INNOVATION LEADER
ISSUE Nº 8 — FALL 2018

Is Old School Fun Over?

Hasbro CEO Brian Goldner (rendered here in Play-Doh) says analog toys aren't going away. But the company is betting big on the digital realm.

SEE P. 60

INNOVATION LEADER

Fun & Games

ISSUE Nº 8 — FALL 2018

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ON THE COVER:

We commissioned Eleanor Macnair, a London-based artist known for her work with Play-Doh, to create a portrait of Hasbro CEO Brian Goldner. Macnair has to work fast and snap photos quickly—her chosen medium has a tendency to dry out and crack when left out overnight.

What's Next for Innovation Leader Members?

All Innovation Leader members get full access to our research, case studies, reports, templates, best practices, benchmarking, live calls & webcasts, executive roundtables, and other resources. Plus, exclusive discounts to all of our upcoming events. Here's a look at what we have in store.

PRINT MAGAZINE

Our print magazine includes in-depth articles and interviews with innovation executives who are breaking new ground. Our upcoming editions include:

- **Spring 2019** — The Top Global Cities for Corporate Innovation
- **Fall 2019** — Managing Up: Maintaining Support from the Board & CEO

RESEARCH REPORTS

We produce quarterly research reports on innovation topics, including metrics, benchmarking, labs, and more. We're covering these topics next:

- **Q4 2018 —** Innovation & Risk: How to Deal with Security, Legal, Compliance, and Regulatory Risks
- **Q1 2019 —** Ecosystem Development & Co-Creation
- **Q2 2019 —** Innovating to Drive Efficiency and Savings
- **Q3 2019 —** Remaking the R&D Organization

POINTERS

Several times each year, we compile a handful of the most useful and compelling pieces of expert advice from our Strategic Partners into Pointers, a downloadable eBook. Here are the topics we're covering next:

- **Nov 2018 —** Talent, Training & Incentives: Creating an Innovation Culture at Your Company
- **2019 —** Getting an Innovation Program Started
- **2019 —** Innovation Advice for the CEO

IN-PERSON EVENTS

Join us for one of our interactive events including off-the-record discussions with your peers and exclusive visits to corporate innovation labs. Mark your calendars with these upcoming events:

- **Impact 2018** — October 16-18, 2018
- **Atlanta Field Study** — December 5-6, 2018
- **San Francisco Field Study** —February 2019
- **Deep Dive Miami** — April 2019
- **New York Field Study** — June 2019
- **Impact 2019** — Fall 2019

COMPANY COVERAGE

Our website is continually updated with case studies, articles, and webcasts, all delivered weekly to your inbox. Here are some of the companies we've covered recently, or we're highlighting next:

- Tyson Foods
- Daimler
- Cisco
- Thales
- Procter & Gamble
- Baker Hughes
- Land O' Lakes
- American Greetings
- CSAA
- Fidelity Investments
- L'Oreal
- Campbell's
- Bayer
- New York Life
- Dow Jones
- Pfizer
- Embraer

For more information about becoming an Innovation Leader member, visit innovationleader.com/join, or email membership@innovationleader.com

We Take Requests

IF YOU'RE THE KIND OF PERSON who actually reads editors' notes at the beginning of magazines—like this one—would you do me a favor? Drop me a note at the email address below with an idea about what Innovation Leader can do in 2019 to be more helpful to you in your work and your career.

We thrive on input from the community. We get it in person at our live events (like Impact in Boston, happening October 16-18, and our Atlanta Field Study, December 5-6); as part of our regular email communications with IL members; and in response to surveys we field. I often say we're a band that loves to take requests.

Example: Back in May, we asked about the ways you like to consume our content (email, website, and webcasts topped the list) and also about new formats that we should consider. A podcast was the top answer to that latter question. So you can now download the first batch of episodes at innovationleader.com/podcast. It's called "Innovation Answered," and each episode dives into a specific question, like "Are Millennials really killing established brands?" Our podcast host, Kaitlin Milliken, is the newest member of our editorial team. (When you do listen, send her some feedback: kaitlin@innovationleader.com.)

We also got far more input than we expected this year when we solicited nominations for our first-ever Impact Awards, intended to highlight corporate innovation initiatives that have delivered real business impact. An impressive judging panel from Home Depot, Ralph Lauren, Harvard Innovation Labs, American Greetings, and Embraer, among others, helped us evaluate a set of 30 finalists and choose winners. You can get a first look at who rose to the top on pages 14-17.

Finally, our next two projects after this magazine are research reports that will focus on the relationship between innovators and the security, regulatory, and risk professionals in their organizations (Q4 2018) and best practices in co-creation and ecosystem development (Q1 2019). If you're an *Innovation Leader* member, you'll get instant access to the PDFs when they're published. If you're not, we'd love to have you join the community and participate in everything we do. I'd encourage you to connect with Adam Perri, our Membership Sales Executive: adam@innovationleader.com.

Thanks for reading!

Scott Kirsner, Editor & Co-Founder
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FALL 2018 • ISSUE № 8

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First

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Fresh Data on How Big Companies Fund and Execute Innovation

By Scott Cohen

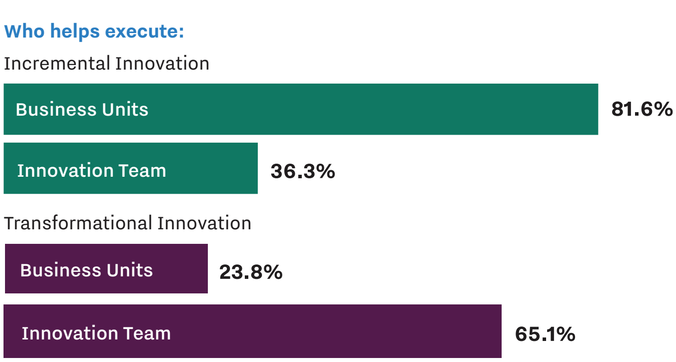
How does innovation happen inside large companies in 2018—and what are the biggest obstacles and enablers?

Published in June, our "Benchmarking Innovation Impact 2018" report explores those questions with survey data from 270 executives responsible for innovation, R&D, and strategy at large corporations, as well as qualitative interviews with companies like General Motors, Southern Company, Whirlpool, Johnson & Johnson, and Fidelity Investments. The research was sponsored by KPMG LLP, whose partners contributed several perspective essays that appear throughout the report.

Among the findings: Innovation and R&D teams inside our respondent group are spending about 50 percent of their efforts on incremental innovation, 30 percent on adjacent innovation, and 20 percent on transformational innovation.

That new 50-30-20 ratio is a change from the 70-20-10 ratio that had been considered conventional wisdom for several years.

The report looks at a wide array of other topics, including innovation funding, measurement, incentives, staffing, and tactics. It also outlines commonly-cited obstacles and enablers of innovation. Top obstacles? Politics, turf wars, and lack of alignment. Top enablers? Leadership support, followed by the ability to test, learn, and iterate.



Note: Respondents were allowed to select all that apply.

Who's Doing What? The vast majority of respondents (82 percent) told us that business units "owned" incremental innovation. That seems logical, as incremental innovation involves looking for ways to improve today's products, services or internal processes.

But business units overwhelmingly get removed from the equation when it comes to responsibility for transformational innovation. There, the majority of respondents said that transformational activity was the province of a central innovation team, which was cited by 65 percent of respondents.

At the most mature companies—the ones who had been working on innovation for the longest, and considered their program to be sophisticated—the differences were even more profound, with business units often completely removed from transformational initiatives.

Funding The majority of respondents (70 percent) said that their innovation budgets were funded as part of the annual budget process. But there are fundamental problems with the traditional budget cycle; namely, its inability to keep up with the pace of change.

To wit, 30 percent of respondents at companies with more mature innovation programs told us that they have a separately governed innovation investment process, better enabling them to react in real-time without waiting for the next budgeting cycle.

MVTs (Most Valuable Tactics) Companies typically test different tactics and approaches to develop new offerings, or to improve their risk-taking culture. But what's working, or what's considered valuable?

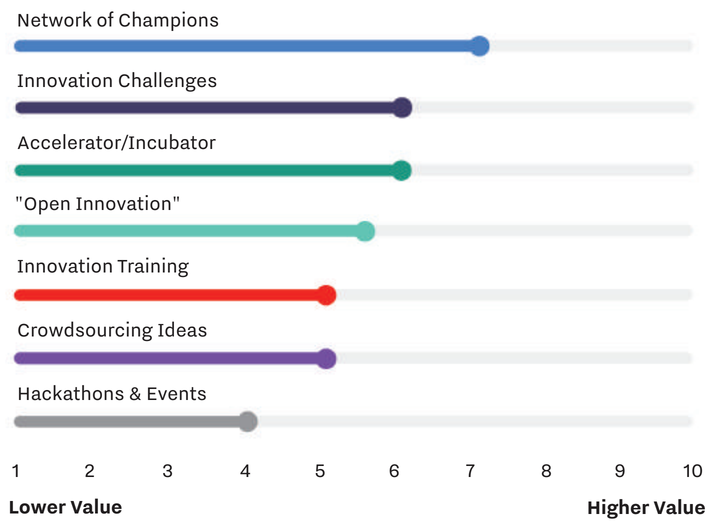
A majority of respondents said that they got the most value out of their "network of innovation champions." These networks are often defined as either a network of executives who help intrapreneurs hack through the culture to get things done, or an army of lower-level employees trained through the enterprise to help infuse a culture of innovation and risk-taking.

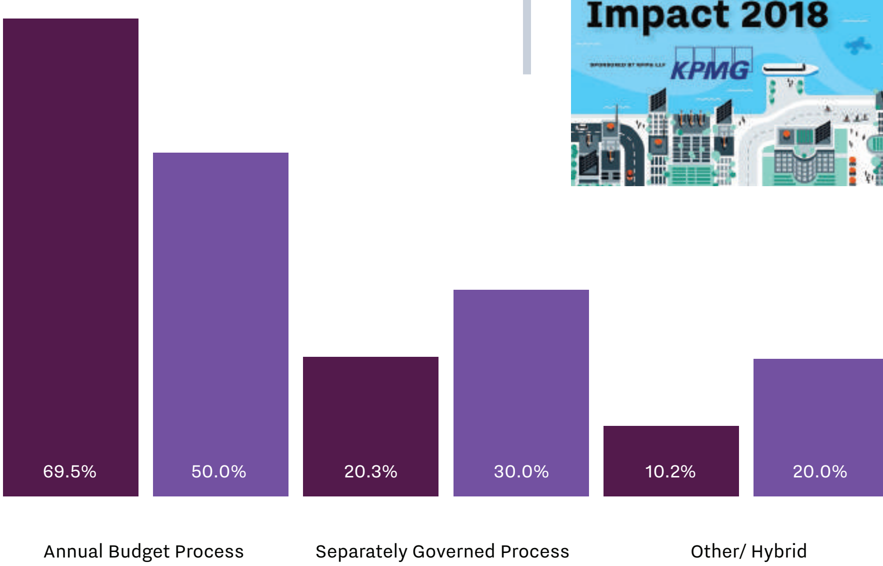
Innovation challenges and internal accelerators were also seen as valuable.

However, the numbers looked different at the most mature or sophisticated organizations. At those companies, programs like crowdsourcing ideas were considered much more valuable. That may be because more sophisticated companies have created space and systems to spell out problem areas where crowdsourcing can be extraordinarily useful, or they've figured out how to tap their "solvers" in the organization and refine the ideas to maximize impact.

Next Steps We've been diving deeper into the implications of this report at executive roundtables in New York, San Francisco, and Chicago throughout 2018; it will also be part of the agenda at our Impact conference in Boston, October 16-18. We invite any corporates on our e-mail list (innovationleader.com/email) to participate in surveys related to our future research. One advantage of doing so: you get a first look at the results. Our Q4 2018 report will focus on the relationship between security, risk, and innovation, and in Q1 2019 we will explore how companies can shape and participate in ecosystems and engage in co-creation activities with partners. ⬢

Innovation tactics by value (All respondents)





How does innovation get its budget? (All repondents in **dark purple** vs. Stage 5 "Optimized " mature companies in **light pruple**).

To access the complete report, visit Innovation-Leader.com and click "Reports." Up next in our series of quarterly research reports: Security, Risk & Innovation.

Konstantin Kovtun and Christopher Williams talk about the uses of virtual reality in healthcare.

Josie Elias of Brigham & Women's Hospital

Participants visited Fenway Park to field fly balls (and snap photos) during batting practice.

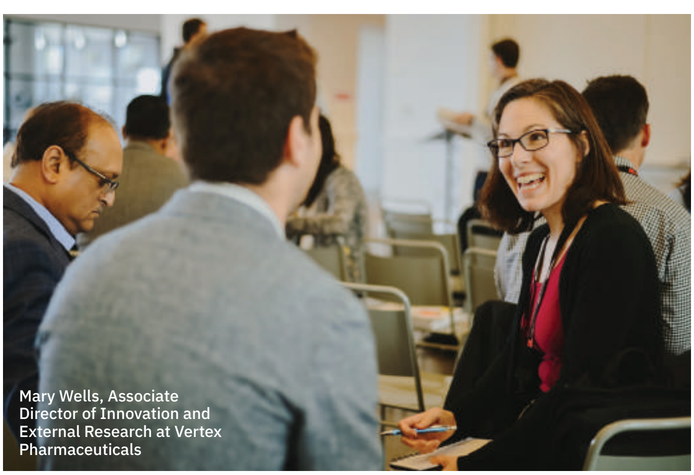
Participants get a demo of a "personal home health family robot" from Pillo Health.

HEALTHCARE **DEEP DIVE**

MAY 16-17, 2018

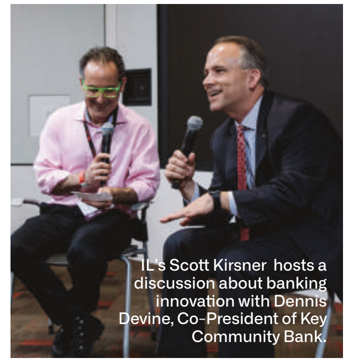
At our Healthcare Deep Dive, co-hosted with our friends at PA Consulting Group, leaders from around the US met in Boston to discuss challenges—and solutions—related to making change happen in the healthcare industry. We dropped in on Fenway Park for a tour and night game, and visited Boston Children's Hospital, including their incredible simulation lab.

Jaydeo Kinikar, Head of Marketing & Business Development at Philips Connected Sensing



Mary Wells, Associate Director of Innovation and External Research at Vertex Pharmaceuticals

The group walks down East 4th Street, a hotspot for dining and entertainment in Cleveland.


IL's Scott Kirsner hosts a discussion about banking innovation with Dennis Devine, Co-President of Key Community Bank.


Bill Nottingham of Nottingham Spirk, Hank Shocklee of Shocklee Entertainment, and Greg Harris, CEO of the Rock 'n Roll Hall of Fame, discuss creativity in music and the museum business.


Kara Carter of JumpStart in the Cleveland Indians' dugout.

Field Study: **Cleveland**

JUNE 2018

Our 2018 Cleveland Field Study explored how companies are forging effective internal partnerships to foster innovation. We dropped in on the Cleveland Clinic, American Greetings, KeyBank, Case Western Reserve University, the Rock and Roll Hall of Fame, and Progressive Field. Thanks to our partners at Imaginatik and Nottingham Spirk for co-hosting the event!


Participants took part in a lettering workshop at American Greetings.


Alex Ho, Chief Marketing Officer at American Greetings, leads the way.


Bill Gaussa, Head of Advance Innovation at Philips Healthcare, leads a whiteboard session.

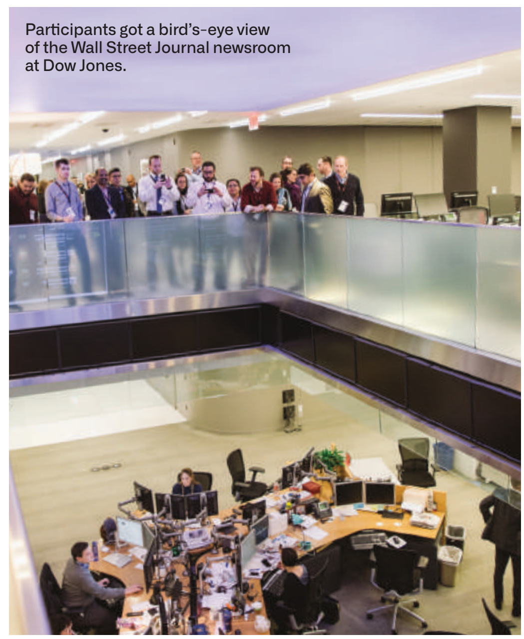
David Gallagher, Director of Communications at Kickstarter, and Julio Terra, Head of the company's Technology & Design Community, take audience questions in Kickstarter's auditorium.

Innovation Leader's Scott Cohen leads the group with Michael McCathren of Chick-fil-A.

Field Study: **New York**

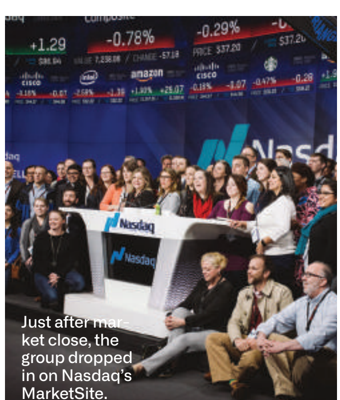
APRIL 2018

Our New York Field Study brought together 70 executives to discuss strategies for changing company culture and building strong external ecosystems. We toured the offices of Nasdaq, Dow Jones, Cadillac House, Kickstarter, Johnson & Johnson's new JLABS, and the architecture firm Gensler. Our co-hosts in New York were Strategos and Imaginatik.



Participants got a bird's-eye view of the Wall Street Journal newsroom at Dow Jones.

Participants explore an immersive art installation called AMAZE at Cadillac House.



Just after market close, the group dropped in on Nasdaq's MarketSite.

Amanda Ramos, Innovation Director at Gensler, takes the driver's seat at Cadillac House, the coworking space, art gallery, and café launched by the General Motors brand in 2016.

And the Winners Are…

FOURTEEN INITIATIVES DELIVERING SERIOUS IMPACT

INNOVATION LEADER's Impact Awards honor companies that have achieved extraordinary outcomes related to their innovation programs. Unlike other awards, INNOVATION LEADER's program is based on what matters; namely, the value and business impact of the programs—not just the fact that they exist. ¶ We're grateful to everyone who submitted, and to our panel of 20 judges, which included innovation executives from Ralph Lauren, Home Depot, Fidelity Labs, Suffolk Construction, LinkedIn, Sanofi, and EmbraerX. Awards will be given out at a reception on October 17 as part of our Impact 2018 gathering in Boston. ¶ The Winners:

For more details on the runners-up, and the complete list of Impact Awards finalists, visit innovationleader.com/impact-awards-2018

AMN Healthcare

Initiative: **Digital Workforce Initiative**
Launched: **2017**

The medical staffing company AMN Healthcare relied on human-centered design, design thinking, ethnographic studies, and a startup partnership to develop a solution that is "similar to Lyft, but for healthcare." It enables nurses and other medical professionals to use a mobile app to get alerts about available shifts; easily accept or reject them; look for shifts based on location; or rate their experience working at a particular facility, and be rated by their manager. Within a year of the app's launch in Los Angeles, there was a 30 percent increase in shifts worked in that market and a 30 percent increase in revenue. AMN is planning a national rollout of the app.

Cisco

Initiative: **Innovate Everywhere Challenge**
Launched: **2015**

The challenge invites employees to share "ideas that are game-changing, incredibly disruptive, and scalable for huge impact," according to the award submission. It focuses on major problems or opportunities facing Cisco. Winning teams get $25,000 in seed funding, $25,000 as recognition, and the option to join a three-month innovation rotation program to further develop their venture. The challenge has led to more than 10 patents in progress, and four ventures adopted by the business. One venture, Project LifeChanger, leverages Cisco's digital collaboration tools to enable people with disabilities to work remotely for the company.

DBS Bank

Initiative: **Transformation to a 26,000-person Startup**
Launched: **2015**

The transformation strategy at Singapore-based DBS bank has three pillars: becoming digital to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the core, embedding themselves in the "customer journey," and functioning as a startup. And the bank chose to benchmark its progress against companies like Google, Apple, and Netflix. Outcomes of the transformation effort include digibank, a mobile-only bank in India and Indonesia; using the social networking app WeChat to onboard DBS customers to online banking; and a mobile wallet app, PayLah!, that has attracted 785,000 users.

Johnson & Johnson Innovation

Initiative: **JLABS QuickFire Challenges**
Launched: **2015**

The Johnson & Johnson Innovation, JLABS QuickFire Challenges address the most pressing healthcare challenges of our time—from a "world without disease" and the "lab coat of the future" to "digital beauty" innovations. These challenges seek to "unleash the competitive spirit of the innovation ecosystem to create healthcare solutions in unconventional ways," according to J&J's award submission, attracting applicants from the startup and academic worlds. Since January 2015, JLABS has launched 30 QuickFire Challenges, supporting innovators with more than $5.8 million in awards including cash grants, mentorship opportunities, and residency at one of 10 Johnson & Johnson Innovation, JLABS locations around the world. QuickFire Challenges have attracted more than 2,100 applications across 53 countries, making it one of the healthcare industry's largest innovation crowdsourcing efforts to date.

Medtronic

Initiative: **Empower Health**
Launched: **2016**

Two innovation groups at Medtronic, the Healthcare Innovation Team and Medtronic Labs, partnered to help patients in emerging countries better control hypertension. The Empower Health model that they developed relies on mobile devices, automated blood pressure machines, and new software to allow doctors to create a customized hypertension management plan. Using the mobile app, doctors can track how the patient is doing, provide feedback via SMS message, and write digital prescriptions. A clinical trial with 150 patients in Ghana delivered decreases in blood pressure, and 95 percent of subjects in the trial indicated a desire to continue using the program in the future.

Revera Inc.

Initiative: **Employee Innovation Challenge**
Launch: **2016**

Revera owns or operates more than 500 senior living facilities in the US, Canada, and the United Kingdom. The initial challenge focused on improving the resident experience at the company's long-term care sites; Revera committed to piloting three of the best ideas, but received five that were worthy of piloting. One idea: motion-activated LED lighting that illuminated a clear path from the bed to the bathroom at night. On each idea, Revera gathered survey data about both resident and staff satisfaction.

