INNOVATION LEADER

BEST OF 2018

OUR MOST POPULAR REPORTS, CASE STUDIES & RESOURCES

Editor's Note

For this digital collection, we pulled data on the most popular reports, case studies, and resources that our team produced in 2018. What you'll find inside are the top twelve things we published over the course of the year. We always like to highlight the fact that Innovation Leader produces 100 percent original content for our members, with their input and guidance, and what you'll find inside is the result of dozens of interviews conducted in person and by phone, as well as survey responses and discussions at our live events.

Everything here is accessible to Innovation Leader members on our site, including three research reports that total 220 pages. But you'll still be able to read and download a fair amount even if you're not (yet) a member, like our Pointers PDF focusing on building networks of innovation champions at your company; our podcast, "Innovation Answered," and our "Innovation Illustrated" guide to measuring innovation progress.

We've got big plans for 2019, including events in San Francisco, New York, London, and Boston, as well as two issues of our print magazine and research reports on topics like "Co-Creation & Ecosystem Development" and "Remaking R&D," as well as an all-new edition of our annual "Benchmarking Innovation Impact" report with a special focus on the companies that have strategies, structures, and programs worth emulating. We're grateful to all of the firms that support our work — online, in print, and at our in-person gatherings; you can find some of their top publications of the year on page 35.

I encourage you to check out our events calendar, and make sure you are seeing our regular email newsletters, to stay up to date with us.

Here's to vision, creativity, hard work, and big results in 2019!

PS: Two of the most-trafficked pages on our site this year were about the Impact Awards, which honor companies that have achieved extraordinary outcomes related to their innovation programs. One explained how to enter, and the other was the complete list of winners and runners-up. You'll find that list at innovationleader.com/impact-2018-award-winners, and information about submitting a 2019 entry at innovationleader.com/awards.

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Case Studies

Office Hours, Part I: Clay Christensen on Amazon, Disruption Fatigue, and Attracting Top Talent

BY SCOTT KIRSNER, EDITOR
PHOTOS BY TONY LUONG

Clay Christensen in his office at Harvard Business School

Visiting Clay Christensen at Harvard Business School is like going to office hours with your favorite college professor. There are papers covering the desk, family photos and published articles displayed on the walls, and a window looking out at brownstone buildings and trees with leaves just starting to change colors.

But this prof has been one of the best-known business theorists since publishing "The Innovator's Dilemma: When New Technologies Cause Great Firms to Fail" in 1997, as the web began to touch every industry. As a busy public speaker and co-founder of Innosight, a nonprofit called The Christensen Institute, and the Rose Park Advisors investing firm — his day is planned with the rigor of a military operation.

You don't just drop by. You schedule time with his assistant for a Friday in October, wait in the hall, and at precisely noon, the door swings open as Christensen invites you in.

There are lots of things you could discuss when spending an hour with Christensen. For this conversation, we turned to the Innovation Leader community to pose questions that they wanted to ask Christensen. We received more than 100 submissions, including questions from executives at Pearson, Pfizer, Chobani, and Bose. The interview was conducted by Innovation Leader's editor, Scott Kirsner.

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Innovation Leader: ...[Amazon is] looking for a second headquarters city. Brian Christian of Inovo asks, "What do you make of Jeff Bezos and Amazon? Are they showing the way for any big company to serially create transformational new businesses, or are they a one off exception to the rule that cannot be emulated?"

Christensen: ...That's a great question. I have a more complicated answer than you're asking for, but there's a piece that we are in the midst of writing, called "The Capitalist's Dilemma." One of the ideas in it is that historically...we're taught in finance that we should husband the use of things that are costly and expensive.

[Something like] platinum — you're very careful about how you use it. Things that are abundant and cheap, you don't have to worry about husbanding its use. Like sand, you just waste it, if you want. Historically, we always viewed capital as expensive and scarce...

After we have put our money in, we want to get it out as quickly as possible, because we can then maximize the return on something that's scarce and costly... Capital is abundant and cheap, yet we continue to behave as if it's costly and scarce.

...The idea that capital has become abundant and cheap allows Amazon to do what under the old regime of capital — that you have to husband the use of capital — actually doesn't apply anymore. Not just in Amazon's world, but in the market as a whole. We behave as if we can't use capital abundantly.

IL: Is it abundant if you're an Amazon competitor like Target or Walmart?

Christensen: Scott, that's a great question. There's an article in the last version of the Harvard Business Review, written by a former student of mine named Max Wessel ... The essence of the article is, "[it is] actually a lot harder to respond to disruption than it was when Clay developed the model." He said, "Because there is so much capital..."

... He describes Ford as an example. Ford can take its money, and put behind these new startups in the future of automobiles. The value that that gets is just unbelievable.

If they put that very same money on the very same idea, and follow every element of Clay's description of how you need to deal with disruption —

IL: — putting the money into internal Ford product development, they get less return than they would funding a new electrical vehicle startup that [someone is] going to start.

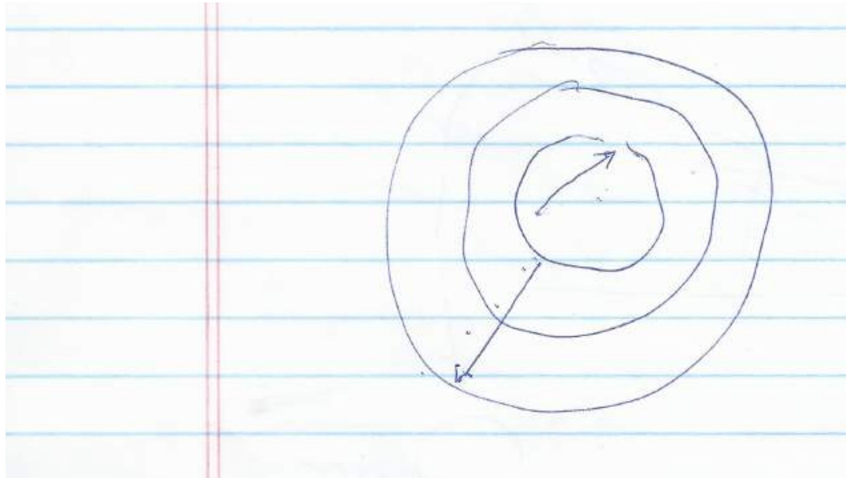
Christensen: ...I think that's a real problem. Max, at the end of this article, says he doesn't know the answer. Nor do I.

WHEN DISRUPTION GETS DISRUPTED

IL: Dan Seewald of Pfizer asks about the word disruption. He says, "The term disruption is being used pervasively by corporate innovators and large companies. Has the term lost its intended meaning? How do you reclaim the intention behind the concept of disruption?"

Christensen: ...We're fighting [this battle] every time I give a talk, every time. I offer my course online. A key idea, right in the first session is, "What is disruption?" Yet it gets hijacked millions of times.

...We are writing a new book about where prosperity comes from. ...Every market has a set of concentric circles around it that represent larger populations of people who have progressively less money and less skill.



Christensen's sketch of concentric circles representing groups of customers.

A disruptive innovation is not an innovation that makes good products better, but rather it makes [something] so much more affordable and accessible that much larger populations of people have access to it.

By using that language, I think it's helped the problem — that [disruptive innovation] makes [things] affordable and accessible, so that a whole new population of people have access to it.

HOW DO YOU IDENTIFY GAME-CHANGERS IN YOUR COMPANY

IL: One of our friends in Belgium at BNP Paribas has a people-related question. She wants to know, what are the characteristics of people inside the company that could be identified as game-changers?

The second part of her question is, how do you convince executive committees in a company that they're going to be disrupted, and create that sense of urgency at the top, that you can't just do efficiency and incremental [innovation], and hope to survive in this environment?

Christensen: They're big questions, aren't they? Again, I don't have answers, but one element of getting this done well is, you know, we don't have metrics that [tell us that] five years down the road, we're going to get killed. If I'm at Moody's or S&P, and I give you a B minus average...

IL: There's no corporate lifespan estimation, right?

Christensen: That's right. They only look at this year, and maybe next year. There's not a commonly-accepted measure of, are we investing for the long-term? The system will not allow the development of that. The only way to develop it is if managers themselves would get together, and hammer out a metric that

Christensen sketched several diagrams during our interview.

measures this.

IL: This is not a question that somebody gave me, but you're not supposed to feel fear as a leader. You're not supposed to communicate it to people in the company. It's an important emotion in humans, and people feel anxiety, probably, as they're having to lay people off, close stores, and close facilities.

But how do you communicate that urgency of, "We may not be here in five years," in a way that's going to be constructive? It's a huge leadership challenge, so that you don't turn into the person who's cracking the whip, harping on things all the time, or seen as negative.

Christensen: You're exactly right. I also think that I, you, and most people are trying to be thoughtful about it. We haven't articulated why growth is critical for continued success. If you're not growing, then the people who are giving their lives for the enterprise, there's no place for them to grow into.

Everybody needs to get more responsibility, and achieve more...

I ran into a guy who heard me give a talk, from Qatar. He wanted me to come there to give a talk about disruption [and] about why their nation needs to grow. He said that there are two different types of governments. One type of government [aims] to help their citizens be more successful in their lives. There are other governments whose purpose is to — what's the word he used? — put down their [citizens], and use them for the government's purposes, rather than use the government to help them to be more successful in all they're trying to do.

He points out that there are a few nations where the essence of their governments is to help their citizens to be better, to give them better education, better healthcare. When you look at those — and those include the USA, Canada, Australia — you don't see terrorism emerging from those nations.

He said the European governments, by and large, their posture [toward immigrants] is, "We don't want you in our nations. If you're here, you got here because we didn't want you, and you found some way in. In the southern suburbs of Manchester, England, I'm sure you can find a place there, but...we're not going to invest in you."

Those guys, that's where they cultivate terrorism, because the government doesn't want them to be there. Spain, around 35 percent of the young people —

IL: — they're unemployed.

Christensen: That's right. What do you expect them to do?

