

synnovation

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The Road to Innovation

From simple ideas to complex processes, technology grows from innovation. The result is newfound success.

EDS

Driving Innovation

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Rethinking the Path to Innovation



One answer to the growing demand for innovation can be found just outside the walls of your enterprise: the customers, partners, vendors, and others who interact with and care about your company.

And the means to tap into that community is right at your fingertips: the global information network.

The Need for Innovation

Innovation can take the form of a brilliant idea conceived in a single moment or a concept hammered out in a rigorous development process. It might be the “next big thing” that transforms an industry or the simple idea that shaves a few precious seconds off a business process.

Regardless of its form, this much is true: Nothing separates the winners and losers in an industry like the ability to innovate. In just about all industry sectors, the 25 percent most innovative companies have 2.5 times as many new products and get 10 times the returns on their innovation investments when compared to the least innovative ones, according to Arthur D. Little.¹

Companies have long recognized the impact that innovation has on their businesses and have made it a priority to consistently deliver innovation. For decades, business leaders have tried to foster innovation with everything from statistical stage-gate processes to creative brainstorming techniques. But the results of those efforts have been mixed. Accenture found that while two-thirds of CEOs recognize innovation as one of the five most important factors required for sustaining competitiveness and growing shareholder value, only one in eight executives felt strongly that their companies excelled at implementing innovative ideas.²

Today, the rules for being innovative are being reinvented as the Internet allows information and ideas to flow inexpensively and instantly around the world. People are more widely dispersed geographically, yet more closely connected than ever. Early adopters and avid users living everywhere from India to Indiana are communicating about how a company could make its business or a product more valuable—and even setting out to build that better company or product.

What's So Hard About Innovation?

If innovation is so critical, why is it so hard to do well? Many companies have long regarded innovation as an ivory tower activity and have tried to manage it as if it were a department, like marketing or accounting. In this model, companies rely on a relatively small group of people to drive innovation—to develop ideas and determine which ones will become new products, services, processes, and so on.

Today's business realities make it too risky to overlook or ignore the ideas outside a company's walls when looking for innovation. Companies should, instead, augment their internal efforts so that innovation permeates the organization as well as the wider community.

To be a success, innovation requires two ingredients:

- › Curious, passionate, thoughtful people
- › Freely flowing data and information

Great companies aren't only relying on the brilliance of their employees, but also tapping into the curiosity, passion, and creativity of their *innovation community*—their customers, vendors, partners, suppliers, analysts, and, yes, even competitors.

Eli Lilly, the pharmaceutical leader, for example, recently launched InnoCentive, an online knowledge portal. Lilly and other firms post R&D problems on the site and solicit solutions from individuals and companies worldwide. As a result, Lilly and 50 other participating blue-chip companies have received more than 250 proposed solutions from an estimated 95,000 researchers around the world.

Don't misinterpret this as an excuse to no longer invest in internal R&D. The leading innovators today recognize the need to layer external ideas on top of their internal efforts to help accelerate or focus their overall innovation efforts. >>



Seven Innovation Myths

Myth #1 **Innovation is a department.**
Reality: Innovation is a company-wide and community-wide competency.

Myth #2 **Let people loose to innovate.**
Reality: Enable people to innovate through collaboration, structure, and process.

Myth #3 **Innovation is a radical departure from the past.**
Reality: Innovation often creatively combines pieces of the past to come up with something new.

Myth #4 **You need more new ideas.**
Reality: You need more homes within your organization that can nurture and cultivate the ideas you already have.

Myth #5 **Mistakes are costly.**
Reality: Mistakes made early on can help focus and refine your efforts. Identify your mistakes quickly and pursue a diversified portfolio of opportunities.

Myth #6 **Avoid the detours.**
Reality: Detours may be the destination.

Myth #7 **Innovation is about creating new things.**
Reality: There are many paths and outcomes to innovation.



Embracing Innovation from Communities

Take a look at these persuasive statistics on where innovative ideas come from:³

- 46 percent from customers, suppliers, or market intelligence
- 29 percent from employees
- 11 percent from specialists
- 9 percent from R&D
- 5 percent from competitors

Unlike closed innovation, open or community-based innovation connects an enterprise to its wider audience of customers, buyers, sellers, vendors, analysts, experts, academicians, and other stakeholders. The network not only allows information to flow easily, but also gives curious and passionate people a place to discuss their ideas. If two heads are better than one, then why would you ignore the thousands—or even millions—of people interacting on the Internet about your company or product? Look at the success of **Linux** and its estimated community of 29 million people.⁴

Getting on the Path to Open Innovation

Here are a few ways of opening your approach to innovation and engaging your innovation community.

Make innovation comprehensive. Every innovation effort should include an organized, systematic, and continual search for new ideas—inside and outside your organization. Firms with innovation as a core competency have put systems and practices in place to improve innovation results within the organization as well as to tap into social, technological, and demographic changes taking place outside the organization.

A good place to start is by performing an innovation audit. Begin with your business objectives: What activities or products are core to your future success? Map the hot spots for innovation in that area. Identify the 10 most important innovations in this area that came from your

company and the industry in recent years. How did they originate? Where did they originate? How could you have recognized this innovation earlier and incorporated it into your business? What bottlenecks have stopped you from rapidly adopting this innovation?

Use this information to identify new ways to take advantage of the next wave of innovation.

Create opportunities for information sharing and collaboration. According to McKinsey, companies in which employees spend more time interacting are among the top value creators.⁵ The first and easiest step for most companies is to ensure that the enterprise network connects as many people, in as many places, to as much information as is possible.