USAA

Initiative: **Hurricane Harvey Aerial Imagery Tool**
Launched: **2017**

Many insurance companies use aerial imagery to help expedite the claims settlement process, but USAA may be the first to share its data with the public. In the aftermath of Hurricane Harvey, a Category 4 storm that hit Texas in August 2017, USAA Labs worked with USAA's property & casualty innovation group to see if there was a way to present aerial imagery to members so they could see damage to their homes—even if they had evacuated to another city or state. The USAA Labs team created a minimum viable product in just 12 hours, and a second MVP 16 hours after the initial tool launched. "We had an increase of over 10,000 visits to USAALabs.com after the release of the application," the award submission says. The tool was also used for both Hurricanes Irma and Maria in the fall of 2017.

▸ Winner for Best New Initiative

Citi Ventures

Initiative: **D10X**
Launched: **2017**

Citi calls D10X an "internal growth model" focused on providing Citi employees with the opportunity to test new ideas that have the potential to be at least ten times better at addressing customer pain points. Employees with a new idea are coached through a validation process overseen by Citi Ventures and supported by Citi's global innovation labs. The effort includes more than 300 "employee founders" actively working on almost 100 startup ideas. In 2017, the first two solutions that came through the program were launched: one a payment processing and reconciliation solution called CitiConnect for Blockchain, and the other an improved digital proxy voting process for shareholders. ⬢

Runners-Up

Airbus

Initiative: **IdeaSpace**
Launched: **2015**

UNICEF

Initiative: **Polio Training Curriculum and Materials**
Launched: **2015**

MetLife

Initiative: **Open Innovation Platform**
Launched: **2016**

Northwestern Mutual

Initiative: **Digital Innovation: Changing Culture One Idea at a Time**
Launched: **2015**

USAA

Initiative: **Text Savings**
Launched: **2017**

▸ Runner Up for Best New Initiative

Janssen Pharmaceutical Companies of Johnson & Johnson

Initiative: **World Without Disease Accelerator**
Launched: **2017**

IL Editor Scott Kirsner sorts the Post-it Notes suggesting topics for break-out groups.

Jennifer Chin, Director of Conservation Innovation, The Nature Conservancy

Cisco Innovation Architect Nirali Shah and Dave Barrowman, Head of Innovation at Skava

Participants discuss ideal organizational structures for innovation.

KPMG National Managing Partner John Farrell

UNDERGROUND **NY & SF**

JUNE 12 AND JULY 12, 2018

We gathered innovation, strategy, and R&D leaders in New York and San Francisco over the summer for roundtables that explored the data that emerged from our “Benchmarking Innovation Impact 2018” report, sponsored by KPMG. (See p. 6 for an overview.) KPMG hosted us in New York, and LinkedIn in San Francisco.

Karen O'Leonard, Head of Innovation, Willis Towers Watson

Jodi Olson, VP Innovation at Clif Bar, with KPMG’s Annie Armstrong and Brian Miske

Mona Vernon, CTO of Thomson Reuters Labs

Jason Van Peeren of Vail Resorts

From left: Martin Lange of BNY Mellon, Rebecca Cameron of NASDAQ, and Alina von Davier of ACT

Robert Perri of Pepsico with a can of Bubly sparkling water

At the head of the table: Scott Cohen of IL and Hsiu Mei Wong of PA Consulting

UNDERGROUND **Chicago & NY**

MARCH 28, MAY 22, AND JULY 26, 2018

We convened members in New York in March to discuss customer-led innovation, in partnership with PA Consulting. Our Chicago roundtable, co-hosted with Kalypso at CME Group, focused on digital transformation. In New York in July, we dove into the challenges of business model innovation, in collaboration with Innosight.

Scott Dille of Northern Trust and Addison McGuffin of Health Care Services Corp. listen to Bernadette Rasmussen of Health Care Services Corp.

Bill Salvatore, Director of R&D, Edgewell Personal Care and Fielding Kidd of Comcast NBCUniversal

NANCY TENNANT, formerly the Chief Innovation Officer at Whirlpool Corp., now teaches innovation leadership at the University of Notre Dame. She's also the author of the book "Unleashing Innovation: How Whirlpool Transformed an Industry."

Tennant has been producing a series of insightful—and sometimes acerbic—slides that offer a look at how people really think about corporate innovation, which we've published in the last few issues of **INNOVATION LEADER** magazine.

Big Questions

Accepting the Challenges of IoT

by Bob Klein, CEO
DIGITAL SCIENTISTS

THE INTERNET OF THINGS (IoT) is not about things. It's about the interconnectivity of things—tools, devices, machines, systems, and data—designed to make life better for the people using them. It's not about creating an IoT product just because everyone else is. IoT is slated to be a multi-billion dollar market by 2020. Economic forecasts differ, but the numbers keep growing:

- Internet of Things market to reach $267B by 2020 – Boston Consulting Group
- The global IoT market will grow to $457B by 2020 – MarketsAndMarkets
- The global IoT market is projected to grow to $8.9T in 2020 – Statista

Understanding the challenges of IoT will open unimagined opportunities—changing the way you do business, even fundamentally changing the nature of your business. At Digital Scientists, we've been educating our prospects and clients about IoT for more than eight years, including how to leverage a mobile phone as the best tool to realize the benefits of IoT. Let your first question be:

"What is the problem you're trying to solve?"

If the answer is, "My competitor has a mobile app..." that is not a valid problem.

Too often, companies jump into app development when they feel threatened by competition, or that they're being left behind in the technology race. They'll create what they think their customers want. But actually, they're trying to make it easier to sell their current products or services—not make the experience better for their customers.

The end result: customers don't use what has been built, and they have wasted money.

Visit Digital Scientists.com, or follow @digitalscience

Let's break the problem down. Does it serve a practical and functional purpose for the end user? (Do you need to conduct user research to find out?) Will it make their daily life/work easier? (What are the "jobs to be done?") Can it be done otherwise with an existing product or service, or is this a specific context where only an IoT solution will do? What do you want the user experience (UX) to be?

Getting the User Experience Right

"UX" means different things to many companies, and most of those definitions are too narrow. We prefer this one, from a visionary in the fields of design, usability, engineering, and cognitive science:

> "User experience encompasses all aspects of the end-user's interaction with the company, its services, and its products."
>
> – Don Norman, author of *The Design of Everyday Things*

Three businesses used significantly different approaches to arrive at a UX focus for their IoT breakthroughs. The founder of BoxLock, a startup company, had experienced deliveries stolen from his front porch. When he did research, he found his experience was very common: more than 23 million Americans have been victims of "porch pirates."

Major companies that ship products are trying to solve the problem from the business side. BoxLock viewed it from the consumer side—how individual buyers and businesses can safeguard their purchases. The answer: a padlock (on a box of any size) that can be opened only by the designated shipper or the recipient. No code—no access. BoxLock is a simple way to keep packages safe. The user experience, in turn, is purchase peace of mind.

Farmwave began with a high-tech approach, using machine learning and artificial intelligence tools to solve one of the world's biggest problems: food production. Farmwave connects farmers with agronomists, crop scientists, and researchers. Together they can identify, diagnose, and determine methods to treat pests and diseases immediately, to increase yields and reduce crop destruction. In this case, the experience is all about connection to a community dedicated to addressing world hunger.

A Fortune 500 company found their way of doing business disrupted by Amazon. To see how they'd have to change, they looked ahead at their customers' needs: what would their customers' jobs look like in five to 10 years? What jobs does the customer need done?

They saw an opportunity to create one platform with the ability to predict inventory replenishments and parts malfunction, search for and buy parts on the spot, and collect facility data while integrating their ecommerce and distribution systems. This could be a game-changer.

We helped them design one technical innovation that was ready for beta testing within 90 days (the gold standard for many software apps): using voice recognition to place orders. As their customers' technology comfort level increases, they will be ready with new innovations to keep improving the customer experience.

So, three companies with profoundly different perspectives came up with imaginative new products and services to improve the user experience of their customers, Besides leveraging IoT, the one thing they have in common: they couldn't do it alone.

Diverse Partners and Timelines Mesh in IoT

IoT is unique because it brings together many different forms of expertise. The silo mentality will not fly here.

The first challenge to any company entering IoT is to accept disruption; it's inevitable. You'll want to ensure there are no penalties to your employees for disrupting the current culture and for changing mindsets to a user-centered approach where IoT products and services take center stage. You may also gain fresh perspectives from IoT partners outside your industry or area. And you'll want to see beyond the short-term cannibalization of your current offerings to long-term growth, sometimes in new areas. Recognize how product and service environments are interconnected: a manufacturer or supplier may have to become a service provider to best benefit customers.

The next challenge is finding experienced cross-functional teams and resources. Because IoT is still fairly new, very few people have experience managing both the product manufacturing side and the software side. Many product managers understand physical products—manufacturing, industrial design, distribution channels. Some digital PMs understand UX design, software development, data science, and cloud computing. But almost no product managers have experience with both physical and digital products. That's why we highly recommend looking outside your company for an experienced IoT team.

The savvy IoT PM has to establish the necessary collaboration across numerous skill sets with little or no experience (or trust) working together. He or she must understand and accommodate the diverging mindsets and timelines of team members, all with different priorities. Decision-making is a precise balancing act.

In our world, software, we want to get it out into the hands of users as fast as possible. We can make iterations and fixes quickly. But IoT is (at a minimum) a blend of software design and development, engineering (electrical, mechanical), industrial design, hardware, and firmware, and requires extensive research and development. Once it's out in the market, if it comes back, it's a recall. We all walk a fine balance in creating the next IoT innovation: moving quickly to stay ahead of the market, yet testing comprehensively to make sure it works before the launch. And that includes using a constant stream of data received from the device to make changes to the current product, or to create an entirely new experience for the user.

The IoT product owner may have to take regulations and special circumstances into account. An example of this is Intent Solutions, maker of the tad™ smart medicine bottle. This product had to be accessible and programmable by a doctor or a pharmacist; it had to fulfill HIPPA regulations; and it had to encourage patient compliance while preventing misuse or abuse of medicines, especially opioids.

As you consider incorporating IoT into your portfolio to compete, stay relevant, or become a trend leader within your industry, make sure it makes sense and remains valuable in the ever-changing business landscape to come.

"You need to bring together
brilliant consumer insights,
and brilliant science
and technology. The interface
between those two is where
the magic happens."

Nigel Hughes, Kellogg Co.

Peer Perspectives

2

Want to Win at Business Model Innovation? Put These Four Pillars in Place

By Rick Waldron

CONTRIBUTING COLUMNIST
Former VP of Innovation Strategy & Partnerships, Nike


Rick Waldron

Corporate innovation efforts by and large continue to fall far short of moving the needle in any significant, sustained way. They also often fail to future-proof companies against ever-increasing disruptive forces. While a growing number of companies have begun to find some success in implementing design-centered thinking, lean innovation techniques, "jobs to be done" analysis, and empowering employees to solve customer and internal process problems, much of the focus has been on supporting current business models. But this work is merely the table stakes for staying in the current game.

Ensuring that your business will have a bright future—rather than battling competitors for every point of market share—also requires business model innovation. The companies that we view as paragons of success consistently leverage business model innovation along with, or instead of, technology and product innovation. Henry Ford, for instance, took existing Daimler technologies and wrapped a new business model around them to create the first modern industrial mega-firm. Today, companies like Tesla, Uber, Lyft, Car2Go, and ZipCar are using business model innovation to write the next chapter of that industry and threatening to disrupt not only automobile manufacturing, but adjacent industries, such as insurance, parking, and construction.

Little attention has been paid to the architecture required to stand up a sustainable, impactful new business innovation capability. Those of us battling it out in the trenches are left to learn the hard way. In my 20-plus years of on-the-ground learnings in Fortune 500 companies, I have come to understand that the following four pillars must be in place to deliver on the potential of business model innovation:

- Leadership committed to writing the future,
- Guided by a comprehensive innovation strategy,
- Who have embraced an investor/entrepreneur mindset, and
- Who support their innovation teams in using a full set of innovation and corporate development tools.

Committed & Engaged Leadership

Transformative innovation is difficult “change management” work. It requires C-Suite leadership that is engaged in and committed to the work. Moving from idea to impactful execution around business model innovation takes time. It requires resources that fall outside of annual budgeting priorities. It is filled with ups and daunting downs. It generally disrupts the status quo and requires a new set of permissions and boundary conditions. So a leadership team that sees its role as merely serving as caretakers of the existing business is insufficient.

The senior leadership team, starting at the board and the CEO level, must have an active interest in writing the company’s next chapter. They must be able to lean into the business transformation challenge and serve as active champions for the future of the company. They must be able to carve out attention and time to provide direction and air cover for the innovation work. They must be ambidextrous—i.e., able to engage simultaneously in setting off into an unknowable future, while also delivering near-term results through the existing business.

One often sees this type of leadership from founders who have successfully transitioned from being scrappy entrepreneurs to managers of complex enterprises. This rare breed knows what it takes to navigate the twists and turns of standing up a new business and how that differs from keeping an established business on track. Andy Grove’s pivot of Intel from a memory chip to microprocessor company, and Jeff Bezos’ expansion of Amazon from online bookseller to a multi-dimensional digital retail and services business are prime examples of this.

Where that leadership commitment and acumen does not exist, the task at hand is to develop it. The work of the corporate innovator will first be to inspire, educate, and catalyze leadership, and put in place an innovation architecture that supports this over time. For instance, it may be that the right first step is simply to show how applying design thinking and a lean innovation approach can quickly and inexpensively achieve valuable customer insights to which a leadership team formerly would not have had exposure or access. From there, one could demonstrate in practice how this could be a valuable tool for an R&D effort, to help avoid significant investment in technologies or products that do not address customer problems (i.e., avoiding the often wasteful “solution in search of a problem” phenomenon). With that understanding and momentum, one could take a next step in showing how these same approaches could be used to risk-reduce and speed up the exploration of new business opportunities. The key is to keep the cycles short and low-cost, and deliver immediate value through a series of tangible wins that both satisfy the operational improvement itch and ignite desire in the organization and leadership for more.

Comprehensive Innovation Strategy

An innovation strategy is essential to effective business model innovation. This strategy is simply a commitment to a set of coordinated systems, actions, and resources designed to achieve specific innovation goals around product, business, operations, etc. that will support the overall business strategy. (Easier said than done, of course!) Without one, it is difficult to sustain the interest and engagement of senior leadership or justify any necessary boundary-busting.

Without a clear strategy, innovation efforts are likely to simply react to immediate challenges (versus making proactive moves to guard against game-changing disruptions). Innovation teams end up shooting in the dark and delivering a set of fragmented, uncoordinated, and incremental one-offs, rather than transformational new business platform opportunities. In the absence of a clear strategy, it is difficult for the enterprise to make or stick to resource allocation decisions in the face immediate business challenges. As Gary Pisano of Harvard Business School puts it:

> “Without an innovation strategy, innovation improvement efforts can become a grab bag of much touted best practices: dividing R&D into decentralized autonomous teams, spawning internal entrepreneurial ventures, setting up corporate venture-capital arms, pursuing external alliances, embracing open

“Without a clear stratgey, innovation efforts are likely to simply react to immediate challenges, versus making proactive moves to guard against game-changing disruptions.”

innovation and crowdsourcing, collaborating with customers, and implementing rapid prototyping…"

All of this seems painfully obvious. It is, however, too often ignored. The result has been a collective colossal waste of time, money, and opportunity by many successful companies that employ lots of smart people.

Strategy and business model innovation teams can overcome strategy gaps by leveraging each other's skills and tools. The corporate strategy team should have the access and skills required to support senior leadership in identifying and articulating priorities, resourcing commitments, boundaries, strategic hunting zones, and definitions of success. The innovation team, in turn, can serve as an "applied strategy" tool for the strategy team, helping them refine and build confidence in the strategy through rapid, low-cost experiments around new potential business platforms, customer solutions, and operating models. That enables both teams to do what they do best and create a symbiotic relationship.

Sustained Mindset Shift

The more transformational the innovation strategy, the further a company will be stepping into uncertain territory. You are revealing and creating the future, rather than planning for it. This requires an important leadership mindset shift from operator/manager to investor/entrepreneur. It is about supporting leadership in embracing VC-like portfolio thinking, where one invests with the knowledge that it is a numbers game; most investments will provide only modest returns (if any), and home runs will be far and few between. It is about appreciating the option value of innovation bets. It is about asking the right questions at the right time (e.g., Has the team zeroed in on a compelling customer problem? Is there the right product-market fit? Does the team understand the key operational levers of the business? Is there a business model that has the potential to operate profitably at scale?), versus starting with standard revenue, margin, and ROI-type questions to evaluate whether an opportunity is worth exploring and developing.

The typical corporate innovation cycle: a giddy first year followed by a challenging second year and a disappointing (and final) third year.

The challenge of engineering a mindset shift in a large organization is too often ignored or underestimated. The result is that leadership either never makes the shift, or does temporarily, but slips back into the operator/manager mindset over time, and the innovation investment comes to naught. The typical three-year corporate innovation cycle thus has become all too common:

- A giddy first year, filled with excitement and enthusiasm for the new.
- A challenging second year, in which maintaining senior leadership attention and building a robust pipeline of things that they care about becomes more difficult after the novelty has worn off.
- A disappointing (and final) third year in which the pipeline has not generated profitable, new billion-dollar businesses.

If entrepreneurs and investors spent just three years trying to grow new businesses before throwing up their hands, Google, Amazon, Intel, Nike, Facebook, Amgen, and Netflix would never have accomplished what they have.

It is therefore critical to install mechanisms that foster and institutionalize the new business innovation mindset shift—organizational constructs and governance structures that support senior leadership's conscious changing of roles from manager to investor; give enterprises the opportunity to optimize resources, processes, and priorities for the unique needs of new businesses; and provide the breathing room to make and commit to longer-term innovation investments. There is not a one-size-fits-all solution here (though we all wish there were). It will depend on a company's innovation strategy and capabilities, but there are some common elements that should be put in place, including:

- An ongoing decision forum in which an empowered set of C-Suite members participates on a regular basis, and in which they must take off their operator/manager hats and put on their investor/entrepreneur hats, make macro innovation portfolio investment decisions, and support new business innovation efforts.
- Multi-year innovation investment set-asides which leadership insulates from yearly and quar-

terly corporate planning, budgeting, and allocation processes.

▸ Innovation teams consisting of internal and/or external talent (that may sit inside or outside of the organization), capable of translating enterprise intention into entrepreneurial action.

▸ Empowered, enthusiastic, and functional champions who willingly volunteer to harness resources and kick down roadblocks to help a new business succeed.

▸ Putting in place incentives for leaders to invest time, attention, and creative energies to innovation efforts. Some companies have added in compensation incentives tied to the percentage of revenues from new businesses in addition to those tied to general revenue targets.

The Right Set of Tools

It should be obvious that leadership can increase their innovation strategy's probability of success by using the best innovation and corporate development tools for the job. Doing so, however, appears to be an exception rather than a rule. Companies too often glom onto the innovation tool or approach *du jour*. Many limit themselves to what they already know or have—whether that is corporate venture investing, M&A, skunkworks projects, funding research in academic labs, or leader-sponsored special projects.

Still others let organizational silos keep them from applying their full set of capabilities to the innovation effort (e.g., R&D, corporate development, and innovation teams do their own thing, with little or no effort made to collaborate). And when all you have is a hammer, that delicate new business opportunity will suffer if it looks anything like a nail.

Leadership should encourage innovation teams to ask whether the business model innovation at hand is best served by a build, buy, partner, or invest approach. It's also important to realize that the answer might change over time, as the work moves from early-stage exploration, to establishing a market beachhead, to growing market share, to achieving scale. This, in turn, will guide the team in identifying (and even creating) the innovation and corporate development tools that are best for the task at hand. For instance, a business innovation team could serve as a deep-dive "due diligence tool" of sorts for the corporate development team by getting out into the market to test product-market fit, operating requirements, and business model assumptions before any further investment or acquisition is made.

"It's an understatement to say that writing a transformative next chapter for an established enterprise is hard."

The business innovation team, in turn, could benefit from the corporate development team's abilities around equity investments, joint ventures, and M&A, enabling it to rapidly accelerate what the innovation team has validated as a high-potential business opportunity. One of the strongest examples of this out there today is Samsung. Its Samsung NEXT group has brought together all of the elements above to create a multi-disciplinary team that develops products, invests in startups, and acquires businesses.

Many innovation and corporate development tools, moreover, can now be sourced externally. There are a growing number of groups, for example, that specialize in providing in-market validated business concepts, corporate venture investing capabilities, or rapidly assembling teams of entrepreneurs and subject matter experts to explore and develop against identified opportunity areas. Examples include PreHype, which brings a network of entrepreneurs to co-create in-market validated business plans with its clients, and Touchdown Ventures, which provides full-service corporate venture capital capabilities to its corporate clients. These can give companies faster and broader access to innovation approaches that may not have been feasible in the past.

It's an understatement to say that writing a transformative next chapter for an established enterprise is hard. To increase the odds of success, one must begin with an effective innovation architecture consisting of committed, engaged leadership; a thorough and clear innovation strategy; a sustainable investor/entrepreneurial mindset; and a broad suite of innovation and corporate development tools.

Think of those elements as the plot outline that an author creates before she puts pen to paper. It takes time, but it dramatically increases the odds of producing a book worth reading—and maybe even a best-seller. ⬢

KeyBank is Investing in Digital Innovation, Acquiring Startups—and Betting on the Future of the Branch

By Scott Kirsner

Dennis Devine

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Adjacent to KeyBank's corporate headquarters tower in Cleveland, there's a bank lobby that dates back to the mid-1800s—complete with tall counters, friendly human tellers, and ballpoint pens attached to chains.

KeyBank is one of the biggest banks in the US, with more than 1,100 branches, $137 billion in assets, and about 18,500 employees. And while it is steadily investing in its digital relationship with customers—in June it acquired Bolstr, a startup focused on small business lending—it remains committed to the old school, face-to-face interaction that takes place in a branch. Complete with free lollipops for the kids.

"It turns out customers may have strong preferences for digital interactions when it comes to money movement or account balance checking... but [they] prefer human interaction for substantive conversations," says Dennis Devine, Co-President of Key Community Bank. Devine oversees Key's consumer and business banking nationally—which includes branches, online banking, ATMs, mobile apps, and telephone banking.