IL: I think the point you make about [the importance of] growing companies — it's not just satisfy the investors and the Street, but it's to satisfy the people that work for you.

Christensen: That's exactly right.

IL: It's huge. I think a lot of the Fortune 500, if you looked at them, they're not attracting the same talent that Google, Amazon, Facebook, Netflix-type companies are, because those are perceived as [the companies] where the growth is. That's where in two years, I'm going to be a director, in three years, I'm going to be a VP, and in four years, I might be running the place.

Christensen: That's right. ... If I were [Jeff] Bezos, the biggest concern would be, after we get that big, we can't keep growing, unless we cut [the company] in half. Your people need to be able to have opportunities to grow. ◆

Editor's Note: This is Part 1 of a three-part interview. The other two parts focus on organizing R&D teams and innovation in the healthcare sector. Continue reading the interview here: https://www.innovationleader.com/christensen-on-healthcare-innovation

These are the 14 Things That Kill Once-Great Companies

BY SCOTT KIRSNER, EDITOR

Too many large companies rest on their laurels and assume they will forever remain relevant. They get obsessed with their direct competitors and ignore the things their customers actually care about. They also assume that simply saying the word "innovation" a lot, or adding it to a few peoples' job titles, will somehow help them figure out the future. Meanwhile, on a daily basis, they are actively getting in their own way when it comes to investing, testing, and building things that will create growth in that not-so-distant future.

These are 14 of the most common things we at Innovation Leader see companies doing, thinking, and saying that lead to decline and eventual irrelevance:

1. All the smartest people work for us. We don't need to look outside for solutions, ideas, or help.
2. Marketing is the only group allowed to communicate with the customer. (But they can run a focus group for you in six months.)
3. Every new concept needs to have an iron-clad business case showing how it can become a billion-dollar business.
4. We need to cut costs now, without rethinking our model/store format. That can come later.
5. Digital customer acquisition, sales, service, and support are a low priority and underfunded. Most resources still go to marketing and selling things "ye olde fashioned way." (Please note, our fax number has recently changed.)
6. We need to wait until the annual strategy or budget review rolls around to discuss the need for a strategic shift or any new investment.
7. We need to wait for the integration work following our latest mega-merger to be completed. Then we can focus on innovation.
8. We need to wait for the consultants/new CEO/innovation committee to finish up an 18-month review that will tell us how to innovate.
9. It's far more important to be seen in meetings inside the building than to ever go outside the building for any reason.
10. We already have laid out the tech roadmap for the next five years, and [this new thing that is obviously gaining momentum] is not on it.
11. We don't buy from startups, so let's wait until Microsoft/Oracle/IBM offers this same capability.
12. The leadership team spent three days in Silicon Valley to set up a partnership with an accelerator program there, so we are all set on innovation.
13. Innovating is for our two-person innovation team.
14. We know we aren't able to hire our industry's top talent like we used to, but let's just keep hiring the same way we've always hired. ◆

Going Deep on Data: How the San Francisco 49ers are Gathering Real-Time Fan Data

BY KELSEY ALPAIO, ASSISTANT EDITOR

Moon Javaid, Vice President of Strategy and Analytics at the 49ers

The California Gold Rush was a transformative time for the West Coast. It was the United States' largest mass migration, bringing more than 300,000 people to the area before 1850. It brought not only the prospectors in search of riches, but also merchants like Levi Strauss, who sold them tools and apparel.

The Bay Area is now in the midst of a new gold rush—this one fueled by talent-hungry tech companies attracting young entrepreneurs, data scientists, software developers, and others to the area, triggering major changes throughout the region.

One of those changes has been the high-profile move of San Francisco's NFL franchise, the 49ers, from Candlestick Point near the San Francisco airport to Santa Clara, on the southern end of Silicon Valley.

During the hour-long journey from downtown San Francisco to the new stadium (named after Levi Strauss, by the way), you pass Google's campus, Adobe's headquarters, and Apple's "Infinite Loop." As you approach the stadium, the pristine red and white structure is framed by a picturesque mountain range on one side and an amusement park on the other. Also intriguing are the features you can't see—the 68,500-seat stadium has its own mobile app, free Wi-Fi, in-seat food delivery, state-of-the-art solar power elements, and the first rooftop farm in the NFL.

"When you think about the San Francisco 49ers, you think about the five-time Super Bowl champions," says Al Guido, the team's president. "What you don't think about is [that] we were in the bottom tier of the NFL when we were at Candlestick Park, [our former stadium]. We only had roughly 80 full-time employees. We were only a football team. Now, if you think about the 49ers, we're close to 400 full-time employees. We have a media arm. We have a venture arm. We have a development arm. We have a strategy and analytics team. We've grown."

Guido says the 49ers have become not just a team, but a sports entertainment company. This evolution was driven by a very important strategic question for the company: How do you turn an organization that once focused on only 10 home games annually into what Guido calls a "365-day-a-year empire"?

STRATEGY AT THE 49ERS

Just five years ago, there was no "strategy team" at the 49ers. This function took shape with the stadium move, as did the four primary objectives for the team. Moon Javaid, Vice President of Strategy and Analytics at the 49ers, rattles off the four goals: data and analytics, managing revenue-generating partners, expanding the company's brands, and enhancing the fan experience.

- **Data and analytics**: This involves "helping the rest of the organization out with analytics to help them make great decisions," Javaid says. "With our sales and service team, we've been developing analytics and reporting for them, so that they can understand who's performing well and who should be hitting the phones more. ... [We do] retention modeling as well—understanding of our season ticket holders, which are the most at risk to walk away from us. That is really helpful for our team, to help them understand where they should spend their time."

- **Managing revenue-generating partners**: "Retail concession operators, our 365-day-a-year restaurant that's downstairs. ... We control and manage those experiences."

- **Expanding the company's brands**: "It could be expanding our brand as Levi's Stadium, working through all of our non-NFL events and developing RFPs. ... We hosted Wrestlemania 31. We've hosted the Gold Cup final. We're hosting the college football championship game this year..."

- **Enhancing the fan experience**: "[We're] thinking about our customers' long-term value. Making sure that our customers continue to have a great experience while they are here. ... The at-home product is so great—we need to ensure that our experience is competitive to that."

The at-home product Javaid refers to involves high-definition televisions, cushy couches, instant playbacks, and—coming soon to a living room near you—virtual reality experiences. That's where the 49ers' focus on fan data comes in.

ITERATING ON CUSTOMER FEEDBACK

Seeing a live sporting event can be a pulse-quickening experience. But with every trip to a stadium comes snafus: long lines, sold-out concessions, overwhelmed restrooms. Javaid's team aims to minimize these annoyances as much as possible inside Levi's Stadium.

The first step in this process was diving into fan data collected as part of the NFL's annual survey, called the "Voice of the Fan." But, Javaid explains, "because it's a general survey for 32 teams, it doesn't get to the level of specificity that [we] think that you need. We wanted to complement it further with additional questions."

With their own survey, which was completed in 2014, their response numbers jumped to 31,000. And the output was a 15-page document with 109 bar charts. With this information, Javaid and his team sat down with executives and stakeholders after every game to highlight findings and make recommendations for the next game.

"I was super happy with the progress that we made," says Javaid. But then, during one meeting,

> **"[We're] thinking about our customers' long-term value. Making sure that our customers continue to have a great experience while they are here. ... The at-home product is so great—we need to ensure that our experience is competitive to that."**
>
> **MOON JAVAID, VICE PRESIDENT OF STRATEGY AND ANALYTICS AT THE 49ERS**

Javaid recalls he was talking about Wi-Fi with the Director of IT "and I was like, 'Jim, our Wi-Fi scored really poorly this game. You should go out and fix it.' He's like, 'Well, great, which one of 1,500 Wi-Fi access points would you like me to fix?' It was a light bulb moment for me."

Javaid didn't have the answer, which to him signaled a major problem: his team had to get much more specific. So in 2015, Javaid's team iterated on the survey once more, and the output jumped from 15 pages to 64. He said the post-game report also became much more visual, helping his team better understand patterns in the stadium and areas that needed improvement.

This more granular feedback report led to 110 enhancements made to the stadium and operations over a two-year period.

Javaid also emphasizes the importance of keeping customers updated. If they ask for changes, make sure they know if improvements have been made. Bring them into the facility and show them the impact they've had.

"We understand that their satisfaction increases by 9 percent, by virtue of us making these changes and letting them know," he says.

But even with the more detailed survey, there were still opportunities for improvement—specifically regarding the turnaround time of the reports.

"Generally speaking, if a game is on Sunday, we can generate the results by Wednesday," says Javaid. But Guido wanted a faster turnaround. "He asked, 'Can you do this sooner?' I was like, 'Okay... I can get it to you Tuesday. I'm going to have to completely

Al Guido, President of the 49ers, wanted to see data in real-time.

scrap everything we've done again and rebuild it in order to make that happen, but we could do that.' I saw the look on his face, and he still wasn't happy. I was like, 'All right, I could do it Monday, but…' He still wasn't happy. I was like, 'Al, Monday, you're not happy? What do you really want?' He's like, 'I want real-time.'"

OBTAINING REAL-TIME DATA

Javaid's first thought was, "That's impossible."

But that outlook changed a week later, when he found himself in a New York City airport contemplating four multi-colored emoticons ranging from "bright-green happy," to "dark-red not." He immediately saw a potential application for HappyOrNot kiosks inside the stadium.

HappyOrNot, the Finland-based customer and employee satisfaction reporting company, is utilized in a variety of industries, such as retail, transportation, healthcare, and human resources. The premise is simple: each "Smiley" kiosk has four buttons displaying different emotions and colors (bright green with a large smile for very satisfied, light green with a small smile for satisfied, light red with a small frown for unsatisfied, and dark red with a big frown for very unsatisfied). Customers or employees can quickly select their current level of satisfaction by simply hitting the button that corresponds. This data is then provided to the end user via a reporting dashboard.

