's "all-business class" flight experience
- American Girl Place stores, catalogs, events, and products

# 6. Value Capture - changing how you get paid

## Definition

How a company makes money from its business activities. This includes the revenue streams that the company creates, the pricing mechanisms that it employs, and the techniques it uses to increase the value it can claim for its offerings

## Value Capture Innovation

Finding new revenue streams, designing innovative pricing and licensing schemes, innovations in yield management, changing the position or scope of the company's value chain participation, creating gain and risk sharing mechanisms, and actively managing intellectual property.

## Examples

- Blockbuster's revenue sharing model with studios
- Google's paid search feature
- Progressive's "utility pricing" for auto insurance
- Cambridge Technology Partners' "fixed time, fixed fee" consulting services

# 7. Process - changing how you work

## Definition

All internal business activities of a company like financial management, technology development, manufacturing/transformation processes (Business Process Reengineering, Six Sigma), new product/service development and strategy development

## Process Innovation

Improving internal operational and administrative processes to progressively remove process delays, improve process quality, and reduce process costs.

## Examples

- Nucor's Minimills
- Toyota's Toyota Production System
- Boeing's virtual design of the 777 plane

# 8. Organization - changing form and function

## Definition

A company's organizational structure, external partnerships and human capital.

## Organizational Innovation

An innovative organizational design, innovative approaches to managing partnerships and alliances, innovative HR practices, and innovative incentive schemes for employees.

## Examples

- 3M's organizational structure that creates "organizational slack" to help encourage innovation
- Cisco's growth by acquisitions model
- Handspring's radical outsourcing and reliance on partners

# 9. Supply Chain - changing how you source and deliver

## Definition

The set of activities in planning, implementing and coordinating the flow of inputs, products, information, and finances among all participants in the value network.

## Supply Chain Innovation

Changes in the structure of the supply chain, changes in how information flows among participants in the supply chain, and the processes used for collaborative planning and execution.

## Examples

- Wal-Mart's Vendor Managed Inventory
- Dell's direct-to-customer channel and build-to-order manufacturing process
- Home Depot and GE Appliances collaboration on virtual inventory in Home Depot stores

# 10. Presence - changing where, when and how customers access your firm

## Definition

All points of presence through which a company markets, sells, and supports its offerings.

## Presence Innovation

Creating new points of presence, augmenting the channel mix, creating self-service channel innovations, integrating channels in innovative ways, reconfiguring channel service outputs, changing the structure and roles of channel partners.

## Examples

- Enterprise Rent-a-Car outlets near auto repair shops
- E\*Trade's use of the Internet to provide 24/7 access to information and transaction capabilities over any internet enabled device to retail, corporate and institutional customers
- NetFlix's mail-order and Internet-based rental service for DVDs
- McDonalds and BofA's mini-outlets inside supermarkets

# 11. Networking - exploiting network intelligence

## Definition

The difference between your offering as a standalone offering versus an offering that benefits from connectivity to a network.

## Networking Innovation

Augmenting the functionality, adaptability, or serviceability of your offering by leveraging network-based intelligence.

## Examples

- OTIS' Remote Elevator Monitoring (REM)
- Actimates upgradable toys
- Electrolux's Internet-connected auto replenishing refrigerator
- Boeing's network-centric warfare and Future Combat System
- Microsoft's Xbox Live service

# 12. Brand - leveraging the customer connection

## Definition

An identifying symbol, word, mark or other source identifier that distinguishes a product, a category or a company from its competitors.

## Brand Innovation

Leveraging brand equity (i.e. use of an established brand name to enter a new product class), co-branding, or fundamentally changing the brand image (i.e. what the brand represents or to whom it appeals).

## Examples

- Virgin's brand extension into dozens of diverse businesses
- Intel's "Intel Inside" logo on PCs
- Harley-Davidson's "lifestyle" brand
- Mini Cooper from BMW



Many thanks for your time.

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