Devine discussed how KeyBank is pursuing innovation in the physical and digital realms with INNOVATION LEADER Editor Scott Kirsner as part of IL's Cleveland Field Study in June.

The Intersection of Digital and Physical

You don't visit a bank branch very often, but I bet you do from time to time. You don't do it to make a payment. You don't do it to check a balance, because why would you? You have a device in your hand that can do that at any given time.

The result of that is we have invested like crazy in digital capabilities. We've acquired a couple of financial technology firms in the past year and a half.

It turns out customers may have strong preferences for digital interactions when it comes to money movement or account balance checking... but [they] prefer human interaction for substantive conversations.

[A recent Oliver Wyman report found that] across age and income demographics, 77 percent of adults prefer face-to-face engagement for substantive conversations.

That's been the interesting part of innovation: we have to design remarkable, digital client experiences, but we have to make it relevant when I want to come talk about something important. I want to take out a mortgage. I want to think about paying down some of the student debt that I have. I want to buy a car. I want to plan for retirement. That intersection is a fun one and a hard one.

Using Data in a 'Not Creepy' Way

...What's different about bank branches these days is our clients trust us with a remarkable amount of information. We know everything that flows through their payment accounts because it's all electronic now—debit card, credit card, Apple Pay.

We know everything that's in every application that they've ever taken with us. We know everything that's in the public of record through the credit bureaus and other sources.

Decades ago, you would walk into a branch and they would have known you, maybe, because you'd been there and made transactions in the past. Now, we know everything there is...to know about you.

How do we take advantage of that information and all that you've entrusted us with and put it to your use in a powerful, compelling, and not creepy way?

The Average American has a ton of revolving debt sitting on credit cards. ... American debt is at the highest level in the history of our country. Mortgage debt, student debt, credit card debt, auto debt.

We know that our clients have a lot of debt. We're not going to sit and say, "Hey, here's all this creepy intel we know about you."

We *are* going to trigger our colleagues in the branches, when they meet one of these clients, to say, we think this would be a worthwhile conversation to have to help them understand—because most of that debt is sitting at high interest rates, revolving with credit card companies. That's the worst possible thing you can do.

Nudging Consumers Toward Financial Wellness

Do you know what the worst day of your month is, in terms of your financial responsibility? Payday. People can be pretty good. Then they get paid, and it's like, "Woohoo!" Payday happens on a Friday a lot of times, which doesn't help. We will politely remind our clients on that day of the month or that day of the week—because we know when payday is for each one of them—how to think about savings in polite, thoughtful, triggered gamification-like ways, in order to cause them to be more financially healthy and to think about saving on those days.

Right now, it's a digital engagement. It'll be an email. It'll be an alert. They won't even really know that it's taking place.

People don't get up and say, "I'm so lucky I get to go to the bank today," but they do think, "I actually feel pretty good about the fact that I'm making progress on my retirement, or I am buying a home, or I am helping my kid buy a car or go to school."

[W]e believe that everyone deserves the confidence and peace of mind to dream big. That's the mission that we have. We exist to empower the financial wellness of our clients one decision at a time.

How We Approach Innovation

How do we think about learning and innovating? Hire brilliant people who are constantly pushing the needle.

What's fun about that is [one of the] financial technology firms that we acquired, HelloWallet, had no bank partners. It was a startup in DC. Their mission in life was to help employers...help their employees be more financially well.

If you're not stressed out about money, and you're saving in your 401(k), and you're putting money into your health savings account because you're in a high-deductible healthcare plan, you're less likely to miss work. That was their model.

We said, "We think that's a great model, except you only touch your clients once a year, during open enrollment. We touch our clients virtually every day, three million clients, north of a million authenticated mobile logins every day. We can have much more impact. Come work with us."

They said, "We're not working with you. You're a bank. We are here to help people sort out the banks and to avoid the bank fees." We said, "Come join us."

That team is now fully part of our team. They push our thinking and creativity every day.

To see the calendar of upcoming Innovation Leader events, visit innovation-leader.com/events

We also have a lot of hackathons with our employees. We're constantly trying to push our thinking in terms of what's next and what's possible. You've got to stay in front of it.

Sometimes we just say, "Here's a new set of data that's available based on some data supply chain work that we've done. Amaze and dazzle with what's possible, with what you can go do." It'll be as open-ended as that, to try to find ways for people to create new and innovative ideas. A lot of times, good business ideas spawn from them.

Innovation Dollars

We actually carved out a pool of what we call innovation dollars. Within the sustainability corporate plan, [we] created an innovation pool where we develop innovative products to help low and moderate income communities.

We introduced a product a couple of years ago called the HassleFree Account. What do people dislike most about banks? Fees. We have an account called the HassleFree Account. No minimum balance. No monthly maintenance fee. No ability to overdraw.

...How do you make any money doing that? It's because clients take the issue of fees off the table, and they'll trust you with a broader relationship.

Empowering People Deep in the Organization

I don't have a head of innovation. I do have a head of client experience. The beauty of our business is you can measure and manage everything. Not just what a client says in a survey, but what they tell us on the phone when we transcribe those calls, and how they behave. Where they go and what they do. That team has responsibility for the entire client experience...

If you look at my org chart, you would find it mildly interesting/amusing because there are roles that just don't make sense in a traditional organization. I have a head of branch now. I have a head of digital. There's product managers. There's a head of financial wellness. Then there's a head of retail [banking] transformation, who is shaping the whole future.

If I were to pick one thing that has been the biggest deal for us over the course of the past couple of years, it would be pushing decision-making and empowerment as deep into the company as possible. We're a big bank, and so we spend a lot of money in technology development and innovation in any given quarter, in any given year.

There was a time when that would have meant me, and a group of folks like me, sitting in a room reviewing every business case on every little amount of money that we wanted [to spend].

Now, there's more Tableau users [working with business data] on a daily basis. We...fund Agile squads that have outcomes that we expect them to deliver—client-centered outcomes, business-centered outcomes. Then, they just go at it.

...I come to work sometimes to see an announcement of something that is about to take place that I didn't even know we were planning to do. To me, that's exhilarating, because somebody had a good idea.

"If I were to pick one thing that has been the biggest deal for us, it would be pushing decision-making and empowerment as deep into the company as possible."

Dealing with Failure

We have gotten a lot better at [dealing with failure]. I would say we've got probably a half-dozen partnerships where we're just experimenting. Some of them are going to fail. What we'd prefer is that those fail quickly, so that we can get on and invest in the next idea that we're going to have.

Everything that we do, we do with an ambition that it will scale up, so that it's worth the time investing in it in the first place. If it doesn't pan out, it doesn't pan out. Our company has gotten much more comfortable with that. Let's recognize the power in the failure and move on to what's next.

We're a large bank, but you'll find that our teams and our digital environment are organized around Agile squads, with releases every 21 days. You want a constant focus around what's working, measuring what's working, listening to your client, and innovating.

There's an overhead attached to [looking back and doing postmortems on failure]. "Get them next time" is a better answer than, "Let's make sure we know exactly who is accountable for that last mistake."

How the Cleveland Clinic Sifts Ideas—and Spins Out New Ventures

By Pamela Bump

Peter O'Neill

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With more than 52,000 employees generating about 300 inventions a year, the Cleveland Clinic doesn't want for innovation.

But the tough task facing Cleveland Clinic Innovations, a group founded in 2000, is to help as many of those inventions as possible find their way into the healthcare system. Sometimes that may be through licensing them to established companies or startups, and in other instances it involves forming new startups. And CCI also serves as a "conduit," explains Executive Director Peter O'Neill, for "external innovations that can benefit the Cleveland Clinic." The Clinic, with $8.4 billion in 2017 revenue, treats about 7.5 million patients in a typical year.

In a recent interview with INNOVATION LEADER, O'Neill, who has been with Cleveland Clinic for the past 13 years, explained how the organization's strategies have evolved.

During our Cleveland Field Study in June, we dropped by the Cleveland Clinic to hear from O'Neill and get a tour of the campus.

Innovating from the Caregiver's Perspective

At our core, we are about commercializing ideas from the employees of Cleveland Clinic. At Cleveland Clinic, everybody calls themselves a caregiver, so I call myself a caregiver, even though I don't see patients.

...To find internal innovations, we have 15 [people, out of 50 Cleveland Clinic Innovations staff members] whose primary job is to interact with our caregivers. They're meeting with caregivers all the time, learning about what they're working on, helping them identify potentially commercially valuable inventions. We then interact with a lot of companies, a lot of entrepreneurs, and a lot of investors. A lot of those conversations are where we get a lens into external innovations and external technology solutions.

... I report to the Chief of Staff today, [but eventually] I'm going to report to our Chief Strategy Officer.

What's interesting is that I do not report to our Head of Research. In almost any university, and in lots of other hospitals, the technology commercialization group, or the people called the "transfer group," reports to research. The reason it has evolved that way is because research groups are prolific sources of inventions. The difference here at the Cleveland Clinic is that we commercialize technology only with a focus on translating those inventions into products that help patients. We want to maintain that patient-service, caregiver perspective. We don't want to be pulled into an early academic research direction. So that's why I report to the Chief of Staff, who's the same person that all the senior clinical leaders report to.

Criteria for Screening Ideas

We receive over 300 invention disclosures a year [from Cleveland Clinic employees]. Many are situations where we were talking with a clinical person before they submitted an invention disclosure. Sometimes, the first interaction we have with the person is when they know about our office, and they submit an invention disclosure.

We historically do about 40 deals, or some form of license agreement, a year. We're going to say "no" 260 times a year. Since we're primarily focused on doing those 40 deals, we have to be efficient about positioning those other 260 things in a respectful way. Many of the inventors are Cleveland Clinic doctors who are significant people in their field.

We look at patentability, market potential, and clinical effectiveness. More and more, we look at the ability to [improve] the value of healthcare delivery, which is a combination of cost and improving outcomes. Those are the evaluation criteria that guide our decision-making. [Then] we do some patent protection and some IP protection. We don't employ patent attorneys, but we work with them a lot. We do some prototyping work, then we do some more advanced product development work. It's all case-by-case, and it's all driven by business decisions based on what we think has commercial potential.

...We have a lot of other internal activity. We host an innovation summit every year. We had over 2,600 attendees [in 2017], and we're expecting over 3,000 this year [in 2018]. There's also a hackathon attached to that.

Cleveland Clinic is the largest employer in Northeast Ohio...and our office gets involved in economic development, because inventions lead to products, products lead to companies, and companies lead to jobs. Our story frequently intersects with economic development activities.

"My belief is that there are no products that help a lot of patients where somebody's not making money."

A New Focus on External Innovation

What we're doing more and more of is being a conduit and a source of identifying external innovations that can benefit the Cleveland Clinic.

A lot of the types of external innovation are IT and operational kinds of solutions. I'm sure you've heard about artificial intelligence, machine learning, blockchain... I understand some of those in a very superficial way, and some of them I understand not at all. Cleveland Clinic is not an expert in artificial intelligence, but we know that there are AI types of algorithms that can help radiologists do a better job of screening our imaging to identify problems. We could try to develop that stuff internally, but we're not good at AI. So we would look to partner with people who have AI solutions that have already been vetted—maybe even radiology and analytics kinds of algorithms—and bring those kinds of solutions into the Cleveland Clinic.

We have some other activities that are specific to help us [with external innovation]. We recently formed a collaboration with this accelerator called Plug and Play. Plug and Play is all about identifying startup companies and introducing them to big corporate partners to help facilitate the adoption of the startup company's products. We began working with them in October, but kicked off the program in January. They opened up an office in Cleveland in partnership with the Cleveland Clinic, mostly in partnership with our office, and the reason Cleveland Clinic wanted to do that partnership was to increase our visibility and exposure to external solutions.

One of the main reasons we collaborated with them was that their services are free to startup companies. That's important to us, because many of the other accelerators seemed to have some

kind of a fee, whether it's equity or cash. ... We didn't want that because we want the best quality startup companies. We don't want people who are obligated to pay, or feel desperate and have to pay. Plug and Play also has an international footprint. They have a significant presence in Europe and Asia.

Other Outside Networks

We've formed some of our own startups; we create three to five startups of our own each year. I think of [partnerships that lead to startups] as concentric rings of influence or interaction. We have a lot of local collaborations—for example with the university systems, like Case Western Reserve University. There are some regional economic facilitator groups. JumpStart is one. BioEnterprise is one. ... The Midwest is one level of the ring. Then, we have national interactions with JP Morgan and GE Ventures. Then, internationally—I was in Finland last month to talk with a group of about 20 companies about how to do business in the US more efficiently. My current boss is moving into the role of being the president of Cleveland Clinic in London. ... We also have activities in China and other parts of Asia, and we have a hospital in Abu Dhabi. ... We think of it as rings of expanding a geographic scope of influence.

Success Metrics

Our two metrics that we measure are dollars to the institution and service. You might say, "Dollars is a little bit mercenary for a hospital. I thought you were a caregiver." Yes, we are about translating inventions into products that help patients. My belief is that there are no products that help a lot of patients where somebody's not making money. It's not a perfect score, but dollars are a pretty good way of measuring how impactful an invention is. If we negotiate the business terms correctly, so we're getting treated fairly, there should be a reasonable way of measuring our contribution to that product getting to the marketplace.

...Then, our service is the reason we exist. It's the reason I report to the Chief of Staff. We're very much a service group and we need to make sure we're being responsive and [maintaining] good communication with our employees.

...Explorys at the Cleveland Heart Lab was a company we spun out, grew here in town, and late last year was acquired by Quest Diagnostics. [Quest] made the decision that they weren't going to strip it from Cleveland. Those are stories that look like a win on multiple levels. There was a financial metric about how impactful it will it be. Both companies employ hundreds of employees in northeastern Ohio. Those turn into additional regional assets.

How the I-Team is Working to Amplify Civic Innovation in Los Angeles

By Kaitlin Milliken


Amanda Daflos

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After New York, Los Angeles is the second biggest city in the United States, with nearly four million residents.

However, its innovation team got started in 2015 with just six people.

Since then, LA's "i-team" has expanded to 10 full-time employees, with skills ranging from data science to project management. Its leader is Amanda Daflos, a former senior manager at Deloitte with deep experience working with government clients.

The i-team is working on ambitious projects, from partnering with the Los Angeles Police Department to improve its recruiting process to helping city residents stay in rental homes and apartments as their neighborhoods gentrify.

"We're changing big systems," Daflos says. "It takes both patience and persistence—and a lot of energy, excitement, and enthusiasm—to really see the future."

The i-team in Los Angeles is one of several civic innovation initiatives around the world funded by Bloomberg Philanthropies. Each reports to their respective city's mayor, and takes on big issues, culture change at City Hall, and long-term projects that might otherwise struggle to attract sufficient resources.

In a recent interview with INNOVATION LEADER, Daflos discussed how LA's i-team approaches innovation in government, and detailed some of the projects her team has worked on so far.

Defining the I-Team

[In the Bloomberg program], mayors and their senior staff get to choose one "priority area." [It's] one topic, and the innovation team then spends about a year working on [and] researching that topic, and developing projects or incubating projects, and then launching those projects.

When we set out to take anything on, we always ask ourselves at the city, "Is it a good fit? Is it achievable? What do we hope will come out of this? What behavior might we change or what outcomes might we see?"

We'd hope that the choices we make are good ones. One of the virtues and values of the i-team is that you prototype things. You do them at a small scale, so that government doesn't put a ton of money towards something that might not work. You use the i-team to test something.

Tackling Gentrification

When we first came into the city, we were working on the broad question of neighborhood change. In Los Angeles...our neighborhoods and our city are experiencing a sort of a Renaissance. ... The way that we [identified that issue] was by looking at residential displacement, business displacement, and then changing neighborhoods.

In response to that, we launched a portfolio of projects. ... [O]ne was a media and PR campaign to help people better understand one really important law here in LA, which is called the Rent Stabilization Ordinance. It's the ordinance that helps people stay in their homes and experience incremental rental increases, versus huge jumps that might displace them.

What we learned in our research is that lots of Angelenos don't, A) know about it, or B) don't know how to use it—who to go to if they have something happen to them that they might get wrongfully evicted for...

We designed a campaign with renters, with landlords, and with the department here that oversees the Rent Stabilization Ordinance to get the word out in a data-based and factual way. Fifty percent of Angelenos live in a rent-stabilized unit...

The second part of that, I'll call it a traditional campaign. A campaign that you would see around the city on buses, any kind of transportation station.

In addition to that, we [had] an effort to help simplify the ordinance, meaning how to take a policy document and put it into something that both landlords and tenants could understand. Because, as you probably know, policy documents can be tough to read and understand. [Especially when] you're in a 30-day situation where maybe you're going to get evicted, and you need help now.

The third part was to create a website for folks, which we track.

Lastly, over the last year-and-a-half...we've worked at the department [to] make it such that residents can text a number and find out if their unit is rent-stabilized.

Working with the LAPD

The second year of our work...[was] with Los Angeles Police Department and with the personnel department. The question that we were asked to look at there was around a changing workforce...

So retirement is going up, [and] interest in all police positions around the country [is] going down. [Hiring] is not consistent with the [rate of] retirement, [and yet there's a real need for candidates as older employees retire]. ... Our work is really focused on diversifying and hiring ideal candidates—with ideal meaning everything from diversity to diversity of thought.

One thing that we learned is the importance of reminding people that jobs in policing are community jobs. ... You're in the community. You get to know the people in the neighborhood. The things you see on TV, maybe that happens once or twice in someone's entire career.

One of the things that the i-team is working on right now with the LAPD is creating a partnership with the Peace Corps, which might sound... unexpected, which is what we hope. The truth of the matter is, people who are in the Peace Corps are compelled to serve. They're compelled to make change. If you think about those qualities, those are the same qualities that we find police officers have a lot of the time. ... We're finding that there's more of an interest than you might think.

[Policing is also] a career opportunity. As much as it is a service job, it's also a place where you can build a career. That's a thing that oftentimes gets forgotten or lost in conversation, particularly on large forces like a LAPD, an NYPD, a Chicago PD. There's more than 200 job opportunities in the LAPD. You can work SWAT. ... You can work with canines. You can also be on patrol.

One of our new programs that we've set up, a brand new program in the city, [is] called Pledge to Patrol. It's really about creating a pipeline for young people in Los Angeles to continue on to careers in policing.

The goal is to help those people who are participating in those programs, who want to become police officers...giving them an apprentice opportunity and a paid work opportunity while they're in the process of being hired.

We're quite interested in helping achieve diversity with that program, with the understanding that if we do it there and these people are continuing on, we have a good chance of continuing [to bring] the diversity into the force. We are tracking that. We're looking at that.

Building Relationships with City Departments

My goal is that people just want to work with us. When the mayor chooses the thing we're going to work on, people feel really compelled because it's a priority for our mayor.

We don't look at it as we're going to come in and fix…things. Rather, we look at it as, we're going to partner with you to help you do something great as a department, and we're just here to help make that happen.

For me, setting that value out for our team, that has been one of the most important things… I don't want to ever be looked at as the person who's going to come in and raise hell, innovate, create a whole bunch of stuff that's not useful.

I think our goal is to really be supportive colleagues and help move things in a direction that is interesting, and different, and does create value for both departments and residents.

Then, we try to be great people. We try to create value for folks. If we're working on something…and someone needs us as an extra hand on some other project that doesn't have a ton to do with us, we really try to lend a hand and just be good colleagues.

A Public Sector Budget

We budget once a year. … The public sees the budget. The public gets to, here in LA, participate in the budget.

If you're going to spend more than you said you were going to spend, there's then a whole public process to make sure that that is doable and is on record, if you will. Those kinds of institutional differences, in the way that the public sector's structured [compared to the private sector], just make it tougher.

[Additionally], the private sector generally has a whole budget [for public relations], marketing, and all of that stuff that gets the word out about what you do. That is not real in government most of the time. We just don't put public dollars towards that stuff.

Using Metrics to Keep Track of Projects

We're tracking at the project level but then also looking more macro.

[Hypothetically,] if 10,000 [people] download a book that we created about rent stabilization,

does that mean we kept 10,000 people in their homes? … How do we know that we made this bigger difference?

In the places that we can, we do our best to track towards those bigger goals.

Remembering Your Customer: The Public

We're public institutions. Our constituents are the public. … There's a public participation pro-

cess and, in [the] private sector, that doesn't happen.

When you weigh the public's role, rightfully so, you have to have...meaningful ways of integrating the voice of the public. ... Sometimes, that makes the process longer.

Government is structured so that there is that time for that process.

We shouldn't just change because the market tells us to. We serve a public. It's important that we change only when we know it's going to work.

"Our goal is to really be supportive colleagues and help move things in a direction that ... creates value for both departments and residents."

From Idea Factory to Solutions Factory: Kellogg's Nigel Hughes on How R&D is Changing

By Patricia Riedman Yeager

Nigel Hughes

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With annual sales of $13 billion, Kellogg Company reigns as king of breakfast foods, a segment that makes up 22 percent of its sales. It's also a major producer of cookies, crackers, and savory snacks, like Cheez-It crackers and Pringles, and a leader in the frozen food space. But as fewer people sit down to eat a bowl of cereal in the morning, Kellogg's sales have been dipping since 2013. That has prompted the company to diversify into areas like waters, adult cereals with health benefits, and cereal bars. In October 2017, Kellogg paid $600 million to acquire RXBAR, a maker of protein bars. The company said in 2017 that more than 15 percent of its sales were coming from new product innovations (on a three-year rolling basis).

INNOVATION LEADER discussed Kellogg's approach to innovation with Nigel Hughes, Senior Vice President of Global Research, Quality, Nutrition and Technology at the Kellogg Co., who joined the company last year from SC Johnson, where he was Senior Vice President of Research, Development and Engineering. Highlights from the conversation are below. Hughes leads the 90-person Global Innovation Team, which reports to Kellogg's Chief Growth Officer. (This interview was part of the research for our 2017 report, "Best Practices: Scouting Trends & Emerging Tech." It is available online to IL members at innovationleader.com/research.)

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How has Kellogg's approach to innovation changed over the years?

I've been in the consumer goods business for almost 30 years, and I see more change and opportunity than ever. Having innovation in [the] future vision and strategy is critical for any company, specifically for Kellogg, with the changes happening in nutrition, ingredient sourcing, and the level of transparency our consumers expect. The changes in the way we can design and fine-tune products to deliver certain consumer experiences are just transformational.