After just a 30-minute call with HappyOrNot, Javaid asked for 100 units to be sent to Levi's Stadium. And after just one game with the kiosks in place, Javaid said his team had received 25,000 impressions from fans—a HappyOrNot record for single-day use. Throughout 2017 as a whole, they received 212,000 responses. But the data was still not instant. HappyOrNot historically would send out reports a day after impressions were received.

"That's the model that they had for 10 years," says Javaid. "What was great for me in partnering with HappyOrNot was I pushed them as well and said, 'You have the feedback in real-time. Can you develop an app that sits on top of it, so then I can start to pull the answers in real-time?' They were open to the idea."

So Javaid and his team worked with HappyOrNot to create a real-time reporting app, just for the 49ers.

"Instead of getting a report the following day or on Wednesday, you're getting an alert at that exact moment when people are unhappy or unsatisfied, and you're getting it to the key decision-makers," says Javaid. "They're able to look at the concession stand or the restroom and say, 'This is what the problem is.'"

But HappyOrNot isn't just about the unsatisfied—it's about seeing where the organization is doing things right.

"People respond more favorably to [HappyOrNot kiosks] because it's so easy," says Javaid. "It's the beauty of simplicity. We get 20,000 people hitting them in a game. That's not 20,000 unhappy moments at a game. If I asked you to fill out a survey, if you're happy, you might not take the five to seven minutes that it takes. But if you're walking by a kiosk…it's the path of least resistance."

The next step for Levi's Stadium and HappyOrNot? Javaid's team is creating a "digital boardroom" in the stadium, featuring TV screens and live HappyOrNot stats.

"We'll be able to look at concessions, transactions coming in, entry patterns coming in, what's [happening] on social media, what's happening with the app," says Javaid. "It's essentially a mission control room for the business side. ... This would be more of an analytical control room where we could diagnose, assess, and handle problems in real-time."

DATA SECURITY & PRIVACY

When it comes to anything data-related, the question of security and privacy is always top of mind. With a high-tech stadium and advanced data analytics, how is Javaid's team keeping fans safe?

"You're being followed everywhere you go, everything you do," says Javaid. "It's obviously incumbent on companies that are collecting [data] to use it in the appropriate way. ... My approach is, we don't collect data for data's sake. Unless I can make an actual recommendation or insight off of what we are doing, we will not pursue it."

One example is the location-based data that the stadium's app generates. This kind of data trail is created as a by-product of helping fans navigate through the stadium. But although this data exists, it is not stored by Javaid's team.

"We have 2,000 beacons in our building," says Javaid. "We could follow you and chase you around and understand exactly where you are. I choose not to turn it on."

PLAYING THE LONG GAME

Even with the success of HappyOrNot in the stadium, Javaid says there were some essential steps to getting everyone in the organization "bright-green happy" with his team's ideas.

"I came into the Niners five years ago," says Javaid. "There was no business strategy team before we were here. ... There could have been a mentality of, 'Why do we need you around?' I believe that [support] comes from the top. You need to have that backing from ownership to warm everyone up towards working with us."

Javaid also says that a big part of his team's success is a result of their focus on "emotional intelligence," or EQ.

"I spend most of my time working on EQ and how you approach situations, how to be gentle," says Javaid. "If you get a no, it's OK. You have to think about the long-term. You don't have to get your way. One of our core statements is that we are not the winners. What that means is we are here to ensure that the VPs [in the organization] and other groups get wins. Those are their wins. They're not our wins. We do the work because it makes us happy and because it's fulfilling for us, but we make sure that the other stakeholders know that we're doing this for them." ◆

Buttons on a HappyOrNot kiosk

Harvard Business School's Sunil Gupta on Peloton, Goldman Sachs, and Designing a Digital Strategy That Works

BY SCOTT KIRSNER, EDITOR
PHOTOS BY DIANA LEVINE

Sunil Gupta in his office at Harvard Business School

Sunil Gupta has seen a lot of your attempts to make your company more digital. And he is not impressed. He has seen the digital outposts set up far from headquarters, the tsunami of small internal experiments, the collaborations with fast-moving startups. "Through initiatives like these," Gupta writes in his new book, Driving Digital Strategy, "managers are using a Band-Aid for a deeper problem. In order to be successful, you can't just create a separate digital unit, or run experiments, or use technology to improve your efficiency. Instead, you must make digital strategy an integral part of your overall business strategy."

Gupta is chair of the general management program at Harvard Business School, and co-chair of the executive program on digital strategy there. He has appeared on National Public Radio, CNN, and the BBC, and consulted with companies like American Express, Kaiser Permanente, Unilever, and Vodafone. We spoke in his office on campus just after the spring semester had concluded, and began by tackling the buzzword of the year: digital transformation.

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Innovation Leader: Maybe a good place to start is just to talk a little bit about the term digital transformation, which feels like it's...I don't know if it's the buzzword of 2017 or 2018, but I'm certainly hearing it a lot. When companies are saying, "We need some digital transformation around here," how do you interpret that? Is it a positive or a negative thing?

Sunil Gupta: There's obviously a lot of hype around it. Part of that is everybody hears the stories of the Kodaks or the Blackberrys of the world, or Nokia, and they don't want to be that. The concern that I hear from the executives is, "I need to do something. I don't know what, but I need to do something."

I've seen a lot of these executives, they bring in their top team, go to Silicon Valley, meet Google and Facebook and all these guys, get very excited, then come back home and say, "But we are not Google. We are not Facebook. What do we do?"

There is a sense of urgency without knowing exactly how we should do it.

Innovation Leader: Most companies will have a Chief Information Officer in place. Some of these CIOs probably are more strategic and future-focused than others. If you create a VP of Innovation or you create a Chief Digital Officer, or you have a CMO who feels like they should be leading digital transformation, do you see that creating conflicts sometimes—in terms of who's the leader, who has the most resources?

Gupta: This is one of the things that I talk about in the book—that [digital transformation is] not just [something that] has to be done in marketing or has to be done on operations. There are four components that companies need to look at.

One is the strategy itself. Does our business strategy change—the way we create and capture value?

In lots of companies, that fundamentally changes. It is the CEO's role to say, "What business are we in? How is Amazon going to disrupt us?"

That's a bigger question. Once you define where you want to be in the next five to 10 years, then the question is, "How should our operations look?"

Even if the strategy doesn't change, do I need to automate central operations with AI or algorithms or machine learning? Does my innovation have to be more open innovation, rather than internally relying [on our own expertise]? What happens to my distribution channel? How do I integrate online and offline?

The third component is the customer part. How do we interact with the customers in this world of digital marketing, social media? Does that change? How does the role of the advertising agency change?

The fourth would be organization structures. How do we actually create the organization? My perspective is that you need to strengthen the core and build for the future at the same time. It's almost like changing the engine of a plane while it's flying. How do you do that?

Should it be a separate CDO? Should it be part of the organization? I think different companies are experimenting with different stuff.

Innovation Leader: We did an event in Chicago a couple weeks ago, with 18 or 20 large companies in the room. A number of them had created the "digital committee" as a way to make sure there is enough focus, enough resources, and things are moving quickly enough. Have you seen that? Does that somehow escape the perils or the pitfalls of other committees where it's hard to get everybody together?

Gupta: I think a good example of that is I did a case study with Goldman Sachs. Goldman Sachs had a financial crisis, went through a lot of the turmoil and changes. They were also concerned about...how the financial services industry is going to change.

Now, in Goldman Sachs, like any other financial institution, there are a lot of silos. The guys who work in fixed income, the guys who work in foreign exchange, etc. These are big guys, because they're making billions of dollars for the organization.

Their personal bonus is linked to the P&L. As a result, the CIO, in this case, Martin Chavez... basically says, "Look, first of all, there are redundancies across these [businesses]. We need to kill the redundancies, because each division is doing their own stuff. They built a separate organization...but the whole goal of this separate body was to work with each individual silo or business unit to say, "Okay, what is that you do that can be done across the organization? What do you need where I can bring in a fintech [startup] to plug into your business?" They created a platform where all the business units are plugged in, and they plugged in the fintechs and all the other innovations into that platform.

The separate body is the one that can see across the business units. This separate body is actually supported by the top leaders of the organization.

Innovation Leader: Is it a committee, or is it like its own digital team?

Gupta: They started with a separate body. Now they also have a committee. It's two different things that they created. Again, part of [the goal of a committee] is [about getting] buy-in in the organization, as you know...and these are not staff people. These are all line people, which I think is important, because they actually drive their own business. They drive the responsibility for the P&L in some ways.

Innovation Leader: In addition to Goldman, I think you talk about John Deere in the book. You talk about Best Buy. What are some other examples from the book of companies that are navigating this intelligently?

Gupta: In the book, basically, I look at a series of case studies and from there draw some generalized principles, which are the moral of the story.

Of course, we can start with a company like Amazon, which is changing the rules of the game. My question there was, "Have the rules of strategy changed today compared to what we learned from Michael Porter, for example?"

My sense is in the olden days, strategy was talked about as, make your product better or cheaper, like differentiation or cost leadership. ... That was a very product-focused strategy.

In the digital world, there are a lot of connections. Because of these connections, I think what becomes [more] important are complements and network effects. Take WhatsApp or WeChat. The value of WhatsApp is zero if you were the only guy using it. The more people use it, the more its value becomes, without changing the product. So, it's not about [improving the] product.

Gupta's latest book, published in July 2018

Even if you and I created a better Amazon tomorrow, nobody is coming to our Amazon, because there are buyers and sellers on that [existing Amazon] platform. I think those network effects and complements, the razor and blade, become very important, because Amazon can provide loans to the small and medium enterprise at a very low cost, because they can make money somewhere else.

Innovation Leader: Explain to me what you mean by complements?

Gupta: Razor and blade. Sell [the] razor cheap in order to make money on a blade. That [concept] has been there for a long time, but it's become far more important now. For example, even take a traditional product like Peloton bikes. This is an exercise bike [that costs] $2,000 bucks.