Connectivity helps ensure that ideas are not just traveling from top to bottom, but from bottom to top and laterally—within and outside the organization. The increased flow of information creates, in itself, opportunities for innovation.

Removing barriers to information flow is a cultural as well as a technological challenge. Ensuring that everyone has e-mail, for example, is easy. But what good is e-mail if employees don't know who to share ideas with? And what happens when your e-mail inbox is so overflowing with ideas that you can't do your regular work? Or if your inbox is so overflowing with regular work that you have no time to look at new ideas?

In addition to deploying tools that can help foster collaboration, companies must help employees learn to use these new tools productively.

Change your perspective from “passive customers” to “active collaborators.” Businesses have traditionally regarded customers as passive recipients of new products and services. But today's consumers are smarter, more informed, and more connected than ever. They have instant access to information about your products and your competitors' products. They're brimming with new product and service ideas and eager to share them with you—if you'll listen.

Rather than rely on such traditional market research techniques as focus groups and surveys, use web-based tools such as blogs, forums, and >>



The Musical Sneaker: A Tale of Innovation

Innovation may take the form of a bright new idea, but more often than not, innovation occurs when existing ideas are brought together in a new way or in a new context. Combine the Internet and the time-honored tradition of the barnyard auction, and you get eBay. Think music, digital storage, and mobility, and you get the iPod.

Now, think about listening to music while you run, and you get the

Nike+iPod Sports Kit, a wireless sensor kit for Nike running shoes that allows runners to listen to music while tracking their time, distance, pace, and calories burned.

This kit is among many innovations that are building on the ubiquitous MP3 players. Expect to see a lot more of this type of innovation as companies listen to how their communities want to use their products in new ways.

The new Nike+iPod Sport Kit (\$29) allows Nike+ ready footwear to communicate with the Apple iPod® nano, allowing runners to receive audible updates on speed, distance, and calories burned throughout the run. The Nike+iPod Sport Kit is the first product developed through the Nike and Apple partnership announced in May 2006.



social networks to engage customers in less artificial environments. Interacting with customers on their own terms can provide tremendous insights to help you focus or accelerate your innovation efforts.

When Cisco was interested in acquiring Linksys, our home networking division, we found the best place to do our due diligence was in online message forums. We were able to discern who Linksys customers were (very impressive early technology adopters), what they thought of the company and its products, and most important, why they had selected Linksys to create their first home networks. After we acquired Linksys, we continued to go back to the forums to get customers' advice on improving the Linksys product line.

Create, encourage, and reward communities of interest. Communities are social networks of people who find each other through a variety of means and are drawn together by a shared context and topics of interest. These can be trade or technical organizations, academic institutions, user groups, analysts, consultants, and so on. Customers are critical, of course, but they're not the only constituents in your innovation community.

To consistently deliver innovation, you need to foster relationships with diverse people and institutions to bring together the expertise to solve today's complex challenges.

Proctor & Gamble is a prime example of a company tapping into its external communities for innovation. The Fortune 500 company reports that its outside scientific networks contributed 35 percent of all its new products in 2004, up from 20 percent three years earlier. As a result, sales per R&D person were up 40 percent.

The best way to encourage innovation and particularly early-stage idea development is by creating and maintaining a broad range of communities of interest.

Become an active partner in these communities, providing as much advice and assistance as you receive from it in the beginning. Make sure your employees understand the role of communities in the innovation process, and encourage them to get involved in contributing to and growing your communities.

An example of how these communities can pay off: A major auto manufacturer set up a neutral web site for car enthusiasts to research cars from all makers. Through the data and comments left on the site, the automaker was able to harvest a host of recommendations for new auto features and ways to market current models to specific target markets. The company might have been able to get this information through traditional market research techniques but instead developed a



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community of interest that it can go back to time and again for valuable insights.

Become an innovation broker. The world’s largest corporations spend some \$400 billion on R&D investments; yet for all this hard-earned cash, 60 percent of C-level executives are unhappy with their returns, according to **Forrester**.⁶

The solution is not to throw more money at R&D, but to rethink your innovation philosophy. With the rise of innovation communities, companies should be focused on successfully financing, brokering, and delivering innovation regardless of its source.

For example, Cisco has acquired innovation via an ambitious strategy of mergers and acquisitions, seeking out those companies with the strategic knowledge to enhance our product line or to help us create new market opportunities. Between the years of 1998 and 2000, Cisco acquired 50 companies that today represent a broad platform for the innovations that Cisco has delivered in recent years.

The Bottom Line

Using the network to tap into the communities of passionate people that surround your company can help you fill and accelerate your innovation pipeline.

Today’s business realities make it imperative

that companies bring together ideas from external and internal sources, to ensure that they are efficiently collecting, evaluating, and transforming ideas into the products and services customers want.

Innovation is not a lone journey, but a community effort that can put you on the road to higher profitability and superior business performance. |s|

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FOOTNOTES:

- 1 Arthur D. Little, “Technology and Innovation Management,” August 2006: www.adlittle.com/services/tim/ (Arthur D. Little is the world’s oldest management consultancy.)
- 2 Accenture, “Innovation: Closing the Implementation Gap,” August 2002.
- 3 PricewaterhouseCoopers study quoted in Gartner, “Focusing the Innovation Process,” January 2002.
- 4 Estimated as of August 1, 2006 by The Linux Counter: counter.li.org.
- 5 The McKinsey Quarterly, “Competitive Advantage from Better Interactions,” 2006 Number 2, and “The Next Revolution in Interactions,” 2005 Number 4.
- 6 Forrester research quoted in The McKinsey Quarterly, “Creation Nets: Getting the Most from Open Innovation,” Spring 2006.