Consumers' expectations are going up massively. Health and wellness expectations are going up. The experience and personalization expectations are going up.

These are all huge, huge changes. One of the key elements is: How do we shift our thinking away from counting on individual products to do things, and more to driving these bigger-scale platform areas such as nutrition and wellness? How do you then combine your world-class, in-house research (we've got a phenomenal pilot plant—the W.K. Kellogg Institute for Food and Nutrition Research) with all the external world-class players?

What are the challenges of bringing products to market? Is Kellogg's expanding into new areas?

It's not just a matter of expanding into new areas. There are some areas that are on the edges of where Kellogg has been in the past. The critical thing is: How do you select within the many areas of opportunity there are? That's one of the biggest challenges in innovation today.

We do a tremendous amount of work on the commercial side with the consumer insights people to understand where the consumer is moving. And from a science and technology point of view, within the R&D organization, a lot of work is [done] around where the science is moving. We've got to be looking at not just the next year or two years; we've got to be looking at five years, 10 years out, as to where the science is moving. And then it's a matter of bringing those two things together.

Take for example the whole area of energy. There are many different kinds of energy: the energy you have first thing in the morning, the pick-me-up in the afternoon, and managing your energy so you sleep well at night. We need to best understand how to play that from a brand point-of-view. Where are the technology breakthrough opportunities in that whole spectrum that are going to give us product opportunities?

How do you distinguish between food fads and seismic shifts?

Some things will come and go, and some things are—at least within a reasonable timeframe—permanent changes. Another example that we're talking about a lot within the company is the change within the core understanding of nutrition... How do you modulate your health and wellness? We look at creating food that works

in harmony with that microbiology. We need to get better at understanding how that microbiology impacts your health and wellness over time. On the other hand, there are certain things that are—excuse the pun—quite literally "flavors of the month." A quick consumer trend comes up and it's the flavor in this part of the world right now. That's part of our innovation thinking, but that doesn't form a platform of our innovation thinking.

Is it difficult to get management buy-in for your work?

As a company, we have a commitment to grow through innovation, so clearly there is a management support. The key challenge is to be clear and to communicate into the organization if this is a transformational change versus a trend. ... Kellogg has a track record to grow through innovation and wants to continue that track record. It's much more a matter of ensuring that we socialize, and we communicate, and we share in the right areas.

Packaging innovation is another area of focus for Kellogg. Could you tell me a little about some of the successes you've had in this area?

Obviously, a lot of products have been sold the same way for many years in a bag and cardboard box. Now we're seeing a lot of breakout from that, be it cereal sold in resealable bags or the snack products we have in standup pouches.

The other big change that's happening across the board in packaging, but particularly relevant to us, is that the consumer cares more and more about the provenance of their food—where it came from, what it's made of. They want to be able to see it. ... We have a whole mantra around "what you see is what you get." So the consumer can see our food; they can judge it visually, rather than looking at a picture [on the box].

We still have many examples where we have products that are in packages where you can't see the food, because that's a big technical challenge. We need food that is shelf-stable, and obviously packaging has an impact on the shelf stability. But that's a huge push for us. ... One of the big challenges with packaging is that we make a lot of food. A lot of money gets tied up in the capital [equipment] to pack our foods and the like...

Do you have advice for other innovation executives?

It's not easy. In order to be successful in innovation, you need bring together brilliant consumer insights and brilliant science and technology. The interface between those two is where the magic happens. When I say science and technology, it can be food technology in terms of a great, delicious tasting food. [It can also be] scientific insights into a particular consumer benefit.

If you look back to the history of Kellogg, you have J.H. (John Harvey Kellogg, MD) and W.K. (Will Keith Kellogg). Essentially they represented those two elements. W.K. represented consumer insight. He was the guy who was an entrepreneurial industrialist in food manufacturing. His brother, J.H., represented science and technology insight; he had passionate insights about the role of food and health. There's nothing new in this.

The other thought is the combination of content and context. Yes, you need to create great content, you have to produce great products and great food, you need to have strong claims and support them in a robust way. But always, you need to manage the context. You need to manage the communication—the way you engage with consumers and the influencers that influence your consumer. ... It's when you manage both of those in a very congruent way—in terms of the insights, in terms of the food you create and the claims that you make—that's where the magic happens. A lot of innovation failures have been because the focus is on one or the other. It might be a great product or great food, but if the context isn't very clear, consumers don't know how it fits into their lives, and there aren't other people advocating for it and sharing how it should fit into their lives.

Are there new types of talent Kellogg is trying to bring into the R&D organization? What kinds? Are you recruiting that sort of talent in new ways?

Yes, in a couple of dimensions. Obviously, there are a couple of capabilities we need to build. From an innovation point of view, I'd focus even more on the softer skills. We're in a world now where everybody needs to be a storyteller, and the members of the R&D team are no exception to that, because creating that engaging content we like so much relies on the capacity to tell stories—scientifically-based stories, fact-based stories to be clear—but stories nonetheless. More and more, I've brought in the R&D team to work more closely with our ad agency partners, because there's an incredible richness of stories with both of those creative groups. As you can

"In the past, R&D tended to be populated with people who prided themselves on invention, and now we have a group of people who pride themselves on finding solutions..."

imagine, it's not necessarily something that all scientists have built-in skills for.

Another thing: we've got a lot of very capable people in terms of food, food design, and culinary skills, but we're constantly striving to increase the food intellect within the company. What I mean by that is ensuring that people have the right language, the right lexicon to be able to describe the food—to really be able to create phenomenal, delicious food. I always try to draw a parallel with the wine industry, where over the last 20 to 30 years, you've seen a complete transformation of the wine industry in large parts of the world. Go back 20 or 30 years, and people said, "I like red or I like white [wine]," because there just wasn't that intellect or lexicon out there. What's happened is that whole lexicon has been built; you've got experts to do it. You've got oenologists, sommeliers, etc.

You really have a richness of language that allows you to be more creative. That's something we're constantly striving towards and driving within the company. We've got a tremendous passion for food; we need to match that passion with our food intellect.

What will the R&D organization of the future need to look like, or how it will need to operate?

We're way beyond trade secrets and the old notions of intellectual property and patents—not that those aren't important in some instances. There's a massive move around scouting supplier partnerships, open innovation, venture capital, incubators, etc. Really, R&D is moving from being an ideas factory to a solution factory. That's a massive change, because in the past, R&D tended to be populated with people who prided themselves on invention, and now we have a group of people who pride themselves on finding solutions and really are working in lockstep with their commercial colleagues. It's a very different profile.

I can tell you the other dimension that has changed—the opportunities today. There are so many incredible changes that are happening, and so R&D is more at the center of things today than it has been [at] any time in my career. It's a fun place to be.

The R&D I started my career in was much more built on the model of academic institutes, internal R&D buildings. That's long gone, and the change will continue.

Innovations at Kellogg

Recent innovation initiatives, acquisitions, and new product launches at Kellogg include:

► **Kellogg's NYC**: In 2016, Kellogg's NYC opened as an upscale cereal café (pictured above) in Times Square. Kellogg partnered with Co.create NYC, a retail developer, and chefs Anthony Rudolf and Sandra Di Capua on the 1,600-square foot café, which experimented with new cereal and breakfast food concoctions and gleaned real-time consumer insights. Menu toppings for standard Rice Krispies, Frosted Flakes, and Special K cereals, for instance, ranged from fresh and dried fruit, nuts and seeds, to "boosts" such as green tea powder or the more decadent—like Pop Tart crumble and marshmallows. The café relocated in 2017, and now operates across the street from Union Square in the Flatiron District.

► **Eighteen94**: A venture capital fund established in 2016, Eighteen94 allows Kellogg to invest in companies on the forefront of food development. In January 2017, Eighteen94 (named for the year that Kellogg Co. founders created their first cereal) led a $4.25 million Series A funding of Kuli Kuli, a manufacturer and distributor of moringa-based products. Leaves of the moringa tree are touted as a "super food" packed with more nutrition than kale. The trees' leaves, pods, and oil provide iron, calcium, Vitamin A, and other nutrients. The fund has stated that it intends to invest about $100 million over time.

► **RXBAR protein bars**: Kellogg recently purchased the makers of RXBAR protein bars, a brand popular with Millennials, for $600 million. The Chicago-based company will continue to operate independently.

► **Special K Nourish**: In August 2017, Kellogg announced a new line of Special K cereal laden with probiotics to help improve the health of consumers' digestive systems.

► **Chocolate Frosted Flakes**: Kellogg isn't giving up on sugary cereal. In November 2017, it introduced Chocolate Frosted Flakes.

► **Special K Protein Snack Bars and Bites**: Portable nutrition designed for healthy, on-the-go snacking.

Channeling Your Inner Disruptor

by Shawn Nason
THE NASON GROUP

WARNING: I'M GOING TO RANT A LITTLE BIT.

I am sick and tired of so-called innovators who talk more about innovation than actually doing anything about it.

Okay. Rant over. Are you still with me?

If you're still reading, my guess is that you agree with me in some way or another. I don't know where your frustrations come from, but mine come from conversations with innovation leaders around the country who are so tied up in data and project management that change never happens. If we're supposed to be thinking boldly about solving critical problems that affect lots of people, how can we be okay with a lack of action?

The simple answer is: I'm not. And, you shouldn't be either.

What's in a Name?

When my team and I lead consumer-centered design sprints for healthcare organizations, we're intentional about what we call the people who attend. (Just so we're avoiding insider language, a design sprint is a fast-paced gathering that solves big, hairy problems in a ridiculously short amount of time.) We don't use the words "participants" or "attendees." There's nothing wrong with being a participant or attendee, of course, but neither portray the mindset we need people to have if we're serious about changing the healthcare ecosystem.

So, what mindset is needed? The mindset of a disruptor. On the one hand, the difference between calling someone a "disruptor" versus a "participant" is just a matter of creative language use. On the other hand, the difference signals a significant statement about our approach to innovation and our commitment to affecting real, sustainable change. By identifying our partners as "disruptors," we're putting our stake in the ground to say that we're ready to think in new, audacious ways about connecting people with the health services they need to live healthy, fulfilling lives.

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Becoming the Disruptive Type

One of my favorite things about being a disruptive leader is getting to watch people shift from being a bit confused and unsettled about the innovation process to claiming the mindset and lifestyle of a disruptor. This shift happens when people humanize the problems they're trying to solve and fully commit themselves to finding the best solution. It's a matter of enabling people to embrace their inner disruptive-selves and giving them space to become more passionate about their ability to design and launch game-changing ideas. And, to be honest, there's often an edge of frustration or anger that fuels the commitment for change.

So, what exactly does it mean to be the disruptive type?

The Ten Marks of Disruptors

1. Disruptors Engage Empathy

Disruptors commit to not knowing the solution to the problem until they've immersed themselves in the stories of the people who are affected by the problem. Whenever they feel themselves starting to solve the problem too quickly, disruptors pull back and work harder at understanding the people involved. Embracing empathy means keeping an open mind while observing from multiple perspectives, walking in people's shoes, and not being afraid to go down some rabbit holes in an effort to discover new insights.

2. Disruptors Focus on Changing the System

Instead of wasting time putting out the small fires around them, disruptors focus on changing the system that causes the fires. They are fed up with the symptoms that distract from the bigger problem, and they focus on high-impact ideas that are sustainable over the long-term. Disruptors know that you can't boil the ocean all at once, but you can boil the ocean one cup at a time.

3. Disruptors Change from the Inside Out

Disruption is an all-encompassing lifestyle, which affects a disruptor's thoughts, actions, priorities, and relationships. It's the value system for how they make decisions, invest their energy, and interact with the world. It's a badge they wear proudly—a switch that they never turn off. Disruption isn't just part of who they are; disruption is who they are.

4. Disruptors Go "All In"

Disruptors make the problem personal, and they're willing to engage their whole selves in tackling it. They fully commit to empathizing with the people affected by the problem, and they are relentless in their pursuit of the best solution. Disruptors are brave in their vulnerability as they dive head-first into the deep end of the empathy pool and engage emotionally with each other and the world around them.

5. Disruptors Work Collaboratively

Disruptors know that they need each other. Tackling big, hairy problems requires a coordinated group effort from passionate people. Disruptors seek a diversity of perspectives in the innovation process. They know that different perspectives create healthy conflict, which leads to better ideas. And, they know that the right people have to be in the room to solve the problem.

6. Disruptors are Not Okay with the Status Quo

"Business as usual" is nowhere on a disruptor's radar. In fact, complacency drives them up the wall. Disruptors ask the tough questions that others are afraid to ask. Where some people see insurmountable problems, disruptors see opportunities for change.

7. Disruptors Don't Settle

Disruptors don't take the easy way out, and they don't compromise for mediocrity. They are all too aware of the stakes involved in solving the problem and don't give into peer pressure when others slow down. Driven by a desire to make a difference in people's lives, disruptors take a people-first approach to the problem, and they push each other to think bigger and more boldly.

8. Disruptors Work Fast and Cheap

There's no analysis paralysis in the life of a disruptor. Instead of getting bogged down in data and research, disruptors know the right amount of information they need in order to create new ideas. Once an idea is identified as "worth a try," disruptors test it quickly and cheaply so that they can easily move on to another idea if the first one isn't going to work.

9. Disruptors are Not Afraid to Fail

Disruptors plan for failure. They build failure into the process and give each other huge standing ovations when it happens. Disruptors know that each setback clarifies the problem and tweaks the possible solutions. Because of this, they get concerned when things go too smoothly. Failing is just another opportunity to learn, right?

10. Disruptors Channel Their Passion into Action

Disruptors don't just sit around and talk about disruption. Instead, they make new ideas come to life through hard work, emotional engagement, and grit. Though they enjoy a good campfire as much as the next person, they know that sitting around a campfire is no way to affect change. Change comes when passion gets channeled into action.

Taking the Disruptor's Pledge

Are you sitting on the edge of your seat ready to join the disruption movement? If you're as fired up as we are, we invite you and your team to take the Disruptor's Pledge. Feel free to post a video of you taking this pledge, or make a t-shirt with your favorite element on it. Do whatever you want with it, as long as you take it to heart to enact people-first change in your industry. And when you do, use the hashtag #disruptorspledge.

The Disruptor's Pledge

As a Fully-Committed, Game-Changing Disruptor, I hereby Pledge to . . .

• Engage Empathy • Focus on Changing the System • Change from the Inside Out • Go "All In" • Work Collaboratively • Not Be OK with the Status Quo • Not Settle • Work Fast and Cheap • Plan to Fail • Channel My Passion into Action

the Ex-files

What it's really like on the front lines of corporate innovation, according to those who've been there

By Scott Kirsner

Illustrations by Todd Detwiler

THE TRUTH ABOUT LIFE inside corporate America? It can be hard to tell the truth about the real challenges, communication breakdowns, and political conflicts that often surround innovation.

But once someone has packed up their office, updated their LinkedIn profile, and moved on, it gets much easier to speak openly about the things that stand in the way of change inside large organizations, and some of the strategies and tactics that can help you get past the obstacles.

So we reached out to 16 people who've recently worked in corporate innovation, strategy, technology, and new ventures roles at major brands—Target, Nike, Disney, Whirlpool, and GE among them. We asked them about some of the biggest lessons they learned during their tenure. About some of the biggest supporters and detractors they encountered, and how they dealt with the latter. About the need for metrics and business cases to back up what you're hoping to achieve.

A handful of the people we interviewed asked to be anonymous, since they're currently in the market for their next job. We consented, since our main objective with this story was to collect straight talk about what it's really like to innovate in a big company—and more of it, we believe, than anyone else has previously collected.

If You're Fighting Against the Core Business, That's a Losing Battle

▸ **CASEY CARL** *was the Chief Strategy and Innovation Officer at Target until 2017. He's now a member of several boards.*

I was the youngest executive team member in the history of Target. I had been leading strategy for the enterprise already, and as an extension coming out of that, I approached our new CEO [Brian Cornell] and said, "We need to change this position and create the innovation organization. That's where a lot of our future growth is going to be, and our current orgaization doesn't have the capabilities and skillset to do this on its own."

"I believe that more is more. When you have more stuff in the funnel, you're increasing your likelihood of success." — Casey Carl

The board and Brian, the new CEO, were supportive of it from a strategic need: "Yep, makes sense, but I don't even know what I'm signing up for." Further down the path, when you say, "Here's the resourcing we're going to need, and the type of work we intend to do," that's when you start to get to people's actual feelings. ... I already had a ton of credibility with the board to make the argument about why we needed this new organization—I'd led the turnaround of our digital organization. [Having responsibility for strategy] was advantageous, versus a lot of people who only run innovation. I had the strategic hat as well and could show how it tied into achieving the overall strategic goals.

The things to do at the onset to ensure a greater likelihood of success is defining what success looks like. That will be different for every organization. What is success, and how will we measure it? I thought we had great alignment on what success looked like, but playing it back now, I'm not as sure.

Part of that is metrics. The core business is $70 billion. Let's not measure new ideas by that measuring stick. It took them a long time to get to $70 billion.

Net present value can't be the main metric, but it could be the number of prototypes created, or how many we get past this part of the funnel. When you remove the ambiguity [about what success looks like,] you remove the permission for others to intervene. You can say, "We cleared these hurdles, and we'll move to the next phase."

Another learning for me is that there are things you can do to ensure greater likelihood of success. That could be through reporting relationships, or dedicated multi-year budgets. It lets you remove [innovation] work from the traditional processes. Otherwise, you're fighting against the core business, and that's a losing battle.

For example, one of the things I learned over time in benchmarking other organizations is that you want a rolling, three-year budget. You're still accountable fiscally, but you're also not on a yearly budget where you're going up against every project that the CIO has. The work is protected, so if you have a bad quarter or two in the core business you don't get that [reflexive response] of, "Let's pull it back."

One of the biggest a-has from my time at Target is that innovation has a very disciplined and defined process. Thousands have gone before us, and there are clear best practices.

Innovation also has a high failure rate. If you're not learning and failing along the way, you're not doing it right. I believe that more is more. When you have more stuff in the funnel, because the failure rate is so high, you're increasing your likelihood of success.

But what makes the job so difficult is that in any public company—especially in retail right now—there's a ton of pressure to grow.

You have a tough quarter, and you start getting a lot of pressure on anything that is too speculative or too far removed from the core, even though there might have been alignment six months prior. “We hit all the metrics of success we agreed upon, and now you’re basically moving the goal posts.” That’s what makes the job so difficult. It takes a very special CEO and board to say, “I’m going to have the foresight and intestinal fortitude to take my lumps in the near-term, because I know that if I don’t do this, the long-term opportunity costs are much greater.” That’s a special breed.

Find an Orphaned Project and Make it a Reality

This anonymous former innovation director has worked in the food, beverage, and travel industries.

A lot of newbies to innovation are obsessed with ideas and the number of ideas they generate. You should be way more worried about identifying the right problem to be solved, and getting really deep on that.

And you really have to understand the business. There’s a major trust element required to be an innovation person if you’re in a commercial role. You really have to understand the company—how it makes money, what are the big challenges, threats—even if you don’t think they are glamorous innovation opportunities. That involves meeting tons of people in the business units and ensuring that they think of you as commercially-savvy.

You need to understand the time expectations of your leadership. It’s very important to come in and have some quick wins so that people understand that you are impact-oriented, because there is a huge threat of extinction for innovation teams. ... In the consumer products business, where it takes three years to deliver a [new] beverage, you may need to start off with existing ideas that may have already died in the business for whatever reason, and understand if any of them still have legs. There can often be things that can be leveraged that already exist. My boss used to call them orphaned projects. You can take an orphaned project and made it a reality.

You’ve also got to have the humility and the desire to work with partners, like consultants, agencies, other organizations. This industry is not about do-it-yourself...but a lot of companies are so competitively-driven, they think about using agencies and consultants as a weakness.

There’s a 50 percent likelihood that another organization has already done complementary work in [an area] you’re exploring.

The term “scrappy” is really annoying to me. What it means...in innovation work is working quickly and not being really perfectionist about what you show to consumers. You can show them sketches. You can let them sketch on top of your sketch. Your PowerPoint to stakeholders doesn’t need to have 150 pages.

But often, scrappy has also been translated into cheap, no budget. It’s not about that. You do need budget to do innovation work. Innovation teams have to be invested in to deliver value. You need not just people, but budget to work with partners. If you’re going to do this in a rigorous way—gathering insights, testing and learning, prototyping—it costs money. Innovation teams that are set up without a budget that corresponds to the company’s level of commercial ambition are set up to fail.

“I don’t think innovation requires a lot of money. I’ve always built teams on a shoestring. When you’re lean and hungry, you are more careful—and you have higher impact.” – **Naomi Fried**

Quick Wins are the Wrong Objective

*▸ **Naomi Fried** is a former Chief Innovation Officer at Boston Children’s Hospital and Vice President of Innovation and Advanced Technology at Kaiser Permanente. She’s now the CEO of Health Innovation Strategies, a consultancy.*

I believe in small, effective innovation teams. I don’t see a lot of programs that are under-resourced. If you have a clear set of objectives, and you understand how to bring value... with a small tiger team, you can transform an organization through innovation. I don’t think innovation requires a lot of money. I’ve always built teams on a shoestring. When you’re lean and hungry, you are more careful—and you have higher impact. Sometimes programs get too big, and they lose their focus. When you have 150-plus people, you can start running things yourself that are better run by other parts of the business, and you become competitive with the business in ways that aren’t healthy.

Quick wins are the wrong objective. If you’re unlucky, you can end up with a dead program. Focusing on quick wins rather than the broader organizational objectives doesn’t make sense. I get very worried if someone is starting a program and just wants some quick wins. What is the purpose of the quick win? To buy more time? If you don’t have the sponsorship in the beginning, and folks who believe in what you are doing, you may or may not succeed with the quick win approach. As opposed to having leadership say, “We want to see what you can do, and we’ll give you sufficient time and resources.” We don’t have other functions that have to prove their value—you don’t see HR running around and saying, “Let’s hire someone quick so we can show you the value of having an HR department.” Everyone wants wins, but if quick wins come at the expense of an innovation strategy and a clear innovation objective, I’m opposed to them.

Innovation programs typically take three to five years to start yielding a lot of fruit. A year and a half in may be too soon to judge the value. Impatience, or lack of time, is a big reason programs get shut down.