Peloton could have gone with the old strategy and say, "Our product is better." But the insight of the founder was [that] when you come back from the gym, nobody says, "Hey, my exercise bike was fantastic."

You talk about the exercise routine. You talk about your workout. You talk about the instructor and so on. So, [Peloton] says, "We are focusing on the product benefits, but nobody cares about that. We need to worry about the outcomes."

Rather than [focusing] on the product, they first started on the complements, which was, "These are the free videos," initially. Now they make people subscribe to those videos. You're sitting in your home, and you have these videos that tell you the different routines that you can use.

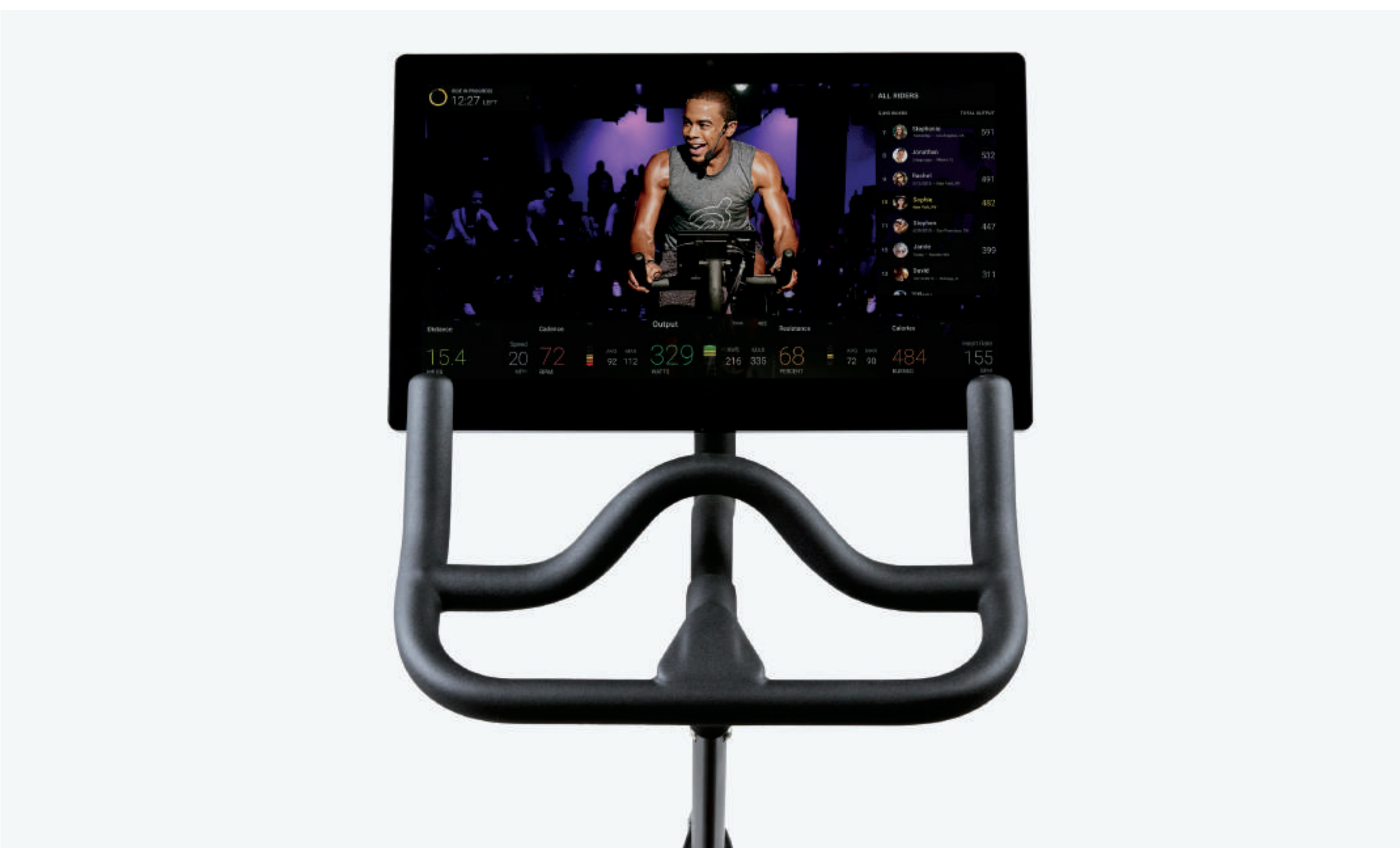
Then they created this community of all the Peloton bikers. If I'm biking at home, I can, in real time, connect with 100 other bikers all around the world as if I'm in the virtual gym. Then, my competitive juices start flowing. That becomes a much stronger competitive advantage as compared to simply focusing on product.

I think we can learn something from Amazon as to how we would change the rules of the game. That's one example of that.

The other example I use is [the task of redesigning] a gas station.

The question I asked my students was, "How would you redesign a gas station?" People talk about it. "Well, we will add more stuff on the convenience store. Or maybe, the car can automatically send a signal to the gas station to fill the gas," or whatever it is, right? I sort of pause and tell them that, "How many of you love going to a gas station?"

From this, we found our pain point. All new innovations have to start with the consumer pain point, not with technology. Once we found out the pain



A Peloton bike with screen

point—nobody likes going to the gas station—how can we come up with solutions?

Then immediately, somebody will say, “Oh, what if we bring the gas to the customer, rather than the customer coming to you?” And then I start to say, “Okay, but will you be willing to pay a premium for that service?” Some people say, “Yes.” Some people say, “No.”

Then I say, “Okay, what if I provide you convenience of coming to you, filling the gas in your car for exactly the same price that you will pay at the gas station?” Then everybody’s hand goes up.

Then they said, “But how am I going to make money in that process if I do that?” Slowly, somebody emerges and says, “Look, because you don’t have the fixed cost of the gas stations. And the gas stations are at the prime center of the city. If I removed the fixed cost...”

By the way, where did we learn that from? From Amazon. That’s exactly what Amazon did. They didn’t have any stores. That’s why they could compete with Walmart. I think we can learn a lot from these companies. But the idea is to draw some generalized principles.

Innovation Leader: But there are a lot of businesses that don’t have that direct relationship with customers [that Amazon does].

Gupta: Yeah.

Innovation Leader: [Like] car manufacturers that sell through dealerships. How can they execute a digital strategy that makes sense?

Gupta: I think almost every company [is] trying to make this direct connection with the customer.

I’ve talked to some of the insurance companies, and they say they have the same challenge, which is, “I’ve been selling it through agents. But now, I want that direct relationship with the customer. But how do you manage this channel conflict?”

Nike used to sell through Foot Locker and others. Now, they want to sell directly to me and also through Amazon, so how do we manage? That omnichannel confusion is always there.

My suggestion—or at least my learning from all this—is the company should not think of another channel as a substitute. They should think about what is the value that you can get from each channel.

I’ll give you an example of an insurance company that gave me some suggestions. They said, “We were facing the challenge that 95 or 99 percent of our business was going through the agents. But we wanted to go direct because we see this is the future channel. But our agents are threatening to leave our business if I go direct, so what do I do?”

They realized that the direct channel, the ecommerce channel, is good for selling simple products, because insurance is a complex thing. They use the online channel for customer acquisition with simple products. Then they handle the customers through the agents for selling more complex products.

Innovation Leader: The platform war is interesting because it has almost as much buzziness right now as digital transformation. “Oh, we want to become a platform company. We see all these Silicon Valley companies that have established themselves as platforms.”

Gupta: A lot of established companies don’t understand that being a platform means having an API and working with everybody. The reason that Android is a great platform is because they just opened up and said, “You can develop an app, I can develop an app.” Big companies seem to have...problems with that level of openness and interchange.

“A lot of established companies don't understand that being a platform means having an API and working with everybody.”

SUNIL GUPTA, HARVARD BUSINESS SCHOOL

You’re right. I think that’s the change in the mindset [they need]. The first thing that I see is that they will open up to bring in the small players. The small startups, especially in the business-to-business world, don’t have the capability and access to this kind of technology or the customers.

If I’m a small parts manufacturer for a jet engine, I don’t have the capability of GE. But because I’m a startup, I may have some innovations. GE can easily plug in as an API to these developers. Just like software developers plug in to Android.

I think some companies are beginning to see that. I see it in the banking industry, where they are saying fintech companies can be plugged into our platform

Innovation Leader: The data that would be interesting to gather is how high is the threshold of participating in the Goldman Sachs or GE platform, relative to becoming a YouTube content producer or becoming an Android developer.

This is going to be a long journey. Part of that reason is the tech companies, the YouTubes of the world, they haven’t made money for a long time and they’re fine with it. GE will not be fine with it, and

Gupta chairs the General Management program at Harvard Business School

their shareholders will not be fine with it. So, there is a concern that I have so much value that I'm creating. If I open it up [to others as a platform], that gets lost. So, there is a huge downside risk, if you will.

Innovation Leader: How do companies deal with that—the need to invest over time in building a platform or building these new digital businesses and ecosystems, [yet there are] companies like Amazon and Google that have enormous cash generating machines?

Gupta: That's the biggest concern or question that I get—that Amazon gets a pass without making money, but if I'm Walmart, I still have to generate cash from the traditional business. It's a difficult question, but the goal is not to become the Amazon or the Google. The goal is to say, "What strengths do I have that the other guys don't?" Large companies do have certain assets. They have brand names, they have customers, they have the cash flow. The question is, "What do I do, rather than just aping somebody else?"

Adobe is a fabulous example of complete transformation. When I wrote the case in 2013, the stock price was $35. Today, it's more than $250. They went through a complete transformation when they were being beaten [up] by Steve Jobs on the Flash controversy. The New York Times has gone through this transformation, and they've done reasonably well.

Innovation Leader: What's one more big idea from the book that we haven't talked about?

Gupta: It's probably a cliché to say it, but there is no silver bullet. It's very hard. Every company's system is different. What works for P&G would not work with General Motors, would not work for GE.