Build a Business Case the MBAs Can Understand

▸ **Mike Foster** *was the leader for global product innovation at Dun & Bradstreet through 2015. He’s now Chief Product Officer at Third Wave Business Systems.*

I go to the innovation events and incubators at these companies, where you’ve got this small team working away. If you want a prayer of working your way into the corporate budget allocation, you’ve got to have a business case: What’s the market opportunity? What are the problems in the market or with customers? What’s the value proposition? What’s the competitive landscape? You’ve got to have a good system for pulling those business cases together. It needs to be ready for senior executives to consume, in the way they want to consume.

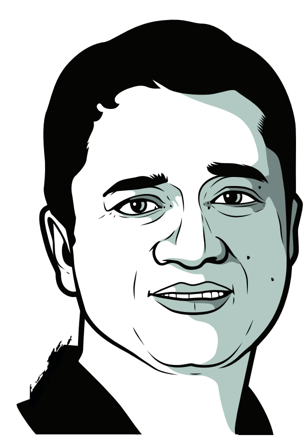
That language hasn’t changed much in the past 25 or 30 years. The people with MBAs who run companies are used to looking at business cases as a way of evaluating opportunities. Some have been CEOs of startups, or have worked in venture capital firms. I’m a huge fan of lean startup, and I love [Alex] Osterwalder’s business model canvas, but that’s not what they are looking for.

If you’re going to get the time of day with a C-level person in a $5 billion company, they’re going to want to see some level of speculation about the numbers—even some back-of-the-napkin numbers to get them excited. Come on! And your numbers need to be able to stand up to some abuse. That aspect of things isn’t moving as fast as the innovation community suggests that it is.

At Dun & Bradstreet, I reported up to a global leader, and she reported to the COO. We probably had 20 people involved with seeding new ideas and ideation. [At one point during my tenure there], there was going to be a board meeting focused on innovation, and the COO asked [my boss] to come in and speak to it. In a rehearsal to get ready for the board meeting, the COO asked about seven major things that the CEO had committed to Wall Street and the analysts... The message was, “The bets have been made—don’t come in and talk to them about new ideation. They want a status update on the bets that had been made.” So we threw the entire presentation [on the cutting-edge things we’d been doing] out, and crammed on a new presentation on four or five things that had been rolling along for the past year and a half that the CEO needed to report an objective update on, not the new stuff.

The big idea, for me, was getting connected to that board-level agenda.

“I learned very quickly that you have to be uncompromising on talent. It’s a great thing to say, and hard to do.” – **Gagan Kanjlia**



Work Backward from the Day Your Product is Commercialized

▸ **Gagan Kanjlia** *is the former Head of Product and Co-Founder of the Capital One Garage. He is now Head of Product at OnDeck, a fintech startup.*

The toughest thing for labs is not customer adoption, it’s organizational adoption.

You can solve for the science of customer adoption, but organizational adoption is the harder part to solve for. A lot of the failures I see have to do with that spot where the lab has commercialized something, but it needs the business unit’s resources and customer base. That’s where the failure happens. It’s not a technical failure, it’s an organizational adoption failure. The compliance folks have an allergic reaction, or the IT department doesn’t think the security is resilient enough, or the sales folks don’t know how to sell this thing. That’s why communication is really important—and it’s not one-way communication. It’s creating a dialogue about what is important to you, and tying that to the business unit or function’s problems, and what is important to them. You need to build a bridge.

Eventually there is going to be a day of reckoning, the day when your product is sewn into the fabric of the company. At that point, it’s no longer a cool, shiny toy. It’s being sold by the front lines, being operated by the operations folks. There’s a P&L with your cost and revenue. That is the day of reckoning; that is like nirvana—“my product is doing the talking.” Work backward from that day. Identify who will own the product when it grows up. You need to invest in that relationship.

I learned very quickly that you have to be uncompromising on talent. It's a great thing to say, and hard to do. But I would rather not initiate an innovation project if I didn't have the right team, rather than trying to wing it with people who sort of get it.

If I ever felt like there was a sense of elitism and entitlement in the lab, if that's the perception of others at the company, you have to avoid creating that, or deconstruct it. Yes, you need to have more forward lean, and a methodology that is suited for innovation, but elitism and entitlement isn't what the lab's brand should be.

Ship Products, Not Concepts

▸ **Sasha Hoffman** *was the Chief Operating Officer of Piaggio Fast Forward, a new product development lab that is part of Italy's Piaggio Group, until 2018.*

One of the really hard areas for a new innovation or R&D lab is managing the relationship with your parent company. They have to trust you, and that trust comes over time. With Piaggio Fast Forward, we are disrupting a 130-year-old [scooter and motorcycle manufacturer,] and telling them we want them to bet on a whole new family of products that may not generate revenue for a while. They had enough foresight to start [a lab in Boston], and they gave us a lot of breathing space. We brought together diverse people with diverse mindsets. The mothership needs to give you a set of parameters, but you also need free reign to think. If you built this within Piaggio, it wouldn't have gotten done. Put a motorcycle designer on your team, and they would've given you a new kind of motorcycle.

"Where I see a lot of these labs going wrong is they put out tons of concepts, but they don't launch products." — Sasha Hoffman

Where I see a lot of these labs going wrong is they put out tons of concepts, but they don't launch products. You're putting out concept cars and new kinds of urban mobility devices—and yet I haven't seen one of them on the street. And it took Tesla, not someone who was building lots of concept cars, to reinvent the battery system, the autopilot, and put out this totally new kind of car.

The second you actually have to pull the trigger and sell a product with your name on it, that's where a lot of these innovation labs just stop.

If we were inside an Amazon or a Google, sure, it would've moved faster. I spent a lot of time politicking [with Piaggio colleagues.] It takes some massaging. It's hard, for any of these companies that [have] been around for a long time.

Understanding the Billion-Dollar Obsession

▸ **Rick Waldron** *was COO of Nike's Innovation Accelerator until 2017. He's now an executive advisor and coach.*

Large companies are in the billions of dollars of revenue, and so in order to make a difference and be worth senior leadership's time, the whole system is organized such that they look for investing in things that will have a big impact on the corporation. So if I'm a $12 billion business and I'm thinking about a new business, well, I want it to have $500 million or $1 billion in revenue potential. People don't care about businesses that are under $1 billion.

... But it takes a lot of time to get to $1 billion, so even if something is strategically relevant, if it doesn't have that potential, it's hard for management to justify investing in it. They can just go back to their core business and start seeing that growth more predictably. I've seen even businesses with several million dollars in revenue, [that] were strategically relevant, get defunded or not funded sufficiently, because it was seen as too small.

Senior leaders hear in the press all of these stories of unicorns, where startups get a $1 billion valuation right away. But they conflate valuation with revenue. I believe they do that subconsciously. [In reality], it takes [these unicorns] a long time to get to $50 million in revenue [in] the first place. ... But I think the time it takes—how long and how hard it is to get to profitable revenue and scale—isn't something senior leaders in larger companies understand.

Another challenge is that most investing in innovation is done through this 12-month budgeting and planning cycle. So [innovation teams] live in this short-term...they're not even given the resources they need to get to the right scale in the right time. The deck is stacked against them.

My view of what should happen is...there should be this holy triumvirate that gets sponsored by the most senior levels of the company and works together very closely. ... And that would be strategy, corporate development, and an innovation function.

The strategy group helps point the innovation efforts in the right direction. What is strategically relevant to the company? Where should we start going to hunt beyond what the core business is going to do? The innovation function can go take that strategy, and using the lean innovation playbook, they can go start testing out those strategies. … They feed the information back to the strategy team, which helps refine the strategy, it helps bring customer insights to the strategy team, and they can refine it. Then with all these learnings, you can involve corporate development, so they can go and make some dramatic game-changing moves [like] acquire a company, for example. But they do that with the strategy this team has come up with collaboratively, so the company is making strategic decisions. As we see all the time, corporates have an easier time making big moves though M&A than they do in making year-to-year or quarter-to-quarter investments in new things…

Innovation Isn't the Center of the Universe

▸ **Nancy Tennant** *was Chief Innovation Officer at Whirlpool Corp. through 2015. She now teaches at the University of Chicago and Notre Dame University.*

Innovation is not the center of the universe in most companies. The CEO certainly wants you to run innovation, but she's got other things going on too. In most cases, innovation moves two steps forward and one step back in most companies. You are at the center of the universe for a little bit, and then something happens, and you're not. There's a crisis, a new CEO comes in, the company decides to sell off a business. You have to have the right presence of mind to keep the steady state going; you have to see it as a long-term thing, and understand that there are other big priorities in companies. It doesn't mean that she doesn't still love you, but it means there are other things going on…

"You have to develop a unifying view of innovation, and not idolize certain companies." — Nancy Tennant

What can you do? Sticking your head in the sand is not a good approach. You want to be thinking about what is the next level you're going to get to. How can you train people? How can you partner, so when you do wind up at the center of things again, you're ready?

There are other things that happen in large organizations that aren't innovation, and you really have to figure out how your initiative fits with these other things going on… What are the productive things you can do personally and for your team?

You have to develop a unifying view of innovation, and not idolize certain companies. You need to have enough knowledge to figure out what [approaches] work for you, rather than, "I want to be a Google, I want to be a Tesla." You might go out to understand who's really good at framing, discovery, ideation, and begin to put things together that make sense for you. I like to say, "Customize, don't idolize."

I'm an optimist. I think the pendulum always changes direction in companies. You may have one of these switchbacks for a time, but I do think it always comes back to innovation.

What's Motivating the Company?

This anonymous former innovation executive has worked most recently in financial services.

If you have a more entrepreneurial background and you're leaving that world to get the job security of working in a big corporation, be careful. [Being a corporate innovator is] probably one of the least secure jobs you can have in an organization.

So often, these roles are created with the best intent. You see your competitors doing the same thing, and you're responding to the market. But often the people creating these jobs don't know what they're doing.

What should you do? You need to get very clear about what your responsibilities are and what your key performance indicators are. Before you take the role, spend time going through the job description. Sit with the leaders you'll report to. Ask them, "What does success actually look like?" The more innovative you are trying to be [with your program], the less immediate traction you're going to see.

You also really need support from the lines of business. The CEO may be super into innovation and willing to spend a ton of money, but then there's this big competition that gets set up with the lines of business. The innovation group can be seen as the favorite child. Usually the innovation group is the one that gets the accolades externally. The lines of business say, "We're responsible for the revenue," and they feel slighted. Getting line of business support is equally as important as the C-level support.

What is motivating the company to do something different about innovation is important. Are they doing this because they are afraid that they're going to be left behind, or because they saw their competitor got a nice press release?

They may not actually care about innovation, but want to have someone with the title who can go to some events.

There are absolutely positive motivations as well: "We haven't had new products, customers are leaving us, we need to grow, our customer satisfaction score has gone down." People internally may realize that what they're doing isn't working, and they want to change that. So you need to get agreement on what success looks like. You should say, "I need the assurance on dollars, people, and line of business support to be successful." When there is real, genuine agreement—we have a problem, and we want to work toward a solution—those are much easier conversations...

You Can't Skip to the End

▸ **Ann Marie Dumais** *was an open innovation leader at GE until 2017. She's now VP of Strategic Programs at First Advantage, a provider of background checks.*

The very first thing that executive management wants to do is, they want to skip to the end. How many brand-new shiny objects did we produce, and how quickly? Those are not the first success metrics—those are the last metrics that are going to show that you have the right culture, the right people, the right process. ... Those things take time to come into alignment. The first success metrics are being able to see how many groups are collaborating. Do they put pieces of paper and bureaucracy in between them? The number of pieces of paper is a great indicator of how much bureaucracy there is.

... I struggle with that word "innovation," because it has become a four-letter word lately. I almost like the words "curiosity" and "risk-taking" more. ... It's about encouraging people to love their jobs, and raise the right questions. Those things drive a very innovative and productive culture. They create a really good soil, and what comes out of that is good output.

Passion Has to be the First Criterion

▸ **Wim Vandenhouweele** *was a Commercial Innovation Leader for Europe, Canada, and Emerging Markets at Merck until 2018.*

If you talk about a global organization [like Merck], different groups have very different understandings of innovation, and senior leaders usually have something specific in their minds. Do you want to focus on your core business, or look at other strategic priorities? Do you [want] open innovation or just internal? Do you want to go with venture capital, with start-ups? Make that very clear from the beginning. If you don't explain it well, it can create confusion, dissatisfaction, or waste.

It's important to have that clarifying discussion over time...and to keep having that discussion with the senior leaders' direct reports, with regional presidents, and go through the different layers. You have to make it very clear what [your mission] is, and what it is not.

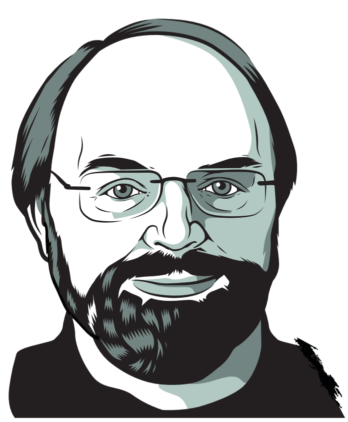
The network of innovators I created at Merck was 50 to 60 people, one in each country. We called them Country Innovation Leaders. It was a challenge to stay in touch on a regular basis with them and keep them engaged and activated.

One of the biggest errors I made when I started was asking for someone from the leadership team—someone reporting to the country's managing director—to be the Country Innovation Leader. Later, I switched it, and instead, I [looked for] someone who is passionate. Passion has to be the first criterion. It made a dramatic change in the level of activity we saw in each country.

One thing we figured out was that every month, I organized a WebEx [video call]. I asked three countries to share their innovation, or how they stimulate innovation, in a 10-minute presentation. Everybody could watch live, and people could connect with them offline afterward. We taped them for the intranet, so people could watch them afterward, too. It was very simple, and it didn't cost anything.

Another simple thing was sending a note out to people's managing directors, to say how well the innovator was doing. People feel great when someone from headquarters sends a note. One of the people in our network was a sales representative in India. In the next innovation awards we did, he had 10 out of the 130 ideas. He just got so passionate about it.

> "Different groups have very different understandings of innovation, and senior leaders usually have something specific in their minds." **— Wim Vandenhouweele**



The other challenge is securing more time for your innovators, and making their participation more formal, so it is recognized in their objectives and accomplishments. For me, the time part is more important than money—having the time to do more. We had awards where we gave money, and awards where we didn't give money. And we didn't see any difference.

Because people are so busy, if the leadership team had protected them to do what they wanted to do, that would've been more helpful.

Communicate the Vision and Show the Consumer Excitement

▸ **Rachael Schwartz** *was Vice President of Product Management and Innovation at Keurig until 2018.*

Having a great strategy and a great plan is a small part of whether the innovation is successful. At least half of the work is in generating the support and maintaining support from the leadership of the company and also from the people who have the ability to disrupt the program.

We're entrepreneurs within a company, and the leadership in the company are our funders. You can spend your time nose-down building your company, but you also need to explain what you're building to those funders. Communication and getting people on board is not a nuisance of the job—it *is* the job.

For everything we wanted to launch, I had to clearly develop a vision. Then you find a nice, concise way to communicate that vision. And you meet one-on-one with every single senior leader regularly, to understand what their motivations are, what their hesitation may be. I was frequently in eight to 10 meetings a day, every day. It was very meeting-heavy.

I learned that I was not effective personally at communicating the vision and consumer excitement to all of the leaders. When they really doubted an exciting business, we decided to show the consumer excitement. Any time you meet with consumers or do a focus group, it's worth it to spend the extra money and time to videotape it. Then, package it up into nice short clips. That's what they remember. They might think it's the stupidest idea in the world, but they remember the excitement that the millennials had for it. Generally, the leadership is wealthy, liberal, older, coastal people who eat heathier, drink healthier, and exercise. So for a lot of products we were talking about, they couldn't visualize that anybody would want those products, because they and their cohort had no interest.

It was also very important to train every single person working on the innovation team on how to effectively communicate the vision. When they're sitting in the cafeteria and their buddies are complaining, they can stand up for it and sway people, and it doesn't just fall to me.

The other thing I learned was how to build out innovation in stages, so that I build my own proof points for a concept. It can be hard for finance to buy into your projections for blue-sky innovation. There really aren't good metrics to use, and you're making huge assumptions. What I learned over time was to position it as a "What if?" What if these things fell into line, and we could build a billion-dollar business? These are the 20 assumptions, so let's run quick tests to verify or invalidate those assumptions.

> "It was also very important to train every single person working on the innovation team on how to effectively communicate the vision." – **Rachael Schwartz**

'We'll Kiss All the Frogs'

▸ **Graham Milner** *was Executive Vice President of Global Innovation at WD-40 through the end of 2015. He's now the principal of GPM Consulting.*

I think we are all comfortable with being comfortable. But for transformational innovation to occur, you need to achieve comfort with discomfort.

Working on incremental stuff makes sense on two levels. It's the quick win. It allows the internal customer to see there is value to this unit. The other piece is that...innovation is a skill not unlike learning to play tennis, golf, or hit a baseball. The early practice of the quick wins allows you to refine your process, and allows the internal motor of innovation to start spinning. In that metaphor, to go from zero to Wimbledon or the US Open is difficult. So demonstrating competence builds internal confidence.

[At Team Tomorrow, the innovation group at WD-40], we spent a lot of time and effort looking for transformational innovation. There were one or two ideas that physically got done, like the Turbo Air Compact Blower System. It was a mini-blower device you could use on your workbench at home to clean up, or we had barbers using it instead of hairdryers to deal with stray hairs. But to physically make an electronic device is about as far from a can of WD-40 as you can imagine.

We never made millions of them, but we took them to customers and we were set to launch—and ultimately we didn't. But what was interesting was a few years later, the entire Specialist line [of WD-40 products for specific applications] was launched, and the CEO said, "If we hadn't done the blower device, we would not have had the courage to extend the brand." The internal debate about line extension had raged for decades. But the transformational exploration allowed the company to take a step that it might not have otherwise.

What would I have done differently? I might have tried to do a better job of internally selling the role of innovation to all of the internal customers. You know, "We're going to kiss all the frogs, and we'll be the ones with warts on our lips, but you'll get all the princes and princesses." My assumption was that people would get it.

Create Mutually-Beneficial Partnerships with Startups

▸ **Ace Moghimi** *served as the Global Head of Innovation, Digital Strategy, and Delivery at Manulife through 2017. He's now a Venture Partner at NextGen Venture Partners and the Principal at AceMII, a consultancy.*

I think there have been some relationships between corporates and startups that have benefitted the corporates, but it's a small percentage. And I haven't really seen many accelerators that provide these startup-corporate connections that have shown too much success.

At Manulife, I think the way we structured it, and the startup partnerships we created, were super beneficial to us. It was more about enablement and learning. You can't always hire the right people in the artificial intelligence space. We couldn't afford to pay an AI expert $1 million. So we leveraged the startup partnerships. We had to bring those experts in to train our team, and get our team to a point where they were more capable. And then we'd construct a mutually-beneficial collaboration to build something new together. Not stealing [the startup's] ideas and crushing them, and not just buying their existing product.

Whenever you are trying to build a startup-corporate relationship, you should view it through the lens of, "What is mutually beneficial?" It can't just be about learn-learn-learn, or take-take-take. You have to be sensitive to the challenges of the startup. They have a cash burn they have to manage. You can't put them through the procurement process that takes a year. It'll crush them. If you need to get them through some internal process, you may need to fund them through that time.

[As a new innovation group], you need to be focused on pure results—are you adding value, have you impacted the business, created new revenue? Have you worked to change the culture? What are the results of those efforts?

If you've been at it for three years, and you haven't returned anything, you're not going to last. It's a public company. It's all about results.

"[When] you are trying to build a startup-corporate relationship, you should view it through the lens of, 'What is mutually beneficial?'" – **Ace Moghimi**

Your Job is in Danger of Being Eliminated

▸ **Christopher Chapman** *was a Global Creativity & Innovation Director at the Walt Disney Company until 2017. He's now a Creative Director at PICROW and Founder of WeOverMe.*

A title with innovation in it is a symptom of a problem, because innovation should permeate. Every single day, your job is in danger of being eliminated more than anybody else in your organization. Under no circumstance should you behave as though you own innovation. It has to be that you are supporting others in achieving innovation.

Make sure you are putting people first inside the organization. You have to put the employees in the organization even above the consumers, because if you're not helping to create a culture of innovation, and helping people fulfill their potential, it's a massive misstep.

One issue we ran into was a misconception that we were there to hold brainstorms and help people come up with ideas: "Can we do a one-hour brainstorm to solve for this massive challenge?" The way we addressed that was, we always said yes. But then we said, "Can we show you another way?" At that first engagement point, we'd show them how we use design thinking as a creative problem-solving approach. ... And the one-hour brainstorm would turn into an integrated, cross-disciplinary, three-month engagement.

The most dangerous place in an organization [for innovative ideas] is middle management.

So what do you do with them? Listen to their complaints. Bring them into the fold. Go out and have lunches. Ask questions and listen; talk and give answers less. Be provocative with your questions: What are your personal and professional goals? What is frustrating at work? How can we be of service? That middle management group feels like they are not being seen and not being heard. They feel like they are pushing paper, managing time and money, not creating new things.

But in my experience, the biggest skeptics of innovation have been people who already feel that they own creativity, because it is a noun, or innovation is a core competency. These are people who have a pretty high skill level. When you can get people to open up—and say, "We respect your knowledge, and we want you to be a part of the company getting even better"—that's when we saw a major turning point.

You need to be a self-starter, and build your tribe. Find and build a tribe of those that believe in it. When you have people saying, "We believe in it and this works," it can help drown out the people you might not be able to shift.

Does measurement kill innovation? Not if you do it right.

By Steve Dry, Mariko O'Neill, Allison Cook, and Saba Tahseen
PA CONSULTING

INNOVATION CAN BE likened to having your first child.

Parental instinct kicks in quickly when you bring something new into the world: you see the potential for growth and imagine a future for your creation.

Measuring innovation can feel sterile, uninspiring, and judgmental. It's a bit like the pediatrician predicting the unfolding of your child's life at infancy, or rattling off growth stats when asked how your child is doing.

And as a parent, your reaction to this measurement can become quite defensive:

- How can my child's destiny be so black and white?
- How can numbers alone capture the complexity and richness of their story?
- How can milestones appropriately incentivize me as a caretaker?

The shift towards data-driven decision making has trickled down to just about every level of the organization, but most companies have failed to accommodate the unique management challenges of innovation. The strategies for success in more established areas of business don't always apply to emerging enterprises. And metrics—seen by many as the silver bullet for good decision making—are in many ways killing innovation.

But you can make three subtle changes to your measurement process to catapult your innovation program, helping to nurture and grow projects, and generate enthusiasm and leadership buy-in across your organization.

1. Connect Innovation Metrics to your Company's Strategy

This seems obvious, but sometimes things are hidden in plain sight. Our recent Innovation Matters research found that, amongst organizations designed to develop new disruptive products and services, over half admitted to "frequently rejecting disruptive ideas, even though they know they have great potential." Nearly 40 percent of organizations committed to growth admitted that they spent as much or more time focused on reducing costs as creating new revenue streams. When metrics are not aligned with mission, they distract from progress.

Executives at the most innovative companies are clear on their purpose and have outlined innovation goals to achieve their strategy.

These leaders have created consistent language and measures to talk about innovation across their organization. Dan Seewald, Senior Director of Worldwide Innovation at Pfizer, recently commented on this topic during an INNOVATION LEADER webinar, noting that standardized innovation metrics across the company ensure that everyone is aligned, and innovation is serving the company.

2. Use Storytelling to Inspire Innovation in Your Employees

Innovation leaders need to leverage the power of story to communicate and inspire engagement. Dashboards, a favored corporate tool, can provide standardized insight. But this static snapshot of performance is only based on a few key metrics, which don't effectively communicate the entire context or benchmark progress correctly.

The best innovators harness the power of storytelling to connect humans with the data—intention with impact.

Storytellers reflect on and connect their efforts to a larger vision. They drive a culture of change by connecting with their employees' sense of purpose. We've found that 57 percent of successful innovators are good at telling the story of innovation in their organization, and 81 percent of innovation-oriented companies offer their employees an inspirational sense of purpose. So, tell more stories with your data.

3. Separate Project Metrics and Personal Performance Metrics

Often, project leads are assessed on the success of their ventures. More successful projects yield better financial and personnel resources, recognition, and compensation. This incentive structure works when project leads have significant control over their project outcomes. However, when leads have less control over the outcomes, personal and corporate goals can become misaligned. When applied to innovation, this traditional performance assessment model can drive colleagues to overstate project performance or avoid risk-taking.

Separating project metrics from personal performance metrics allows for a more effective and accurate compass for decision-making.

In their book *Beyond the Champion*, Gina O'Connor, Andrew Corbett, and Lois Peters acknowledge that innovation projects require alternative incentive structures to account for their risk. For startup employees, having an equity stake in the company ensures a significant financial upside to account for assumed risk and to align personal performance with corporate strategy. In corporate settings, we can use performance metrics that reinforce positive innovation behaviors (e.g. speed to validated/invalidated assumptions; cost per test). This ensures that project-based metrics are not experienced as judgmental and can be used to direct decision-making.

The three steps above will transform how measurement functions in your projects, making it the lifeblood of your innovation program. Metrics can effectively communicate organizational strategy and the importance of innovation in achieving that strategy. When used correctly, they become the shared language of progress toward growth goals. Metrics can inspire individuals and give them purpose in their work, democratizing innovation throughout your company. These benchmarks can accelerate progress towards defined targets, by course-correcting projects and rewarding your employees for taking risks and supporting innovation.

You can track a child's growth in many ways: stats in a baby book, a pencil and a door frame, or milestone photos on Instagram. And, just like any parent, you can choose how you document and showcase the growth of your innovation program.

> “What we all realize is that innovation always needs to come one season sooner than we expect. Because the consumer moves on one season faster than we’d like.”
>
> **Brian Goldner, Hasbro**

Case Studies

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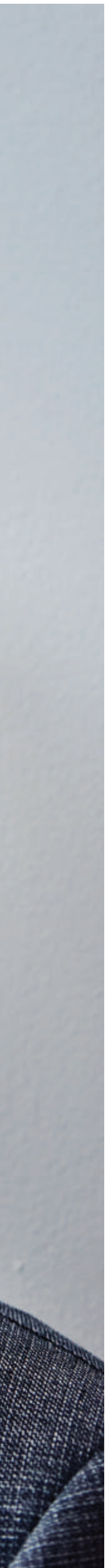

HOW HASBRO CEO BRIAN GOLDNER IS BUILDING A COMPANY THAT CAN INNOVATE ACROSS THE PHYSICAL AND DIGITAL REALMS

By Patricia Riedman Yeager
Photographs by Tony Luong

The Future of Fun

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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; 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.

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

Throughout time, 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 brands 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, 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.

How do you develop the storyline for each brand?

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. 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, ... 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. ... 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.

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

A great example is the Nerf brand. For years,

Goldner cozies up to Mr. Potato Head outside Hasbro's Rhode Island headquarters.

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 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. 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 the market research firm NPD, in 2017, Nerf posted its fifth consecutive year of growth and was the No. 1 toy and game property in the US.)

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

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

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…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, or 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.

Hasbro has tried several idea-mining techniques, from hackathons to a crowdfunding collaboration with third-party provider Indiegogo. Would you elaborate on what you've done and what's currently working for you?

We do all these things. … We just did a crowdsource product for Star Wars through our HasLab (hasbrolab.com), which was a $500 Jabba the Hutt Sail Barge. It's always a fan favorite scene [from "Return of the Jedi"], and we realized the only way to make a product that would be fully rendered and the size, scale, and scope that we hoped to create would be to involve the fans. We

Serious firepower: According to the market research firm NPD, in 2017 Nerf was the No. 1 toy and game property in the US.

decided to make a $500 product that's got every detail; it's a work of art. It also can either be for play or display. And we then went out to fans and said, "If we can get 5,000 of you to sign up, we'll make the product." In fact, we got almost twice as many people to [commit].

And then we took them through the journey of what it was to create [it]. We showed them the blueprints, and we created a coffee table book that's going out to people who have signed up. They get taken along the journey of designing the product, of rendering the product, building the product, manufacturing the product, and then getting the product to them. That's literally, in a microcosm, an execution of the brand blueprint, where you are connecting to characters, story insight, modern digital commerce, and you're enthralling and delighting your most ardent fans by bringing them along as your co-conspirator. In essence, that's the nature of our business.

Executing that blueprint for Mr. Potato Head probably wouldn't work as well, and that's why the blueprint that every brand leader executes is based on the insights and the understanding of their brand and its role in a consumer's life. It's not even about price point. It's about play pattern, it's about age of the audience, it's about so many things that come into play, and that's why the consumer insights that we gain and the investments work. We have a team called the GCI team [Global Consumer Insight] Team. It has been an area we've been investing in since 2000, when we restructured the way we look at the business. I came on board in 2000.

Hasbro last year established a similar team, called "Quick Strike," hoping to turn social-media trends such as viral videos into marketable games. Could you elaborate on how that's going?

I'm going to give you an example of the latest one. It's called Lost Kitties. It's off to a great start—we've literally just launched it. We found a social media trend online where people were making Play-Doh eggs. They take a plastic Easter egg shell. Before they go on camera, they put something inside it and they cover the egg with Play-Doh and then they unwrap the egg on their video and open it to reveal whatever surprise is inside. And when I tell you there are hundreds of thousands of these videos online, I'm not exaggerating. And then there are millions of views of these videos. So we took that insight and created something called Lost Kitties. It's sold in a package that looks like a little milk carton. Inside of that package is "milk," which is a type of dough. You dig through the dough once you open the package and you find the Lost Kitties and their accessories. ... The fun is collecting all the kitties, digging through the dough, and then sharing what you've discovered, both the process of unboxing, as well as sharing what you've discovered and filling out your collection. ... We went from idea to marketplace in less than six months. That's the way Quick Strike works.

Similarly, we saw a grandfather and grandson playing this little game called Pie Face. (Pie Face was launched in 2014 by a British company called Rocket Games.) It was basically like a little spinner that said how many times you could click a wheel—1, 2, 3, 4, 5. The wheel had a hand on it, and the hand was filled with whipped cream. You had to put your face inside a frame and then you had to spin the spinner and whatever number you got, you had to click that many clicks. There's a chance the hand would release and the whipped cream would go into your face. And of course, the winner was the one who survived by not getting the pie in the face. And what's so fun about it is that it's fun to play, but it's also fun to share. [Hasbro bought the rights to the game in May 2015.] What we find today is that our social media-oriented games are really compelling to everyone, and that 50 percent of people who play one of our social media-oriented games also make a video and post it online. ... That's one of the criteria we apply to Quick Strike. It's not just fun to play; it's fun to share.

How does innovation dovetail with the company's mission?

It's really based on...the mantra of the company, which is a deep-seated love of ideas and an innate curiosity. So we apply that curiosity to everything. If we don't understand a business, learn about it. If we know a little about it, we want to know more. Once we know more, we build a skillset internally; once we have that skillset we begin to profitably experiment, test, and learn. Once we've tested and learned, we expand. And that's how the process of innovation works at the company.

How is innovation structured at Hasbro?

We use a multi-level approach. It's oriented both by time-to-market as well as by brand, as well as by audience. Let me explain.

1. The chronology of time-to-market means we're looking at ideas in a technological format that could be three-to-five years out. That might mean we're working on AR [augmented reality], MR [mixed reality], VR [virtual reality], and looking at what the latest and greatest techniques and technologies could provide us in the area of play and immersive experiences. ... We might not even know the brand it's going into yet. It's bringing in great technologies and looking at the ways to connect through play patterns within our company.

2. We're also working with incredible partners in the area of retail. It used to be retail was maybe viewed by everyone but us as a sleepy area of development, but in fact our retail partners are some of the most technologically-savvy people on Earth. They're also developing technologies and techniques for how people want to consume content and connect that to a shopping experience...

3. For long-range types of technologies, we also look at long-range plans within brands. Each brand leader...will go out three-plus years and look at...how they see the future of play and storytelling. And then we'll build product ideas, along the lines for each brand. As we get closer and closer to market, those ideas get more fully formed, and then...literally take form in a three-dimensional model, and then we'll go into some kind of research; we'll build story around it. ... And then it ultimately becomes a packaged product for sale, or it might become an app that might be offered to a consumer, or it might be a mobile game. Because we're not just developing analog products, we're developing digital ones.

How does innovation fall into different job responsibilities?

There's no innovation director, but there are specific teams. Innovation is not an add-on to anyone's job. It's their job, and it's embedded into everything we do. From there, we have some very unique teams that help to encourage certain kinds of connectivity.

One team is what we call the iPlay team, which is connecting digital and analog play. Their whole goal is how to make that play move from a Transformers robot to an online app, from a virtual gaming experience to an analog play experience; and they're connecting technologies that enable the child or fan to play with a robot and transform it. By transforming the robot in real time you're transforming your character in a digital environment.

We then have a team that takes our brands to camp. We have something called Camp Nah-Paw-Tuckey. (It's a play on Pawtucket, where Hasbro is

Hasbro's My Little Pony characters starred in a 2017 animated film that earned $60 million at the box office.

headquartered.) It's where we'll take a brand that we feel is under-represented in the market, and we take it to camp. We have a cross–functional team look at that brand and take it apart and then bring us back what they would do if it were just up to them. We recently went through that process with Baby Alive, where it was a brand that was doing OK, but it wasn't really setting the world on fire.

We took it to camp, and they came back with a whole host of recommendations a few years ago. Now Baby Alive is one of our franchise brands, which means we see it as having the potential to be hundreds of millions of dollars in size, and global. That came as a result of that team cross-functionally looking at the brand differently, and they brought us a whole host of recommendations from product to marketing to distribution to experiences that unlocked a whole new way to think about the brand.

Camp [is] a place they literally go outside the office, in one of our other offices. The team meets separately from the rest of the company. ...The reason we call it camp is because we typically pick one brand, and we do it over the summer months.

We have a whole host of other teams. We have a team working on new technologies out of our Wizards of the Coast offices, located in Seattle because of the technology hub that's there. They're working on VR, AR, and MR products for our business.

We have outside resources. We have a group of people that go around the world and talk to inventors and technology partners. We have a global online team that's working with our best online retail partners who are forming all kinds of new techniques in voice-enabled technology and other digital technologies. We're seeing how to embed those into our products. We've done that with some of our games. We have voice-enabled games now with Simon, and Trivial Pursuit [that] was done with a voice-enabled technology so you can play with Alexa.

There's a whole host of teams I haven't even talked about working on more proprietary things that I wouldn't share. ... I'd say there are a dozen different approaches we're taking to innovation, and I've described three or four of them.

How do you accept employee ideas from across the company?

We have a Grand Idea Fair at the company where everybody gets to come up with innovation, and we look at everyone's idea, because we think ideas can come from anywhere. Any employee can show their ideas at our Grand Idea Fair. We're all involved, myself included, in looking at the ideas and picking ones. And most years there's something that goes into our product lines directly from our broad population of employees.

One of Goldner's favorite idea evaluation techniques is called 'Bring Out Your Dead.'

One of my favorite [approaches]...we call "Bring out your Dead." So, what happens in any great, innovation-oriented company is you bring out an idea whose time has not come yet, but everyone thinks is a great idea. The architect of that idea might say, "Maybe not today, but someday." We'll occasionally say to people, "Bring out your Dead." So we look at ideas we may have come up with in the past few years. ... They show it to us again in light of the way consumers are looking at the world, because of the technology that's now available, because there's a way to tell a story that we hadn't had before.

From my experience with the "Transformers" movies, we couldn't have produced the movie we produced until 2007, because the techniques we applied to that movie and the story we told, and how real those robots looked on that screen, the technology just wasn't available until that time. If you'd tried to make that movie 10 years earlier, it wouldn't have looked the way it looked, and it probably wouldn't have performed the way it performed.

Every company that implements innovation programs encounters resistance from the culture, and the idea that "this is the way we've always done things." How has Hasbro faced resistance, and what steps did it take to counteract it?

There's always a nostalgic view of the world. As humans, we all want to find that moment to enjoy the successes that we've achieved. You'll always have individuals at the company—and it's not a bad thing—that will say we should celebrate our successes. But then we have to recognize that for every success and capability we've on-boarded, that represents a point of departure, and an opportunity to go to the next logical place and to continue to evolve our company. Having said that, that's contrary to human nature. Human nature is all about points of arrival: When I get to be "x" years old I can do "y." When I get to be 16, I can drive a car, and then

I can vote at 18, and then eventually at a certain age, I can drink a beer. Whatever it might be, humans are about points of arrival.

Companies have to be about points of departure. So, you always have groups of individuals… who say, "Look, we've developed these skills; let's just play them out for awhile." And what we all realize is that innovation always needs to come one season sooner than we expect. Because the consumer moves on one season faster than we'd like. We have to stay out in front, and we have stayed out in front. It's the reason we're now the No. 1 company in this space, and years ago we were nowhere near that. We want to continue to be a first-mover and continue to create the world's best play experiences. That comes from being out in front and being able to get a view of the horizon line of where consumers and audiences are going.

Technology has changed so much—affecting every aspect of games, down to board games. For instance, the game pieces for Risk, which used to be geometric shapes, are now battle figures. Can you talk a little bit about the logistics of how games have evolved?

The big unlock for us in our games business is a good example. For years and years, the marketing and design team of our games business sat on the second floor of a million square-foot factory in Massachusetts. And so, as marketers and designers, a lot of their thought process was informed by what the factory could create. That wasn't bad; it was probably a really good practice, because of course you had all the capacity in the factory and you wanted to make sure you could fill that capacity and bring people a lot of fun playing games.

However, when we did the research with consumers…we were asking our consumer to step back in time and reimagine their kitchen table like a Norman Rockwell painting. And that wasn't the way a lot of families see game playing. They wanted to play faster; they wanted to play more expressively; they wanted to get outside of being on a board as a board game. So we moved that team [to Hasbro's headquarters to be near other designers and marketers] and added skillsets, and by moving the team and adding skillsets, we began to approach face-to-face gaming as a new endeavor, rather than just looking at it as board games, and our games business has grown substantially since. We realized there was a whole playing field available to us that we could tap into, if we also spent time realizing that we could make games to play face-to-face that weren't necessarily made of cardboard or two-dimensional.

You now have Monopoly games that play with electronic banks and credit cards. The latest Monopoly game is the Cheaters Edition. We realized a lot of people cheat at Monopoly. We actually made a game where people try to get away with the cheating and if you get caught, it's bad news. And it's also very topical, because obviously the world is a little more polarized, and people do things in different ways, and we wanted to have fun with that.

How are you integrating content and commerce?

Let me give you an example. [We use the term] "content to commerce." Now we're able to play a piece of content for a consumer on any device, and in that content is embedded a capability so that if you scroll over a character that's seen in a movie trailer, for example, you're able to stop on that character and in one click buy the product associated with that hero.

You can show a short-form video—a trailer, a GIF. And you click through that and then sitting behind it in software is the opportunity to frictionlessly buy what it is you've seen.

We did this recently for the "Solo" movie. With Nerf, we had a Nerf YouTube video that ran with an influencer group called Dude Perfect. And they do all the trick shots, highlighting our new products. We made a video with them showing off a unique product that we featured with them for the first time, which was a giant bow…with a foam arrow. And they…showed how it played and did all the trick shots, and at the end they offered people a chance if they wanted to buy it, they could buy it right off the video.

So when I talk about digital-first, it's not just about product, it's the whole approach to the consumer and audience ecosystem.

Who is Hasbro hiring or partnering with to win in this digital world?

About 50 percent of our employees are new to the company in the last five or six years. Part of that has to do with opening new markets and new territories. Part of that has to do with new capabilities in data analytics and managing replenishment algorithms for online and omnichannel retailers, and then part of it has to do with all these new development skillsets, developing across analog and digital and content to commerce, and so we continue to change the composition of our workforce.

… We bought an animation studio in Ireland [called Boulder Media], and they're creating CGI content for a fraction of the price of CGI content. So [our hiring is] across the board; it's really in everything.

Goldner plays the Monopoly "Cheaters Edition" with Hasbro employees.

How far into the future is something like 'Ready Player One'?

I don't think it's that far. ... You're already seeing the viewership of eSports, and people playing online, is bigger than all of the traditional sports-oriented cable networks. [Amazon's game streaming service Twitch, which allows people to watch and share their game playing, reports it has an average viewership of over 1 million viewers.] Think about that. It's below many people's radar, but it's absolutely front and center for audiences all over the world.

Seismic shifts have reshaped the toy industry this year, with Toys "R" Us shutting its doors and sales of electronic toys continuing to skyrocket. How do you see things shaking out?

We've grown our business over a number of years, and we view this year as very disruptive—but also temporary. It's a situation where Toys "R" Us has clearly gone out of business, not because our industry is not compelling, but because of the structure of their business. Therefore, we're really focused on our growth beyond 2018. ... Not only do we believe we'll continue to grow, but we'll continue to expand operating margins as we continue to provide valuable experiences to consumers and audiences and to our global retail customers.

As CEO, do you feel that Wall Street analysts and investors give Hasbro and other public companies enough leeway to invest in long-term innovation?

I would say that they do, as long as you're very clear in communicating how you intend to invest while also making a fair return to investors. Throughout time, what we've always said is each and every year, we foremost invest in our business, and then we also return excess cash to our shareholders, [in the form of] dividends and share repurchases. But first and foremost, we're investing in our business. We've invested...over the last 10 years over a billion dollars in incremental initiatives, and about $2 billion to create the R&D, the product, and the marketing of the future. So I would say our investors have been our partners, and they understand what we're trying to achieve because we communicated it very clearly.

Going Deep on Data

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

The San Francisco 49ers want to know how fans feel... Right now.

By Kelsey Alpaio

Photographs by Cayce Clifford

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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, 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 turn-around 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 turn-around. "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 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

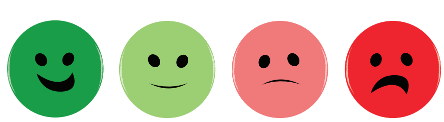
Javaid's first thought was, "That's impossible."

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



"Instead of getting a report the following day...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."

Moon Javaid, 49ers

‘We Like to Beta Things’

49ERS PRESIDENT **AL GUIDO** ON PILOT TESTS, GIANT TVS, AND FANS AS CONTENT CREATORS

Before becoming the President of the San Francisco 49ers in 2016, Al Guido was well-known in the world of sports and entertainment. Guido has had stints with the Phoenix Coyotes in professional hockey; the sports agency Legends; and the Dallas Cowboys, where he led a team that broke a $600 million NFL sales record for personal seat licenses. INNOVATION LEADER sat down with Guido in his office, next door to Levi’s Stadium.

Working with external partners We are so close to what I think are some of the smartest companies in the world. ... We like to beta things. We’re willing to try and fail. I think a lot of people, given our infrastructure and our stadium and just how we think about the world, view us [as] a good partner because we’re also willing to try the next thing. Some of that is because of where we live, but also some of it is because of the progressive nature of our organization.

The ‘pull’ marketing world We used to be in this push marketing world where you would push things out, and people would consume what they wanted. I think we’re in so much more of a pull marketing world, where people are deciding on their own what they want to engage in.

Content becomes a big thing, because you only have a snippet of time to capture one’s enthusiasm or excitement around your product or your offering. We spend a lot of time on, “Where do our customers come from? How do we interact with them better? What content are they consuming? What do they like? What stories are we telling amongst our players?”

What we find is our fans and our consumers, they decide [whether] to consume our product...based off how they feel about our organization—not so much what they see on the field.

A different lens You’re no longer just an NFL football team. You’re a sports entertainment company. We use that lens to make decisions within our organization. If you were only to view it as a football team, you would only make decisions that are good for you 10 days or 16 days out of the year. We think about our brand and our business as a 365-day-a-year empire.

How much more can the 49ers be involved in—whether that’s in technology, whether it’s in fan experience, whether it’s in retail or food and beverage, whether it’s in venture?

The changing fan ecosystem Before, when televisions got real big and HD television came out, it became cool to go sit back on your couch. Everybody said, “I can’t imagine a world where they would get me to get off my couch.”

The funny thing is, now...it’s not as hard to get people off the couch, because people want to be part of an experience. They don’t just want their feed given to them.