Rather than looking for this one single big idea, or silver bullet, you need to systematically go through these different components, whether your strategy, your operation, your customers. It's a laborious, boring, and not sexy process, honestly.

The company should realize there aren't going to become the Google of tomorrow or the Amazon of tomorrow. They should not try and become somebody else. They have certain strong things that they do.

Best Buy is a great example. Best Buy is doing fabulous in what it does. It was almost bankrupt in 2012 when Hubert Joly took over. Now they're flying very good—and it's a retail company. ◆

How Hasbro CEO Brian Goldner is Building a Company that Can Innovate in the Physical and Digital Realms

BY PATRICIA RIEDMAN YEAGER, CONTRIBUTING WRITER
PHOTOS BY TONY LUONG

Brian Goldner of Hasbro

A six-foot-tall spud with a bushy 'stache greets visitors to the Pawtucket, R.I. headquarters of the toy giant Hasbro. But while Mr. Potato Head is a familiar face to kids of all generations — he was the first toy ever advertised on network TV in the 1950s, and then saw another surge of popularity with Pixar's "Toy Story" trilogy — Hasbro is not resting on past successes.

In the decade since Hasbro Chairman and CEO Brian Goldner took charge, the company has begun to take a "digital-first" approach to everything it does — whether it is YouTube videos of people playing with its toys and showing off their collectibles, or online games, videos, and tie-ins to hot brands such as Marvel and Star Wars. That approach, informed by consumer insights data and customized "blueprints" that guide each of its brands, is helping the $5.21 billion company weather one of the most tumultuous retail landscapes in recent history. In 2017 — the same year that the pioneering big box chain Toys"R"Us filed for bankruptcy — Hasbro surpassed its west coast rival, Mattel, in total sales for the first time since 1993.

We spoke recently with Goldner about how Hasbro is navigating the changing retail landscape; initiatives like company-wide idea fairs and Quick Strike; managing Wall Street's expectations; and why changing things as fast as the market needs you to change can often run counter to human nature.

. . .

Innovation Leader: Can you talk about why storytelling is so important to Hasbro's strategy?

Brian Goldner: Throughout time, going back decades and certainly today, audiences and consumers connect to brands based on great stories and great characters. Those stories and characters build meaning into those brands beyond just the attributes of the brand. It enables those brands to connect with consumers in an emotional way ... and when the audiences are connected to a brand in a compelling, emotional way, they want to travel with that brand across any number of stories and experiences and platforms, and to participate with the brand in the most immersive ways possible. You can see that in our brand and as well in the brands of other world-class storytellers. Whether it's Transformers or My Little Pony, whether it's Magic the Gathering or Dungeons & Dragons—these are all brands that are being offered to the consumer through character and story. Sometimes the story is being told through bespoke, episodic television series; sometimes it's a movie; many times it's through social media content, through streamed content, or fan-to-fan user generated content. And many times it's all of those. It's really the orchestration of the complete brand that we're focused on.

IL: How do you develop the storyline for each brand?

Goldner: The mechanism that we use is what we call the brand blueprint, which puts the brand at the center of everything we do (informed by consumer insights and storytelling) and then we take those brands out into all the experiences that are most important and to an audience—whether that's the toy and game experience and play, whether that's digital gaming, or some other category or consumer products from a T-shirt to a backpack to tennis shoes or apparel or bedding or pajamas or whatever it might be that they really love as a result of loving characters. ...Each brand leader of our company has this blueprint — let's call it a playbook. And they get to decide what the specific recipe is. For example, people might enjoy barbecue, but barbecue is different in every region of the country. That's like our brand. Every brand will emphasize different aspects of the playbook because the teams have done extensive work in understanding what our audience for each brand particularly enjoys and where do we get the best returns on the effort that we're putting against that brand.

For My Little Pony, the experience is developed and the story is told through streamed content, through episodic television, now through animated motion pictures, and user-generated content, and then through traditional and new forms of advertising...even to new techniques we're developing called Content to Commerce. (I'll explain more fully later.) They're sort of shop-able social bites, which is a new technique we've created based on the fact that Hasbro is a great storyteller. [So] the brand leader for Dungeons & Dragons, a role-playing game for teens and adults, certainly will execute the blueprint differently than the brand leader for My Little Pony that is focused on kids, fans, and families.

IL: How do you adjust the blueprints for different cultures around the world?

Goldner: A great example is the Nerf brand. For years, Nerf was a brand that was in the United States and it was relatively small, and we recognized there was a way to reinvent, reignite and reimagine that brand, and we began that process. And then even within our own company, teams around the world said, "That's such an American play pattern." [They felt] the idea of running around and playing dart tag and foam darts and the active athletic aspects of the brand would be lost on international consumers.

What we did is we set out to garner proprietary insights around the world, and what we came to understand was the universal truth of the Nerf brand, which is moms around the world always believe that there are certain high-action activities kids shouldn't do around the house, because you're going to knock over the lamp, you're going to ruin the furniture or you're just going to be in a mom's view—a nuisance.

The kids yet want to play in those ways—and by kids I mean all the way up to young adults. They want to play, and so Nerf is the perfect solution.

"Throughout time, going back decades and certainly today, audiences and consumers connect to brands based on great stories and great characters. Those stories and characters build meaning into those brands beyond just the attributes of the brand."

BRIAN GOLDNER, CHAIRMAN AND CEO AT HASBRO

Effectively you might say, "Mom says you can't, Nerf says you can." And we become that agreed solution to that age-old insight, and the enterprising marketing team turns that concept into, "With Nerf, you can achieve the impossible." Achieving the impossible is playing in a totally high-action way in a totally safe and acceptable environment.

That's the process we go through with each and every brand. The net of that exercise is that Nerf began back in 2000 as a $20 million business. Today, Nerf is the largest brand in our company, valued at several hundred million dollars and is one of the fastest growing brands around the world. [According to NPD in 2017, Nerf posted its fifth consecutive year of growth and was the No. 1 toy and game property in the U.S. Nerf was also the No. 2 best-selling property in 2017 across the G10 markets.]

That comes directly from the activities of the blueprint. ... It's unique to Nerf to find those solutions in that way. You wouldn't find that solution if you were trying to talk about Star Wars or My Little Pony, and that's why the playbook is important as

Goldner with employees at Hasbro's Rhode Island headquarters.

a guidepost, and the leader has the opportunity to construct it in a unique and specialized manner for each brand.

IL: So, tell me a little more about your "digital-first" approach, and how this will affect physical toys?

Goldner: When I say "digital-first," clearly we're making products that are analog and digital. Digital-first is more our approach to the marketplace, and a recognition of where consumers and audiences are spending their time.

What's interesting about Nerf [is that] while we primarily sell tangible amusements, the fact is most of our fans and users of the brand are online presenting their experience with Nerf to their friends and family. ... So we have a huge online community called Nerf Nation, and there are hundreds of thousands of videos available for people's viewing pleasure. What we do is inspire that Nerf Nation — that fan-base, but we only produce only three percent of the content available in the universe. So, it's a digital-first approach because we use some great influencers and teams of people who do stunt tricks and show our newest products in a really fun light, and then we turn it over to our fans and audiences to inspire them and hear back from them on how they see these products playing, what kinds of skits have they executed, what kinds of zombie wars have they run, whatever it might be. We've seen everything from a fully-scripted movie to a bunch of people having fun doing stunt tricks. Again, it inspires the audience and it becomes a virtuous circle — we sort of call it "play, watch, and share."

Digital-first also means that there are ways to play Nerf and apps online. There are ways to play Transformers and My Little Pony in a mobile game. Beyblade, which is a competitive spinning top brand we have — there are also tens of millions of Beyblade online competitions, where people are playing with their tops in a virtual setting, not just in a real tabletop setting.

We're recognizing that young people today move fluidly from format to format. They want to do it in a frictionless way that's seamless, and our job and responsibility is to give them the opportunity. [Some] people want to play against their friends on a phone, and then they want to play against their friends on the floor. So that's what I mean when I say digital-first — our audience is digital natives, whether they be kids, teens, young adults, fans, or families, and therefore we have to reflect that our brands have to come to life on every screen and in every format of experience.

Editor's Note: This is Part 1 of a three-part interview. The other two parts focus on how innovation is structured at Hasbro, and dealing with resistance to new ideas. Continue reading the interview here: https://www.innovation-leader.com/hasbro-ceo-innovation-idea-generation

Research Reports

Benchmarking Innovation Impact 2018 Report

Innovating inside large organizations is not easy. So how do you deliver concrete, tangible impact — over the short-term, medium-term, and long-term?

Innovation Leader and KPMG have collaborated to create the go-to resource on corporate innovation, based on detailed survey data and interviews with senior executives at Whirlpool, Boeing, Johnson & Johnson, Southern Company, General Motors, and more.

Inside, you'll discover how more than 270 global companies think about innovation funding, staffing, incentives, and metrics. You'll get the breakdown on how much time and energy they are spending on incremental improvements versus truly transformational, market-changing ideas.

You'll also learn about the top obstacles that corporate innovators encounter, as well as the things they view as key enablers of success.

There are four components to the 80-page report:

1. Our review of the data from a 2018 survey of corporate innovators — including lots of charts and graphs.

2. Perspectives from additional corporate innovation executives at companies like J&J, Fidelity Investments, and Ericsson about the specifics of how they deliver impact for their companies.

3. Insights from KPMG professionals about what this data might mean for you, and alternative approaches.

4. Key questions for you to discuss with your team and your leadership, and additional resources that Innovation Leader has created around topics like making the initial case internally about why an innovation program may be necessary, or measuring progress once you've set one up.

This report is designed to provide helpful data and insights, whether you are in the earliest stages of formulating an innovation strategy; building upon and improving one that has been in place for a year or two; or working to upgrade or rethink a more established program — especially in large organizations that have traditionally relied solely on their research and development or technology groups to be responsible for innovation. This report can be a resource as you:

- Discuss setting strategy, allocating the right resources, and measuring the right things.
- Talk with your team about the tactics you will use, the relationships and support you will need, and the obstacles you may face.
- Communicate with collaborators around the business about why a new approach to innovation is necessary, how you want their involvement, and what other large companies are doing.