What’s cool about mobile phones and stadium infrastructure today is you can do a lot more than you used to be able to. Before, you couldn’t even turn on your phone or get connectivity. Now, you can.

The interesting thing before is you would always look at the downloads, how much people would be downloading. Now, what you’re seeing is uploaded traffic. Your fans are actually your best content creators. ... We spend a lot of time focused on what’s impacting our fans 355 times a year, and then what’s impacting our fans on the other 10 days when we’re here inside the building.

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."

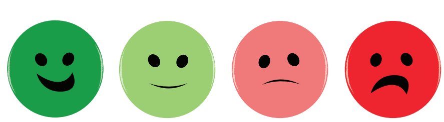
Playing the Long Game

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." ⬢



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Moon Javaid, 49ers

UBER AND EMBRAER ARE RACING TO MAKE
THE FUTURE OF AVIATION REAL

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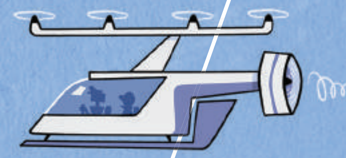


BY BRIAN STEINER & SCOTT KIRSNER ILLUSTRATIONS BY DAVID COWLES

Uber Technologies turned commuting on its head in 2009, when it first released an app that would summon a black car. ¶ Now, with millions of riders and several hundred thousand drivers worldwide, a small team of Uber employees are focusing on a new and audacious objective: avoiding traffic congestion by flying over it. ¶ Uber's Elevate initiative aims to launch a new fleet of electric aircraft that would hold a pilot and up to four passengers. And the company plans to begin its first Elevate test flights in 2020 in places like Dubai, Los Angeles, and Dallas, and be fully operational by 2023. ¶ While Uber's initial service took advantage of cars that were already on the road, outfitted with smartphones and the company's app, Elevate is radically different. It will require Uber to work with partners that are designing new kinds of aircraft that aren't yet certified by the Federal Aviation Administration. And the vehicles will be a lot more expensive than a four-year old Toyota Camry.

But Uber has begun hiring NASA veterans to take the Elevate concept from white paper to the wild blue yonder. Elevate is based in Uber's San Francisco headquarters and overseen by Chief Product Officer Jeff Holden; today there are fewer than 50 people involved in the project.

Technology advances make the moment right for a new kind of vertical take-off aircraft that won't require a runway or airport, says Mark Moore, Uber's Director of Engineering for Vehicle Systems.

Powered by electric motors and advanced rechargeable batteries, Moore says the new class of electric propulsion systems are quiet and reliable, despite delivering as much power as jet engines. "It's just a whole new Wild West frontier, in terms of being able to use these technologies to plan new vehicles that simply weren't possible before," he says.

Uber envisions Elevate as a fleet of vehicles that cruise horizontally like an airplane, but take off and land vertically like a helicopter. The ride-sharing company outlined its vision in April 2017 at the Elevate Summit, where it convened business partners including Aurora Flight Sciences, Bell Helicopter, Embraer, Mooney, and Pipistrel Aircraft that are working to turn its plans into a reality. (A second Elevate Summit was held in May 2018, in Los Angeles.)

"Uber is very much a software company, so we're staying in our area of expertise," Moore says. "Instead of developing the vehicles, we are putting the entire transportation system together like a giant jigsaw puzzle, and making sure that everything works to be able to meet the user needs."

Elevate will be part of Uber's network, incorporating both air and ground operations, says Tom Prevot, Director of Engineering for Airspace Systems at Uber. He says the idea of the Elevate network isn't too different from the initial plans for Uber's car service.

"The initial idea of 'push a button, get a ride' will evolve now to the idea of 'push a button, get a flight,'" Prevot says. "What it really [means] is you push a button and you're probably going to get some multi-modal trip, where an Uber car may take you to the next SkyPort. You then board one of these electric vertical take-off and landing vehicles that take you in the air very quickly where you want to go, and ideally you just walk to your destination," he says.

"Uber, of course, is trying to integrate all these different pieces of this multi-modal trip to give you a very seamless experience from where you are to where you want to go," Prevot says.

To ensure that Uber and its partners attack the opportunity methodically, the company drafted a whitepaper that spelled out the key barriers to launching an on-demand flying car service today, namely:

1. Aircraft certification by safety authorities
2. Battery technology for electric engines
3. Vehicle efficiency
4. Performance and reliability
5. Air traffic control
6. Aircraft cost
7. Safety and autonomous flying
8. Noise and emissions
9. Airport (or "SkyPort") infrastructure
10. Training enough pilots

Despite those issues, Uber believes urban flying will be big, and that saving time will be a key value proposition, given the traffic snarls that plague so many major metropolitan areas. To prove the feasibility of Elevate while working out the kinks, Uber chose the Dallas-Fort Worth area in Texas and the city of Dubai in the United Arab Emirates, respectively, for its first US pilot program and international site.

Within those markets, Uber is partnering with local, state, and national authorities to put the appropriate infrastructure in place to support Elevate. That includes engaging with local FAA offices to make sure Elevate doesn't interfere with current traffic or put additional burdens on air traffic control systems, Prevot says.

The Elevate team expects most flights to be about 25 miles or less. Vehicles will take off and land at SkyPorts, dedicated pads on top of parking garages and buildings within city centers and suburban areas. In the Dallas area, the company partnered with Hillwood Development Co., one of the largest privately-owned US property developers, to build the first SkyPorts.

"We'll start with about five SkyPorts, and then over several years expand that...to the order of 25 or more SkyPorts that can be highly distributed and permit very rapid flight," Moore says.

Another major goal is to make it as affordable to fly as it is to take Uber on the ground.

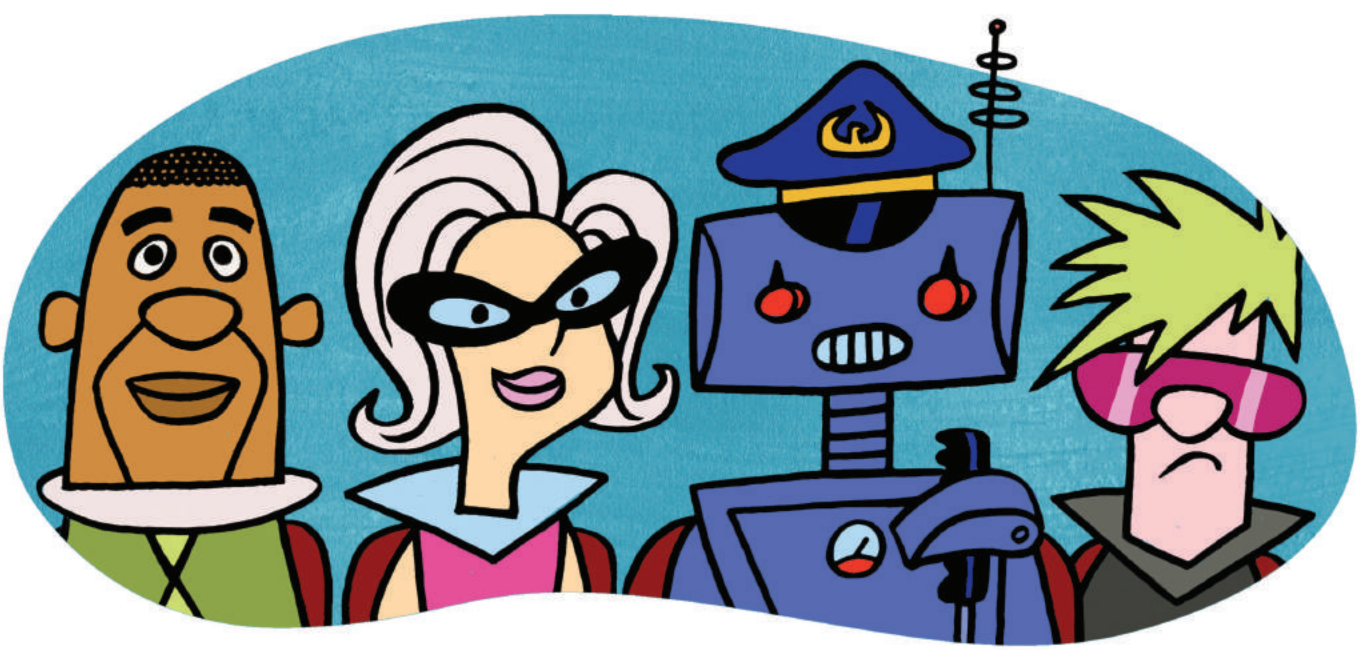
"Although that's stunning to hear that, it's very true. And the reason for it is that these aircraft are incredibly productive," Moore says. "We're able to amortize even expensive vehicles to achieve very affordable trips."

"One of the key parts going into affordability is being able to do things such as we do on the ground already with UberPOOL," he says, "We don't just want to fly one person around in an almost empty vehicle, but be able to pool people together so that we can have three or four passengers sharing the ride..."

Elevate was a project hatched under Uber's founder and former CEO Travis Kalanick. But Kalanick resigned in 2017 after pressure from the company's investors, and was replaced by former Expedia CEO Dara Khosrowshahi.

In July 2018, Khosrowshahi decided to kill a project that was developing self-driving trucks. But Elevate seems to be streaking ahead: in August, it signed a partnership with Japan's trade and transportation ministries to explore bringing airborne taxis to Tokyo and Osaka, and Uber is investing $23 million to build a new Advanced Technologies Center in Paris, initially focused on the Elevate project, and slated to open later this year.

Mark Moore



flying information

How Uber's partner, Embraer, is pursuing disruptive innovation

When Embraer inaugurated a new innovation group two years ago, the Brazilian aerospace and defense firm made its mandate clear. It wasn't looking for a new-and-improved tray table or a more durable windshield material. The new Embraer X team would focus on "solutions that have the potential to reinvent not only Embraer's current businesses, but the transportation industry itself," according to the team's website. ¶ That's an ambitious goal for the $5.8 billion company, which builds both commercial and military aircraft. ¶ "We have an internal innovation team that's focused on more incremental innovations within the business units," explains David Rottblatt, Director of Business Development at Embraer X, which has team members based at the company's São Paolo headquarters, as well as in Silicon Valley, Boston, and two locations in Florida. But Embraer X was created to look outside of the company's existing businesses and product lines. "That's our mandate—to look a little beyond the incremental and focus more on wholehearted, disruptive exponential innovation," Rottblatt says.

In July, Embraer announced a major deal with Boeing. It plans to sell 80 percent of its commercial aviation business to Boeing for about $3.8 billion. That transaction isn't expected to close until sometime in 2019, but Rottblatt says that Embraer X is not included in it.

Embraer X's first announced project is working with the ride-sharing service Uber on the design of an electric-powered air taxi for short trips around congested cities.

Rottblatt described Embraer X's goals and discussed its work with Boeing on a recent IL Live conference call.

The Mission Behind EmbraerX

While Embraer has been a recognized brand in the aerospace industry, we want to help Embraer prepare itself for the next generation of business trends, customer needs, and market forces. Embraer X was created to help facilitate that transition, as well as to deliver new products and solutions for the market.

It's been about two years that we've been up and running, and we've got a few exciting projects in the pipeline. … My role on the team is to identify new disruptive businesses, and make a data-driven recommendation to our board for investment.

We have an office in Silicon Valley that is managed by our innovation director, Peter Berger. We have an office in Boston that's managed by [another] director of innovation, Alex Slawsby. We have an office in Melbourne where we also have our executive jet manufacturing, in Fort Lauderdale, where we have our North American headquarters, and of course, São Paulo, Brazil.

… It was a strategic decision years ago to have a very strong presence in North America, considering the amount of innovation, startups, and exciting technology that's being incubated throughout the United States.

Looking Past Horizon 1

We focus more on what's commonly referred to as Horizon 2 or Horizon 3 [innovation], which is not so much related [to our core businesses today].

A good example of that is our eVTOL aircraft, which embraces the heritage and the aviation knowledge that we've been incubating for decades within Embraer and creates a new disruptive product from that.

We see that there is a convergence between technology maturation and evolving transportation trends. We've been investing over the last years to meet these market needs that lie at the intersection of these two powerful forces. The first project of Embraer X is what's referred to as our electric vertical takeoff and landing aircraft, or eVTOL.

It's the very first aircraft of its kind that Embraer is designing and building. It's being built for the urban air mobility industry. This serves to create two powerful outcomes. ... One, of course, is time savings.

We're doing this in very close collaboration with Uber. You can take an Uber to a vertiport or a skyport, and then from there, you can take one of the eVTOL aircraft that will exist in a few years from wherever you are to wherever you'd like to go—so let's say San Jose to downtown San Francisco in a matter of minutes, instead of potentially hours.

For those that are familiar with São Paulo, going from downtown São Paulo to Guarulhos International Airport can take as many as four hours. This can be done in a matter of eight to 10 minutes [with an eVTOL].

You can now do other things with your time besides driving [in] a car. It addresses a common pain point that many people share across cultures, languages, religions, nationalities, etc., which is traffic. In mapping customer needs and pain points, we understood very early on that there's an opportunity here for us to use all of the knowledge that we've gathered in aviation from our small executive jets all the way to our intercontinental-capable aircraft. We're using that to build our very first vertical takeoff and landing aircraft.

> **"Going from downtown São Paulo to Guarulhos International Airport can take as many as four hours. This can be done in a matter of 8 to 10 minutes [with an eVTOL]."**
>
> **- David Rottblatt, Embraer X**

The Composition of Our Team

Embraer X is composed of a fantastic team of highly-skilled innovation directors, UX expertise, world-class engineers, and strategic leaders that are all coming together in this broader working group, where we are taking advantage of the different disciplines that we have inside Embraer to bring this idea to market and to fruition.

All of the doers [who will work on designing and executing the eVTOL project are] within Embraer. Of course, there are some new technologies that we'll be adding to this vehicle that are new to the market, not just to Embraer.

Working with Regulators

Embraer X very much appreciates and involves all stakeholders—at the regulatory, government, and community levels—to ensure that what we're building is very much inline with current regulations and expectations, but also to exceed those expectations so that we're creating a very comfortable, trusted experience that people can be very happy to enjoy and to take.

We've been working very closely with the Federal Aviation Administration. We've been working very closely with unions such as the General Aviation Manufacturers Association to make sure that in this kind of precompetitive phase, organizations are communicating and sharing with each other so we can start establishing the basic fundamentals of how this industry ought to work.

Today, for example, the way that the FAA regulates and certifies aircraft for helicopters is the initial expectation that we'll be using.

How the Program Ties to Uber

Uber has done a great job of facilitating the platform [on] which this business will be built. I certainly would not call it a competition [between rival aircraft manufacturers] at all. I think everyone is very much excited to be sharing what is going to be...a very large opportunity for many players to engage in.

The way that it works is very similar to how the automobile portion of Uber's platform works today. You have operators with vehicles that are on a platform, and they can fly as much as they'd like or not. They can drive as much as they'd like or not.

The aircraft manufacturers are certainly partnering with Uber to make sure that we understand how the left and the right hands are going to be working together—from managing the aircraft and the business of running an air transportation organization, to how the platform itself would run.

It's very much complementary, and certainly not designed for aircraft manufacturers to compete with each other.

I think that the value proposition of the eVTOL technology is that it's going to be a lot cheaper to operate, and those savings are going to be passed on to the customers. So it's going to be much more affordable than what a conventional helicopter would cost. Initially, we're targeting a price point...along the lines of Uber Black. Eventually, [we'll graduate] to a much more affordable price point of Uber X, assuming that the industry scales, of course.

We want this to be a solution for the world. We don't want it to be a solution for just a very small demographic of society.

The second point [of the eVTOL value proposition] is, because it's electric, aside from time savings and cost reduction, [there is] noise reduction.

I think [eVTOLs will prove] a very attractive model for short-commute travel. The initial technology and battery power density that [we expect to be] available over the next few years will [support] anything from 25 to 60-mile flights, for example.

A Renter-ship Model

The future model of how we will get around is a subscription service to something like a eVTOL aircraft, where you will purchase X amount of hours a month, or X amount of rides a month, and that will be how you get to and from work, or to and from wherever you need to go.

The model of owning something as opposed to renting something has been changing. This paradigm will continue to change, and I think that the eVTOL industry presents a unique, new way for people to buy access to a shared service and have that be their mode of transportation so that they can continue to be asset light and embrace individual experiences, as opposed to always having to have the burden of owning what would be an expensive asset otherwise.

Our Process for Building Disruptive Businesses

Embraer X approaches building disruptive businesses essentially in four phases. We have a strategy phase where we're [scouting the landscape], identifying opportunities, and prioritizing. An ideation phase where we are validating and interviewing, and making sure that we've got a solid minimally-viable product that we can continue to get feedback on.

We incubate that, and then we leap into a business. We either turn that into its own independent business, perhaps give it into one of our Embraer business units for them to own, or we'll turn it into a joint venture.

Step one [for that initial strategy phase] is we listen, we learn. We go out, and we talk to people and collect ideas. What pain points or opportunities exist in the market? The shared economy is a great example of a new business model that adapted to changes in consumer behavior.

The shift from being asset heavy to asset light will continue to disrupt major businesses, just as Uber and Airbnb have done to the taxi and hotel industry. Similarly, with the platform-based model, we saw the effects that online retailers had with Toys "R" Us. This reflects a meaningful change in consumer behavior.

Buyers today want experiences, not a heavy balance sheet. They want to be flexible and uncommitted. If companies can pivot to meet the new expectation of connecting renter and provider instead of buyer and seller, we'll be successful.

From here, I focus on really disruptive [and] not incremental value-add opportunities. To assess this, I ask some critical questions. Is this going to create a new value chain or a supply chain that we can nurture, and we can grow? Is this going to be sustainable, viable, and desirable? Will we be able to create new partnerships and technologies out of this?

... If my team can deliver an outcome that didn't exist before, like peace of mind and time savings and safety, and positively answer these aforementioned questions, then I believe we will have found a new disruptive business.

We [then] prioritize the prospects that we've scouted for, and then we assess that against our own internal capabilities, technology, and intellectual property.

By going through a capability assessment of understanding what do we have and what do we need in order to bring the vision to market, we'll be able to make that build, buy, or partner decision to fill any gap areas that we'll have.

... This really helps us also avoid building a solution that's looking for a problem. By being able to make that data-driven recommendation that shows the market really needs this—there's a gap, there's an opportunity—we know we'll be building something the market is looking for.

... By developing that type of commercial muscle to see around corners and make educated bets on how the evolution of the business, the world, and customer needs will evolve, we'll be in a position to succeed and build disruptive businesses. ⬢

David Rottblatt

To see the schedule of upcoming Innovation Leave Live conference calls and webcasts, visit innovationleader.com/il-live

10 Most Popular Innovation Management Questions

by Rudolf Melik
PLANBOX

LAUNCHING AN INNOVATION management system does not have to be guesswork, and it is a lot easier than most organizations imagine it to be. Innovation by definition is very different from typical business processes, and it should be in a constant state of flux. Waiting until you can get it totally right misses the point. Innovation is not a destination, it is rather a state of mind. This means getting started is easy, and you can iterate to continuously explore, improve, and enhance.

Here is a collection of the most popular innovation management system questions we have been asked over the years, and what best-in-class companies believe are sound strategies and operating models to address them.

Question 1: How can we build a system if we have not settled on an innovation management process?
You will never actually settle on a process. It is true that having a process to make sure the organization is able to go beyond idea capture is necessary. Building an innovation management system, on the other hand, helps drive the thinking for the right process to develop as well as the many other critical considerations that normally come into play, such as focusing on the right problems to solve, identifying the grand challenges the company should focus on, and building an innovation ecosystem. The initial process should be as simple as possible just to get started. You can enhance it based on adoption and learning.

Question 2: Who in the organization should manage innovation?
The starting point may be different from the final destination. The best place to start is the line of business (LOB) owner that has the highest level of interest and funding to launch the innovation initiative. Ideally, innovation should be overseen by a center of excellence team as the organization institutes a more formal Innovation

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Management Office that has the complete support of the CEO, reports directly to the board of directors, and acts as a shared service to make sure innovation becomes an integral part of the organization's culture, everyday work, and standard processes. A good innovation management system will include the templates, a communication and engagement strategy, and processes and rules to quickly launch new activities. This means a small central team can easily act as the innovation hub and help innovation advocates, and sponsors from different LOBs, launch their own innovation initiatives.

Question 3: Where should we innovate first?
Innovation projects can be highly impactful, as long as you focus on solving challenges that align with your corporate strategy. This challenge-driven innovation model will help ensure that ideas can receive the attention and funding that leads to successful projects and high-value outcomes. Depending on the organization's level of innovation management maturity, simple continuous improvement-type challenges that help uncover low-hanging fruit can be a good starting point, such as "What should we stop doing?" or "Where should we innovate next?"

Question 4: How do we get our executives to support the innovation program?
Begin with the end in mind. Executives want to receive a demonstrable benefits, or ROI, and easily track the progress of the innovation program. Focus on tracking and reporting the right metrics. Alignment with business strategy, financial impact on costs or revenues, competitiveness and agility improvements, level of risk involved, and effort required are the most popular metrics that help qualify and quantify the value before a more exhaustive analysis is undertaken. This will be a sure-fire way to receive the support you need to move the needle on the areas that your executives believe matter most to the business.

Question 5: How can we make sure we get disruptive ideas?
If you want your innovation program to be focused on disruption, ask participants to submit their problems and then look for patterns and combine similar problems that potentially help uncover an area that is ripe for disruptive innovation. Do not use a stage-gate approach for disruptive innovation activities. These ideas should follow an agile innovation approach that allow you to run as many experiments as possible. Constantly revise your efforts to improve how you budget for experimentation by increasing the number of experiments, while decreasing cost per experiment, and celebrating failure based on extracted learnings and other factors.

Question 6: How do you control the volume of ideas so we can actually review and act on them?
Instead of ad hoc idea submission, start with a challenge-driven innovation model, so you can better focus your innovation program efforts and communicate the type of ideas you are looking for. Designate a challenge owner who will be responsible and accountable for ensuring user engagement, the systematic evaluation of all ideas, and delivering results.

Question 7: How do we keep people engaged?
Be transparent about your innovation process, and let submitters see the status of their idea. Make sure you have shared and implemented an SLA (service level agreement) that notifies users of key milestones that are accomplished. If ideas are discarded, then the submitter must be informed of the reason—and what they should improve if they intend to resubmit the idea. Make sure that not just the submitter but also the users who support and collaborate in the system get as much visibility as possible into the outcomes that are being achieved. Highlight the progress that is being made; that shows the company is supporting innovation efforts and taking the results very seriously.