Whether you are just starting on the journey of creating an innovation program within your organization, or you have one in place that you're seeking to retool or upgrade, Benchmarking Innovation Impact 2018 is the essential resource.

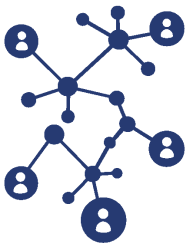
Download the full report at:
innovationleader.com/benchmarking2018

DATA HIGHLIGHTS

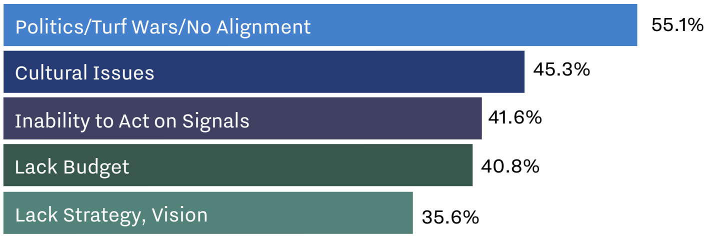
We pulled out some of the most interesting data points from our survey of 270 innovation, strategy, and R&D executives.

73% say that **leadership support is the biggest enabler of innovation**. The other big enabler? Developing the ability to test, learn, and iterate.

The least-used innovation tactic among our respondents was **open innovation**. Most commonly used? Crowdsourcing employee ideas and creating networks of innovation champions, which more than **80 percent** of respondents had tried. Respondents told us that building a **network of champions** was the tactic that had delivered the most value.



The biggest barriers to innovation are...



Who's responsible for **transformational innovation?**

#1 Innovation team

#2 R&D team

#3 Outside resources

70% say innovation is funded as part of the **annual budget.**

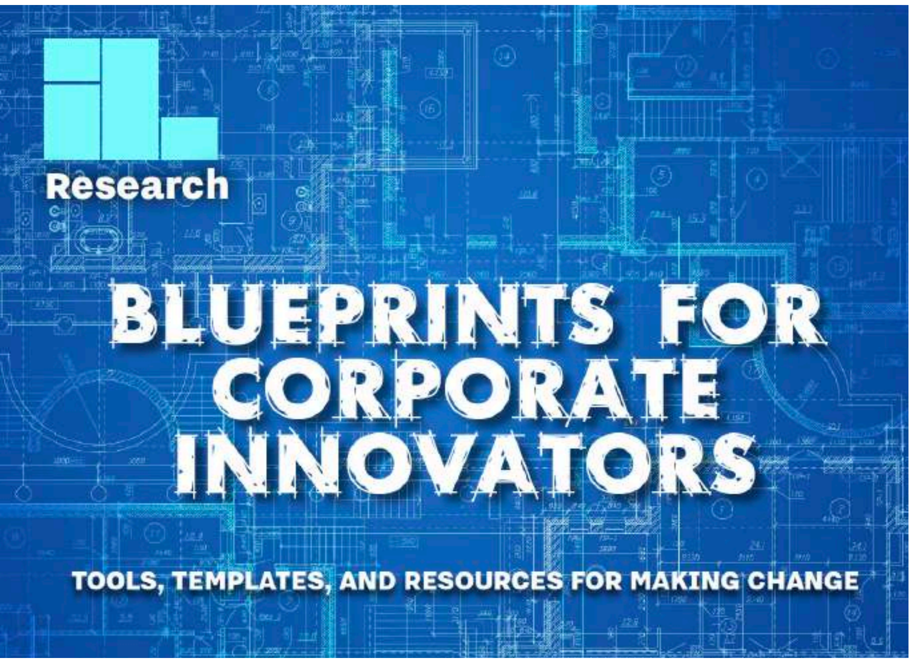
20% have a **separately governed funding process.**

10 percent use a **hybrid or "other"** approach.

Innovation focus:

49 percent of respondents' innovation efforts are focused on incremental innovation.
28 percent are focused on adjacent innovation.
23 percent are focused on transformational innovation.

Blueprints for Corporate Innovators: Tools, Templates, & Resources for Making Change



One of the big projects we've been working on at IL over the past year has been building tools, templates, and other resources to help people working on innovation in large organizations. We've created PowerPoint presentations, spreadsheets, idea scorecards, a glossary of terminology, and many others. We're excited to collect them for the first time in this 50-page report, sponsored by HYPE Innovation.

Everything in this report has benefitted from input from our community of corporate innovation, strategy, and R&D leaders. And some of these resources have been created by people who have been in one of those roles, like Aaron Proietti (formerly an SVP of Innovation at Transamerica) and Rachael Schwartz (formerly a VP of Product Management and Innovation at Keurig).

Inside, you'll find:

- Reference Docs & Guides
  - Making the Case for Innovation
  - Two Organizational Choices for Innovation
  - Glossary of Innovation Terms and Strategies
  - How Startups Can Work with Us
  - Innovation Interpretations
- Worksheets & Templates
  - Corporate Innovation Roadmap
  - Idea Evaluation Scorecard
  - Sample Monthly Progress Report
  - RASCI Matrix
  - Scouting Worksheet
- Lists
  - 11 Major Barriers to Innovation
  - Six Types of Innovation Lab
  - 16 Signs You are Under-Investing in Innovation
  - Ideas for Innovation-Related Incentives
- Assessments
  - Innovation Urgency Quiz
  - How Sophisticated is Your Startup Strategy?
  - How Well-Developed is Your Innovation Strategy?
  - Is Your Company's Culture Supportive of Innovation?

Download the full report at: innovationleader.com/innovation-toolkit-2018

Report: Healthcare Innovation, Case Studies from the Leading Edge

Healthcare organizations are an extremely challenging and complex environment for innovation. But the need for them to innovate has never been more intense — whether in response to new entrants, changing customer behaviors, cost pressures, or shifting reimbursement paradigms.

Can you devote more of your organization's resources and time to innovation? Move projects from pilot to roll-out faster? Involve constituencies that haven't been traditionally been considered innovators? Create new incentives and reduce bureaucratic hurdles? Our latest in-depth research report, sponsored by The Nason Group, is geared to helping you answer all those questions in the affirmative. We explore how companies like CVS, Pfizer, Kaiser Permanente, Medtronic, Beckman Coulter, Merck, Cardinal Health, Bayer, AstraZeneca, Johns Hopkins, UnitedHealth Group, Johnson & Johnson, and others have set up new innovation initiatives that are delivering tangible results.

The 82-page PDF also includes survey data on questions like: Patient/consumer frustrations with healthcare; biggest barriers to innovation in healthcare organizations; and the players most likely to disrupt or impact healthcare over the coming decade.

Here's what survey respondents said to the question: **What player is most likely to disrupt/impact healthcare in the next 10 years?**

The top six players mentioned by survey respondents were: (1) Amazon; (2) Medicare, Congress, or other branches of the federal government; (3) Google; (4) Major national retailers like Walmart, Target, or CVS; (5) Apple; (6) An emerging startup or new software player we don't know yet.

Download the full report at: innovationleader.com/healthcare-innovation-report

Other Resources

A Glossary of Innovation Terms and Strategies

BY PAMELA BUMP, STAFF WRITER

The terminology used by executives involved in corporate innovation and new ventures can be confusing to newbies — and it's constantly evolving, often pulling in new language and concepts from the realms of entrepreneurship, academia, and consulting. Here's our glossary of terms commonly used by leaders of innovation, R&D, and new product development groups in large companies.

INNOVATION METHODOLOGIES & APPROACHES

- **Agile development**: A set of methodologies, most notably used in software development, where solutions evolve through iteration and the work of self-organized teams.

- **Adjacent innovation**: Leveraging something a company or product already does well in a new or innovative way. Less closely tied to the core business than incremental innovation, below.

- **Back end**: The later stages of a design or development process, when something is closer to production, deployment, or roll-out. (See front end, below.)

- **Champion/catalyst network**: A group of employees within a company who receive innovation training, and are tasked with promoting the innovation agenda, events, and competitions. Champions or catalysts often train others in innovation methodologies and tools, like design thinking or lean startup; work with customers or business partners to create new products and services; and scout market trends, disruptive startups, or otherwise gather market intelligence.

- **Co-creation**: A product development approach that brings multiple entities together to come up with solutions or new concepts — often customers, suppliers, startups, or business partners.

- **Customer insights**: Also known as consumer insights, this is the collection of customer feedback, trends, or observed customer behavior that may guide the design of new offerings or overall corporate strategy.

- **Design thinking**: Applying design methods and principles — like empathy, observation, and experimentation — to solve problems or develop new offerings.

- **Front end**: The early stages of an innovation, design, or product development process, when you are soliciting ideas, refining them, building prototypes, and testing them with customers. (See back end, above.)

- **Incremental innovation**: Small and simple improvements or tweaks made to a product or strategy. Refers to innovation that is closely tied to the core business, unlike adjacentor transformational innovation.

- **Innovation pipeline**: A visual metaphor for the progression of ideas through a "pipeline" of development. The pipeline typically begins with many ideas that could address a problem. As ideas are prototyped, tested, and refined, some are winnowed out as others proceed further down the pipeline. Ideally, the highest-potential ideas make it to the final stage of the pipeline, when they are rolled out or implemented.

- **Lean Startup**: A product development approach that espouses frequent input from customers, and refinements to the product based on what they will actually pay for — not just what they say they like. The lean startup approach includes three phases: build, measure, and learn. It encourages the creation of "minimum viable products" that can be tested in the market quickly, instead of more expensive, polished products.

- **MVP, or minimum viable product**: The minimum viable product is the simplest form of a product that will satisfy a customer, and ideally lead to a purchase. MVPs are useful to gather input for future development or refinement of the product.

- **Open innovation**: An approach to seeking ideas, tech, and solutions from outside a company's walls. May involve posting an open challenge that outsiders can respond to. Sometimes called "external innovation" or "crowdsourcing."

- **Rapid prototyping**: Strategies and tools used to create a quick model or prototype of a proposed product or concept. Sometimes these can be paper or digital mock-ups, or 3D-printed prototypes.

- **Scalability**: The ability for a product or service to maintain its functionality in times of high-demand or high work-load situations, or after a large-scale commercial roll-out.

- **Scrum**: A portion the agile development process in which a self-organized, cross-functional team (scrum team) develops a potential solution for a problem. A scrum can consist of multiple "sprints," or time-limited work sessions focused on a specific piece of a project.

- **Transformational innovation**: The most long-range type of innovation, which companies often find too risky to invest in. This often involves entering an entirely new market segment, using a new distribution strategy, testing a new business model, etc. Very loosely tied to the core business, unlike incremental or adjacent innovation.

- **Vitality Index**: A way to measure the output of innovation, product development or R&D initiatives. Originally created by 3M, the Vitality Index is a tally of the percent of total revenues generated by products that have been released in a defined timeframe, often the prior three to five years.

INNOVATION MODELS

- **Disruptive innovation**: A term popularized by author and Harvard Business School professor Clayton Christensen, it describes a process by which a product or service starts off by doing simple things, inexpensively, for less sophisticated customers. At this stage, it is ignored by incumbents, who are extracting profits from more demanding, sophisticated, and price-insensitive users. But the new product or service relentlessly moves up-market, eventually "disrupting" established competitors.

- **Innovation Life Cycle**: Also referred to as the Technology Adoption Life Cycle or the Diffusion of Innovations, this theory attempts to explain how an innovation or product is adopted into society. The cycle was first published in the 1962 book, "Diffusion of Innovations" by Everett Rogers. Groups adopting a product are often referred to as Innovators, Early Adopters, Early/Late Majority, and Laggards. Here is a simplified description of each cycle phase:

    - **Innovators**: The first to know about, or be involved with developing, an innovation.

- **Early adopters**: The people who are always in search of new and innovative products. They are also seen as those who will recommend purchasing a new innovation.

- **Early majority**: The next group of people are drawn to an innovation in part because of hype and marketing, and in part because of its usefulness.

- **Late majority**: Those who pick up on technology and innovation at the average speed. Usefulness is often a key requirement of tools they are using.

- **Laggards**: The last group of people, who only reluctantly begin using an innovation or product.

- **Crossing the Chasm**: When a product moves from early adopter support to early majority support.

- **Lead user**: Developed by MIT professor Eric von Hippel, this term refers to customers who experience a need months or years before others in the market do. (Sometimes, these users develop their own product to fill that need — what von Hippel calls "lead user innovation" — because nothing else exists.) Understanding how lead users behave through observation and interviews can be a fertile source for new product ideas. (See our 2016 interview with von Hippel here.)

- **McKinsey's Three Horizons of Growth**: Describes the different time horizons of innovation activity and investment. Companies may mark horizons by years, goals achieved, or other milestones.

  - **Horizon 1**: The present, when the core business provides plentiful profits and cash flow. The company's focus is on improving performance and eking out additional market share.

  - **Horizon 2**: The near future, when emerging opportunities and technologies may start to pose a threat. Preparing for this horizon may require investments that won't produce an immediate return.

  - **Horizon 3**: The far future, when today's small ventures, research projects, pilot programs, or minority stakes in new businesses could create significant new revenue streams.

TYPES OF LABS AND OFFICE ENVIRONMENTS

- **Innovation lab**: A place designed to foster brainstorming, collaborative work, prototyping, or interaction with partners and customers. Innovation labs often feature open workspace and office design that is more conducive to collaboration than more traditional environments. These are the six kinds we see most often:

  - **Concept development lab**: Intended to create new products or services, or test new business ideas. Often involves a core group of "intrapreneurs" with marketing, tech, and product development experience. Many of these labs also bring in customers, business partners, or startups to "co-create" or otherwise participate in the process.

  - **Makerspace**: A space set up with prototyping technologies, from 3D printers to drill presses to sewing machines, to be used by employees working on projects related to the business — or simply learning an array of new tools and techniques.

  - **Showcase lab**: A nicely-designed showcase for "cool new stuff" the company has been prototyping or testing, or a place to hold brainstorming meetings or training sessions where "out of the box" thinking is desired and encouraged.

  - **Skunkworks**: Usually away from corporate headquarters, given lots of freedom to experiment, and charged with focusing on long-term initiatives. Sometimes staffed with talent new to your industry, to bring in fresh perspectives.

  - **Venture/Ecosystem lab**: Intended primarily to source and oversee venture capital investments, or create new connections with the startup ecosystem.

FUNDING, EVENTS AND CONTESTS

- **Crowdfunding**: When a startup or company seeks pre-orders or donations from customers to test market interest and support the production of an item. The entity running the crowdfunding "campaign" often offers different incentives for different levels of financial support, like discounted pricing, early delivery, or special packages. Two popular crowdfunding platforms:
    - **Kickstarter**: Founded in 2009, Kickstarter has collected pre-orders and financial support for products like the Pebble smartwatch, the Formlabs 3-D printer, and board games like Zombicide.
    - **Indiegogo**: Founded in 2007, initially to support independent filmmakers, Indiegogo works with startups, independent creators, and increasingly large companies like Bose, GE, and Hasbro. (Here are some recent examples of how large companies have used Indiegogo.)
- **Hackathon**: A time-limited work session often focused on solving a specific problem or addressing an issue, held over the course of a day, weekend, or month. Teams form with members that have different skill-sets. Often, there is a pitch-off or presentation at the end of the hackathon, and prizes are awarded to the best projects that emerge.
- **Idea challenge**: A company-wide initiative inviting employees from across the company to contribute ideas or concepts, often focused on a particular problem area or issue.

STARTUPS AND CORPORATE VENTURE CAPITAL

- **Angel investor**: An individual investor who offers funding, mentoring, introductions, and other help with the eventual goal of a return on investment. Angels usually invest at the earliest, or seed stage, before venture capitalists get involved with a company.
- **Corporate venture capital**: A group inside a large company that invests money into startups, in exchange for a piece of equity and often a seat on the startup's board. The hope is that these investments will help the large company understand newly-developing markets and technologies better, and will also deliver a financial return. Some corporate VCs are more focused on financial returns, but most are interested in the strategic benefits, like potentially integrating or distributing a technology from the startup.
- **IPO**: Initial Public Offering. When a company "goes public" and offers its shares to the public for purchase. Companies must register with the SEC (Securities and Exchange Commission) prior to the event.
- "**Killing the Butterfly**:" When a startup is acquired by a larger company that squashes the startup's culture, often resulting in mass employee departures. This can also happen when startups and large companies collaborate.
- **Seed stage**, **A round**, **B round**, **etc.**: Terms used to describe the maturity of a startup based on how much funding it has received. Seed stage is the earliest stage of funding, when money often comes from angel investors, friends and family, or venture capital funds that invest in the seed stage. As the company progresses, it will eventually raise an "A round" of venture capital, then a "B round," etc.
- **Shared workspace / Co-working space**: A collaborative office space with common areas and facilities, like a kitchen, conference room, or mailroom, allowing businesses to work and grow without worrying about office management tasks. These are often rented by budget-conscious startups. But increasingly, large companies are situating teams working on new business creation or innovation projects in these shared workspaces, so that they can have distance from the traditional corporate environment, be surrounded by entrepreneurs, or both.
- **Startup accelerator**: Fixed-term programs that allow a startup to receive mentorship, education, and other services needed to get it to its next stage. The best-known of the accelerator programs are Y Combinator, Techstars, and MassChallenge. Most accelerator programs conclude with an investor pitch event.
- **Startup incubator**: Physical spaces often run by non-profit organizations, which aim to help entrepreneurs develop a new business. There is often an application process which can be just as selective as an accelerator program. ◆

Innovation Answered: The Podcast for Corporate Innovators

Innovation can sometimes feel like a domain with more questions than answers. So we made a podcast to collect concrete advice and tips. We call it Innovation Answered. In each episode, we explore one big question. We gather advice from experts — academics, reporters, our strategic partners, and innovation executives like you — to help you move your organization forward. In Season One, episodes included:

1. **Episode 1 —The Innovation Survival Guide**: What kills innovation at established companies? And what can you do to survive? IL's Editor Scott Kirsner and Assistant Editor Kelsey Alpaio share.

2. **Episode 2 —Those Darned Millennials**: Nondini Naqui, a millennial engagement consultant and former CEO of MassMutual's Society of Grownups, discusses how to connect with the demographic.

3. **Episode 3 — The Ex-Files**: We talk to former innovation executives to find out the good, the bad, and the ugly. Guests include Rick Waldron, former VP of Innovation Strategy at Nike.

4. **Episode 4 — (Better) Business Model Innovation**: We sit down with Rick Paster of Walmart Global eCommerce and Mark Johnson of Innosight to discuss business model innovation.

5. **Episode 5 — What's Digital Transformation?**: What's the right strategy for making digital transformation happen? We drop in on Patrick Bass, the CEO of thyssenkrupp North America.

6. **Episode 6 — Moving Fast...Full Speed Ahead**: Can a big, slow company really move fast? We connect with Rachael Schwartz, formerly of Keurig, to find out. This episode also features insights from TripAdvisor CEO Steve Kaufer.

7. **Episode 7 — Innovating the World of Sports**: Guests include Angela Ruggiero, CEO of the Sports Innovation Lab, and Jack Elkins, Director of Innovation at the Orlando Magic.

8. **Episode 8 — Startup Culture in Big Companies**: Can big companies behave like startups and capture their culture? Steve Blank, a key player in the lean startup movement, stops by IL HQ to offer his perspective.

Listen at: innovationleader.com/podcast

Pointers: Building A Network Of Innovation Champions

EXPERT GUIDANCE ON INNOVATION STRATEGY

Making new stuff happen in an established organization isn't easy. To aid and abet that activity, we work to supply guidance, data, case studies, and examples. Some of our biggest allies in that mission are the strategic partner firms that share their advice with IL's members — at live events, in our magazine, and in the Pointers series of PDFs. For our June 2018 edition, we asked our partners to serve up insights on building a culture of innovation, engaging employees, and creating champion networks. Here's what's inside:

1. Four Steps to Building an Engaged Innovation Network, by Doblin (Deloitte)
2. Building a Startup Mentality at Corporate, by Digital Scientists
3. How Workplace Communities Drive Innovation Engagement, by Imaginatik
4. Three Principles for Engaging Employees in Business Model Innovation, by Innosight
5. Why Idea Diversity is Key to Building a Culture of Innovation, by Spigit
6. Leveraging Communication and Metrics to Inspire Employee Engagement, by Cisco
7. How Mastercard Teams Innovate to Deliver Customer Security, by Mastercard
8. To Learn or Unlearn? By Innovation 360
9. Amer Sports Launches I.D.E.A.S. to Seek Out Employee Insights, by Qmarkets
10. Pizzas, Minivans, and a Core Innovation Team, by Kalypso
11. 'Unshakeable Belief,' by Eureka! Ranch
12. Why Innovation Requires a Shift from Hierarchy to Networks, by Langdon Morris
13. Empathy from Colleagues Goes a Long Way — But Trust Goes Further, by Nottingham Spirk
14. How CIO Onboarding Could Make or Break Corporate Innovation, by Maddock Douglas
15. Innovation Isn't Work — It's a Lifestyle, by The Nason Group

Download: innovationleader.com/pointers

Innovation Illustrated: Mission Control for Innovation Metrics

CREATED BY INNOVATION LEADER AND XPLANE

Corporate innovators need metrics to show where they're delivering impact, and ideally, to gain access to additional resources. But measuring innovation is much more challenging than measuring on-going operations, since by definition it is about exploration and experimentation — and failure is not only an option, it's part of the journey. For the third installment of our "Innovation Illustrated" series, we collaborated once again with the visual thinking firm XPLANE. And the flip side of this guide to metrics features advice from Sopheon, a provider of enterprise innovation management software and services, and one of our strategic partners.

The document defines two kinds of metrics: **activity metrics**, which show what you've been doing, and **impact metrics**, which show the results you've achieved. Most programs begin by tracking activity metrics, like:

- # of ideas submitted by employees
- # of patents filed or issued
- # of startups we've met with
- # of prototypes built or pilot tests run
- # of training workshops run
- # of sessions held in new innovation lab

As innovation programs mature, they need to be collecting and communicating impact metrics to show that they are delivering clear business benefits (and to help make better forward-looking decisions.) Examples include:

- Revenue generated by new offerings
- Improved employee retention
- Cost or time savings
- Media/social media coverage
- Customer satisfaction/Net Promoter Score
- Stock price

You can print out the illustration and use it with your colleagues to spark discussions about measuring innovation progress. Discussion questions include:

- What current innovation metrics does your leadership care about most? Least?
- What is difficult to measure, but might be worth measuring?
- How can you help leaders understand that certain initiatives will take time to show results?

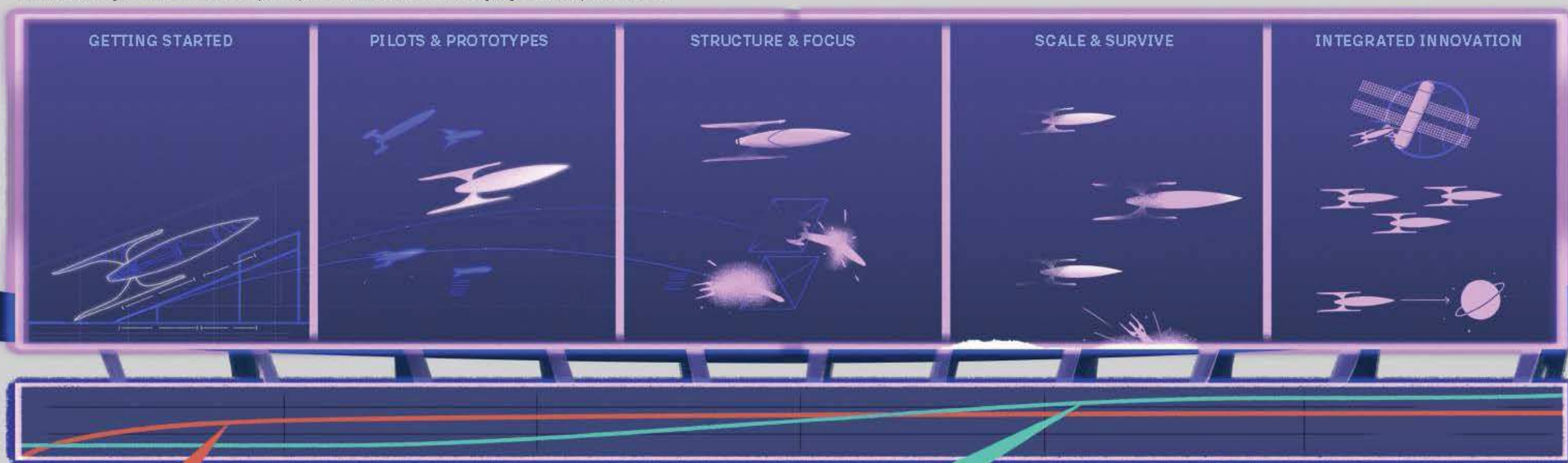
See the full illustration on the next page, or download it at: innovationleader.com/innovation-illustrated-measuring-corporate-innovation

Measuring Innovation

XPLANATiONS

Corporate innovators need metrics to show where they're delivering impact, and ideally, to gain access to additional resources. But measuring innovation is much more challenging than measuring on-going operations, since by definition it is about exploration and experimentation – and failure is not only an option, it's part of the journey. Here's Innovation Leader's look at how you can design an effective "Mission Control" for your innovation work, along with questions to discuss with your team and senior leadership.

For more on the stages of innovation listed below, see https://www.innovationleader.com/navigating-maze-of-corporate-innovation/



ACTIVITY METRICS

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IMPACT METRICS

As innovation programs mature, they need to be collecting and communicating **impact metrics** to show that they are delivering clear business benefits (and to help make better forward-looking decisions.) Examples include:

Revenue generated by new offerings
Improved employee retention
Cost or time savings
Media/social media coverage
Customer satisfaction/Net Promoter Score
Stock price

GOVERNANCE

As the strategy for an innovation initiative takes shape, work with your governance committee to create a set of initial measures. Key questions:

- What are the activity and impact metrics that we believe will matter most?
- Who needs access to metrics data, in what form?

PROCESS

Collecting data is a messy task, especially when projects involve multiple functions and business units. Key questions:

- Who is responsible for gathering/reporting results?
- Will you use an existing system/tool, or something new?
- Are there ways to pare back less relevant metrics as your program evolves?

CHALLENGES

Many benefits of innovation work can be fuzzy, tough to measure, or measurable only over a long time period. Other challenges to consider:

- Keeping metrics aligned with overall corporate strategy
- Small innovation teams can spend too much time on metrics and reporting vs. "doing stuff"
- Measuring impact as projects move across functional or business unit "borders"

DISCUSSION QUESTIONS

- What current innovation metrics does your leadership care about most? Least?
- What is difficult to measure, but might be worth measuring?
- How can you help leaders understand that certain initiatives will take time to show results?
- How broadly should you be communicating the impact of your program?

Best 2018 Resources From our Strategic Partners

How To Become a Resonant Leader, by Babson
http://entrepreneurship.babson.edu/how-to-become-a-resonant-leader/

The Vital Role of Research in Product Design, by Digital Scientists
https://digitalscientists.com/blog/the-vital-role-of-research-in-product-design/

Detonate: Nasdaq Speed Reads Interview, by Doblin
https://www.doblin.com/our-thinking/detonate-on-nasdaq-speed-reads

Airbus Case Study, by Hype Innovation
https://i.hypeinnovation.com/clients/airbus

The Four Types of Innovation Metrics, by Imaginatik
https://www.imaginatik.com/the-four-types-of-innovation-metrics/

How to Avoid Innovation Blockers and Activate Amplifiers, by Innovation 360
https://innovation360.com/avoid-innovation-blockers-activate-amplifiers/

Ideal Work Environments for Innovation: Designing Your Own Innovation Lab, by Innovation Labs
https://www.innovationlabs.com/2018/06/ideal-work-environments-for-innovation-designing-your-own-innovation-lab/

The Innovation Triangle: A Fix for Our Ramshackle House of Innovation, by The Inovo Group
https://www.theinovogroup.com/innovation-triangle/

Slow & Steady Wins The Race: A Case for Driverless Shuttles, by MEDC
https://www.linkedin.com/pulse/slow-steady-wins-race-case-driverless-shuttles-trevor-pawl/

How to Nail Your Most Valuable Metrics Using The Customer Journey, by Moves The Needle
https://www.movestheneedle.com/all-blog/2018/10/9/how-to-nail-your-most-valuable-metrics-using-the-customer-journey

Disruption is in the Air, by Nason Group
https://nasongroup.co/2018/08/30/disruption-is-in-the-air/

Assessing Your Virtual Innovation Greenhouse, by RTI Innovation Advisors
https://rtiinnovationadvisors.org/blog/assessing-your-virtual-innovation-greenhouse

Land O'lakes Journey: Aligning Strategy with Portfolio Management for Innovation Success, by Sopheon
https://www.sopheon.com/creating-an-inspiring-shared-vision-of-the-future/

State of Crowdsourced Innovation Report, by Spigit
http://go.spigit.com/rs/123-ABC-801/images/2018_Spigit_State_of_Crowdsourced_Innovation.pdf

Westinghouse: Building a Step-Ladder to Usable Innovation, by Wellspring
https://www.wellspring.com/blog/westinghouse-usable-innovation

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Impact is Innovation Leader's annual conference focused on helping innovation professionals deliver value and real business impact inside their companies.

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