Question 8: What is a good engagement rate for a typical innovation activity?
It really depends on the type of innovation ecosystem contributor you are engaging, as well as the length of time and type of the innovation activity. The contributors can include your employees, customers, suppliers, and others. Your results and level of contribution are proportional to the circle of influence of these users. Engagement also depends on the rewards and recognition systems you have designed and implemented for every contributor type.

Question 9: What type of rewards work best?
You need to leverage both soft and hard rewards. Hard rewards (win an iPad) works well with ecosystem contributors outside the company and occasional innovators inside it. But soft rewards are really best to create a sustainable culture of innovation. Ideally these soft rewards are directly tied to HR performance evaluation metrics, and the organization enshrines active participation in and contribution to innovation a part of every job description.

Question 10: How do we celebrate failure?
Stopping bad investments fast has value and so does helping people avoid going down the same rabbit hole. If an experiment fails and there was learning, then a celebration is in order. Clearly defining what is a good failure is an important exercise since, unlike other typical business processes, innovation will always result in more failures than successes. Tracking the cost of experiments and rewarding failure will invariably result in the company increasing the resources it commits to experiments, making it more likely that innovation will lead to positive outcomes and successful projects.

Summary
The good news is that innovation management systems are easy to phase in with a challenge-driven approach, and you can incrementally mature your innovation system as you almost immediately experience significant financial benefits. Enterprise management systems of all types require planning to launch an effort, but don't let the perfect be the enemy of the good—this is especially true for innovators. Start your innovation management system quest today.

Fli R

Can JetBlue figure out how to do corporate venture capital right?

BY SCOTT KIRSNER


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The journey of the corporate venture capital group at many companies is short and turbulent.

According to Josh Lerner, a Harvard Business School professor who studies venture capital, the median lifespan for a corporate venturing initiative is about one year. As a result, "the professional VC community often views new corporate venture organizations as transient investors," says Kurt Estes, a former corporate VC at Motorola Ventures. That can limit the number of deals that more established VCs invite them to participate in—since startup companies require investors who are there for the long haul.

Additionally, says Estes, many corporate venture teams "lack team members with a VC background," which means they "have a bit of a learning curve as well."

Despite those dispiriting dynamics, in 2015 the airline JetBlue decided to launch a venture capital initiative, JetBlue Technology Ventures. It paired a JetBlue executive and pilot, Bonny Simi, with a former entrepreneur and investor, Raj Singh. In its three years of existence, JetBlue Ventures has put money into 15 startups, which are building everything from more localized weather prediction technology to artificially-intelligent assistants that can help small businesspeople manage their travel plans.

"Our mission is to stay ahead of where JetBlue is now—thinking beyond the horizon, two, five, 10 years out—and how travel might change," Simi says. Singh explains that the key "yardstick" for the Silicon Valley-based ventures team is the impact on JetBlue overall—not solely the financial returns of each individual investment.

Here's how they're trying to do corporate VC differently.

Raj Singh, Managing Director

Getting Off the Ground

Initially, part of the impetus behind JetBlue Ventures was to seek out sources of innovation where other airlines weren't looking. "It was putting our stake in the ground," says Simi. "There was no other corporate venture capital specifically in travel, and no [traditional] VCs that really specialized in it." Once the initiative was announced, Simi says they were "deluged by startups," receiving about 600 inbound inquiries. Sorting through those, Simi and the investment committee that had been set up decided to hone in on five strategic themes. Among them are "the future of maintenance and operations," "innovation in distribution, revenue, and loyalty," and "technology powered magnificent service."

The investment committee is made up of three JetBlue executives, including Simi's boss, Chief Digital & Technology Officer Eash Sundaram, and one outsider, Jim Adler of Toyota AI Ventures. They ratify every investment decision. JetBlue Ventures doesn't have its own standalone fund from which it can invest. "The reason for that was to remain very close to the company's strategic mission and [to] stay focused on how we make JetBlue better," Singh explains. Investing off the company's balance sheet "was also probably the easiest way to get going," he says.

"We talk about an annual budget with our investment committee, and get approval for a certain amount of deals and money invested. We can do more or do less," Singh says. "There's no pressure on us to do a certain number of investments."

Singh says that the JetBlue Ventures group has two facets: venture capital experience and a knowledge of JetBlue's internal workings. "I think one of the reasons corporate venture capital has been 'here today, gone tomorrow' in a lot of companies is that both sides haven't been covered," Singh says. "We have somebody from the VC world, like me, who has done lots of deals, and someone who is well-connected and respected by the corporation, like Bonny, who can get the corporate mothership to actually buy into the deals that we are doing."

Much of the team's original focus has been on startups in Silicon Valley, though that is now

Photograph by **Timothy Archibald**

Before becoming President of JetBlue Ventures, Bonny Simi was Vice President of Talent and a pilot for the airline.

expanding to include the Boston and New York ecosystems. There are also startups located in Georgia, Colorado, and Canada that have been among the first wave of investments.

Plugging In—Inside and Outside JetBlue

To get plugged into the information network in Silicon Valley that helps investors understand who is forming what kinds of companies, and which of those companies are out raising money, Simi says that her team has "attended a lot of pitch competitions and Y Combinator demo days," alluding to the well-regarded startup accelerator. "We joined Rocketspace and Plug and Play Tech Center as a corporate sponsor, and also the National Venture Capital Association. We immersed ourselves in the ecosystem and pretty quickly rose to this nice place as a thought leader." For startups focused on the travel industry, she adds, "there wasn't anyone else occupying that space."

Equally important has been plugging in to JetBlue functions and business units back in New York, where the airline is headquartered. (One of the JetBlue Ventures team members is based there, Simi explains, specifically to maintain strong ties.) Singh explains that within the company, senior leadership has business objectives "that are visible to their peers. So we can see the objectives that the different business units have, and they can see ours." The ventures team uses that information to understand which leaders "could benefit from our help," Singh says. "We also look at the executives'

Five Challenges Corporate VC Programs Face

We asked Dave Balter, a Boston-based entrepreneur and former corporate VC, to outline some of the challenges that confront corporate venture capital initiatives. For five years, Balter was involved with a retail-oriented investment fund started by Dunnhumby, a division of the British retailer Tesco.

1. Determining whether you are return-on-investment focused or strategically focused. Traditional VCs seek returns above all else, but as a corporate VC, oftentimes your activities are intended to drive competitive intelligence or partnership development. Usually you are a bit of both, which makes deciding what to invest in incredibly complex.

2. Obtaining investment sign-off. In a traditional VC, all the partners know how financings work. In corporations, many of those on the investment committee have vastly different backgrounds, so they sometimes struggle to understand concepts like investing in a company that's losing money.

3. Being considered part of the team. Corporate VCs are often skunkworks projects inside a large organization. You're "those guys in the corner" who don't focus on the day-to-day business, and so as much as you are trying to help the organization, you can become an outsider and find yourself struggling with internal stakeholders.

4. Finding internal stakeholders. In a corporate VC, investments happen when you have an internal champion. (No such thing is required for a traditional VC, who just needs to find promising deals.) Finding partners inside the organization is crucial to your success.

5. Receiving carry! This is the hardest one. VCs are often driven by receiving a percentage of the return that their funds generate, and the best VCs are in the game for that (potentially huge) payday. In a corporate VC, it's often determined the investor is an employee vs. an...investor. That changes motivations, and it completely changes the types of investors you can attract to run your fund. It's hard to grow a corporate VC without attracting the best investors.

willingness to engage, and find that subset of people who are willing to engage and also have objectives we can help with." He says it's important to acknowledge that most functions and business units at the company have their own portfolio of forward-focused projects and growth initiatives. "We're not trying to replace that, but we're trying to add to that," he says.

Last year, JetBlue Ventures organized a 12-week long exploration called "The Future of the Contact Center" in collaboration with the company's call center leaders. One of the startups that emerged as having an applicable solution was Gladly, which helps to present a unified view of a customer across phone calls, e-mail, social media, and text messaging. One issue it solves, Singh explains, is the need to "accurately understand that the person dialing in was the same person who had emailed or tweeted. Gladly gathers it all together and presents it as one person." The company's software also can use machine learning to present call center agents with the answer that is likely to be the best one for the circumstance, given how other agents have responded to a customer need in the past. JetBlue Ventures set up a proof-of-concept test within the mothership and also made an investment in San Francisco-based Gladly.

JetBlue Ventures often drafts executives at the company to serve as board members, board observers, or as-needed experts for the startups in which it invests. And, Singh adds, "we go to all the senior leadership meetings, so we hear the things going on, and continue to build our relationships with others at JetBlue so we can understand what they're looking for."

But the JetBlue Ventures team can also make introductions within the company for startups that they opt not to invest in as well. That was the case with 8Tree, a startup that makes a scanning system to quickly inspect surfaces—like an airline fuselage—for dents. While there was a clear application at the airline for speeding up the inspection process, and getting planes back into service sooner, the ventures group wasn't sold on investing. "We made the connection, and everybody is happy," Singh says.

JetBlue Ventures regularly hosts sessions at headquarters focusing on emerging technologies and what's happening in the startup ecosystem. Executives from New York occasionally come to the ventures office in San Carlos, California to host meetings and "see what we're up to," Singh says. "We act as extra eyes and ears—an advance scouting function," he says. "Airlines are very operationally-oriented businesses. You can easily get lost in the day-to-day—and obviously, getting planes up in the air and back safely is the most important thing. So we can often bring a perspective they haven't seen."

As more of the startups in the JetBlue Ventures portfolio work with different parts of the core business, both sides derive value from the relationship. "We know that even more people within JetBlue will want to do that kind of engagement," Singh says. "So far, things seem to be heading in the right direction."

Five Investing Themes at JetBlue Technology Ventures

- Seamless Customer Journey
- Technology Powered, Magnificent Service
- Future of Maintenance and Operations
- Innovation in Distribution, Revenue, & Loyalty
- Evolving Regional Travel

What's Next

Simi says that JetBlue Ventures revisits its investment themes every year in February, to ensure that her team is focusing on the areas that matter most to the company.

The biggest change for the team since getting started is that "people have heard of us now," Singh says. "We don't necessarily have to explain to people what we do so much. And now we have more deals than we can handle."

One new initiative at JetBlue Ventures is building a network of other non-competitive travel companies, so that when JetBlue Ventures puts money into a startup, it can make connections to a cruise line, for instance, or a hotel chain. "No startup is going to succeed with just JetBlue as a customer," Singh says. The main goal is to help forge connections between startups and the allied travel partners. "If the partners want to invest, that's cool, but it's not a requirement," explains Singh.

Advice for Others

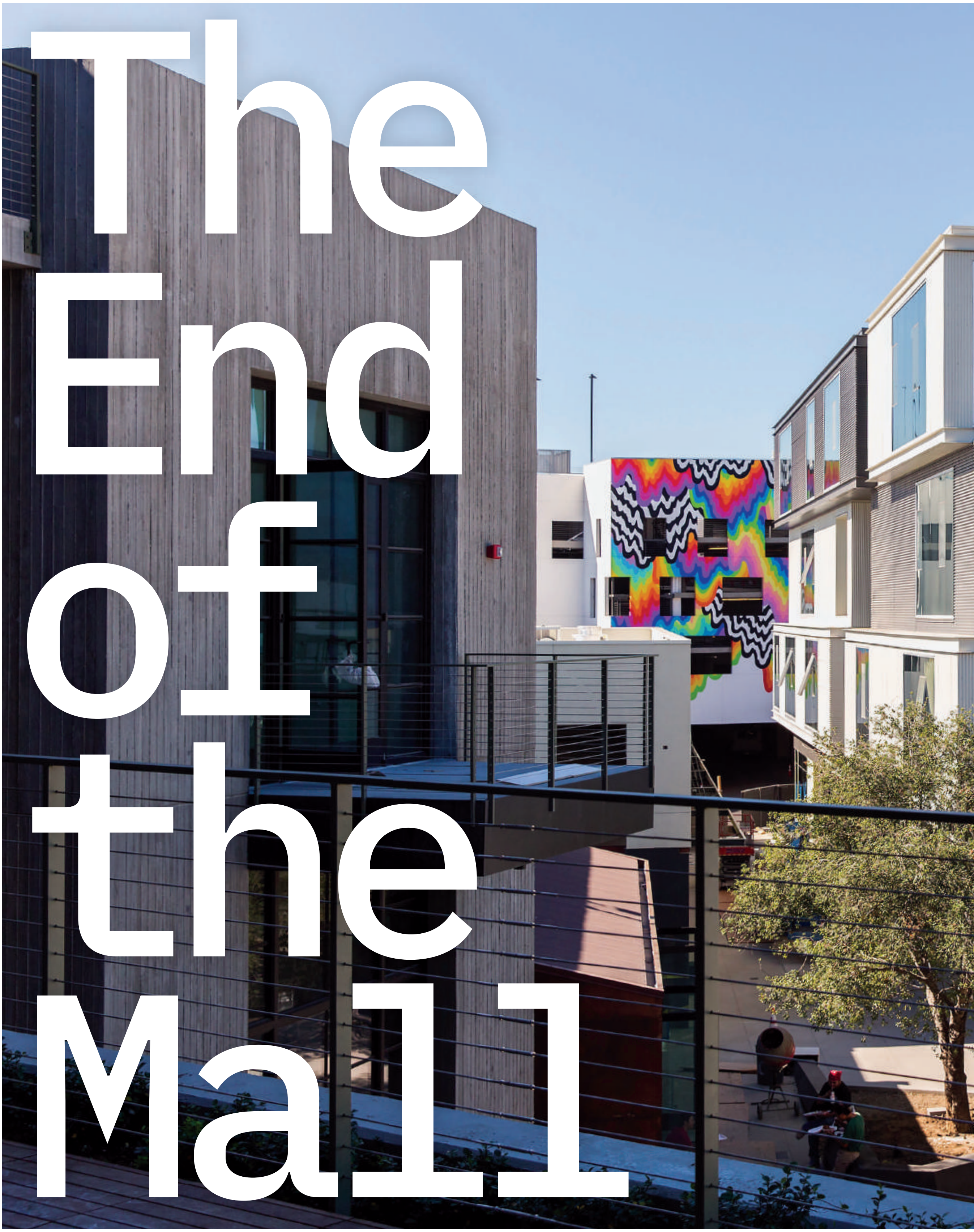
For companies considering their own corporate VC initiative, Singh has advice: go slow. "Being part of an accelerator might make sense first," he says, to get exposure to startups and make small seed investments.

Setting up a corporate VC group "requires a large amount of corporate commitment for it to work," Singh says. "You need internal support at the highest levels of the company, because the payoff is multiple years down the road—it's not a clear-cut equation of, 'We did X and we got Y.' You need people to understand that there are going to be failures. You need to have an open culture in the [venture] group, and the wider company." It's also essential, he says, "to be very clear about your goals: are you focused on financial returns or strategic returns?"

"And," Singh adds, "you need to give it a fair run. It's not something you should do for one year and expect to see any results."

In other words, for results that are better than the median, you'll need to improve on the median lifespan of a corporate VC initiative.

The End of the Mall



MALLS ARE SO OVER. BUT PLATFORM, IN CULVER CITY, CALIF., IS ANYTHING BUT A MALL.

BY KAITLIN MILLIKEN PHOTOGRAPHS BY KATIE GIBBS

"We're like a form of entertainment and leisure. Utilitarian retail is probably gone ... especially if [online] delivery times get shorter. It's not coming back."

Joseph Miller, Platform

A rainbow mural adds color to Platform's parking garage. The artist, Jen Stark, is local to the LA area.

Platform gathers 20 unique brands together to create a walkable shopping experience.

With more purchases shifting over to e-commerce daily, the retail apocalypse is proving to be more than just media hype about the death of malls and the decline of the independent storefront.

More than 3,800 stores are expected to close their doors by the end of this year, according to a *Business Insider* analysis. Credit Suisse also is forecasting a bleak future. Analysts at the investment bank predict that up to 25 percent of malls will go out of business by 2022.

So why would two entrepreneurs choose this moment to build a new outdoor shopping center on a ruins of a car dealership in southern California?

Despite the dire forecasts, Joseph Miller and his partner, David Fishbein, set out in 2013 to create something that was anything but mall-like. They aimed to create a refreshingly unique experience for in-person shoppers, not just a place to cross items off of a shopping list. A truck selling fresh flowers and greeting cards stops by on Fridays. You can have your aura imaged. There are in-store lectures about collecting rare sneakers.

"We're like a form of entertainment and leisure," says Miller, co-founder of Runyon Group, the real estate development firm that created Platform. "Utilitarian retail is probably gone..especially if [online] delivery times get shorter. It's not coming back."

Today, the rainbow mural covering Platform's parking garage stands out against the blue sky of Culver City, Calif., adjacent to the city of Los Angeles.

The space hosts 20 carefully curated stores. Spaces dedicated to temporary pop-ups are located among more established brands like Sweet Green and Soul Cycle. Often, the pop-up shops may be the only brick-and-mortar location for a brand in Southern California—or even in the United States.

The restaurants that accompany the boutiques are equally distinctive. Shoppers can pick up a New Orleans-style cold brew from Blue Bottle Coffee, or an Açaí bowl from São Açaí, as they browse.

Miller says that the key concept underlying Platform was to choose brands carefully, and then put them together in a compact and walkable setting—with car parking tucked away out of sight.

"[David and I] started our careers basically helping brands that we really like find space in cities," Miller says. "Then we moved to saying, 'Hey, if all of these brands want to go to these kind of spaces, but we can't find any of these spaces, why don't we create it?' That was Platform."

According to Miller, he searches for brands that not only sell an interesting product, but also deliver a remarkable retail experience for the customer.

"We see a lot of places that have [a] great product. ... We've seen it. We've touched it. It's incredible, but they show up, and they can't run a store for the life of them," Miller says. "Or...the place looks great, but the product kind of stinks. The truth is, it has got to be both. ... There's no room for slipping up."

'Time Well Saved' versus 'Time Well Spent'

Miller acknowledges that online retailers often provide a more streamlined experience for customers than brick-and-mortar shops. Buying from your computer nixes the need to spend time driving to a store and waiting in a long checkout line.

"[If] I run out of shaving cream...I can just pick up my phone and take a picture of it, or say to... Amazon Echo, 'I want this,' and it just shows up at my door," he says. "[And] the price is the exact same [as the store]."

Instead, Miller says, Platform's focus is on products that are better evaluated and purchased in person, like clothing, fragrances, and furniture.

Platform also features brands that may not be available online or at other physical locations. For example, Nanushka's Platform location is the Hungarian fashion brand's only US outpost.

That kind of differentiation can help shopping centers pull in even the most digitally-inclined consumers, says Joe Pine, a co-founder of the consultancy Strategic Horizons and author of the seminal book The Experience Economy.

"Malls are generic. ... You go to one mall and you see the same things that you do in other malls," Pine says. "And you need places that are unique. ... [The] uniqueness of [Platform]...makes it very distinctive and makes it more of an experience."

According to Pine, brick-and-mortar locations can either provide "time well saved"—a quick and seamless experience—or "time well spent." But "time well saved" forces them to compete with Amazon and other e-commerce providers. "Time well spent" gives shoppers an enjoyable, memorable experience that will encourage them to return and to tell others.

"Pop-ups are one way of being engaging, because they're unusual. They're there for a short term," Pine says. "When most companies do pop-ups, they recognize they have to provide time well spent."

Selling Products vs. Acquiring Customers

According to Miller, the value of brick-and-mortar stores lies in introducing new customers to brands, not just in selling products.

"I think you come to Platform and you're just there to hang. You're going to get some food. You're going to check out the stores," he says. "I hope you buy stuff there, but even if you don't, you've just discovered [new brands]."

Customers who drop in to browse remember the new brand, Miller asserts, and then can come back to buy the product or order it online. He predicts that more retailers will start regarding physical locations as a way to build that initial relationship with customers—who will eventually buy through whatever channel they prefer.

"I think that the emphasis on making sure that you sell things in the store will go down quite a bit, and the emphasis on customer acquisition, which is bringing someone into your ecosystem... is going to go up," Miller predicts. "It's...about setting that marker in people's minds and showing them something that they haven't seen."

A Consultative Shopping Experience

Platform has a concierge to direct visitors to the shops and restaurants that they're looking for—or perhaps didn't know they were looking for. Miller expects the same level of personalized service from pop-ups and retailers that operate in Platform.

Coast by Coast, a pop-up that specializes in swimwear, tailors the experience to each customer that enters their store.

"We...explain to the customer the types of brands that we carry, and we focus on quality and fit," says Kristen Cleary, co-founder of Coast by Coast. "We always offer to...give [the customer] advice on fit when they are in the dressing room. So it's not just like you put them into the dressing room and that's that."

Cleary started Coast by Coast in 2015 with her sister Lauren. Their original outpost was a mobile store in the back of a 1972 Volkswagen van. According to Cleary, the brand sought to improve the experience of shopping for a new bathing suit.

After hosting several pop-ups out of the Volkswagen, Coast by Coast moved into Platform in 2018. Cleary says the space allowed them to stock a wider inventory.

With suits ranging in price from $120 to $400, Cleary says the experience and consultation helps justify the cost. "We're there with the customer until she decides that she finds a piece that she likes," Cleary says.

Events Add Energy

Platform hosts a variety of events for visitors—ranging from Pilates classes to summer block parties to a morning speaker series with coffee. According to Miller, event attendees are able to plug in to the trends and values that underlie the Platform brand.

"The way that we express what we think is interesting and new is through events. Being able to have that outlet to communicate who we are... is extremely important," Miller says. "What's the Platform perspective on X, Y, or Z? We need to be able to consistently deliver that."

The Future of Platform

According to Miller, Platform's parent company, Runyon Group, is bullish enough on the future of retail that it is working on several concepts of its own, in addition to continuing its hunt for new brands that can continuously refresh Platform. Runyon Group launched its first original restaurant, Hayden, a year ago.

"Now we're building on that," Miller says. "We have nine food and beverage and four retail concepts that we're working on right now that will probably go in buildings that we own."

Runyon Group is also working to develop the retail component of several other new real estate developments in Los Angeles, including Valley Country Mart and The Brickyard.

But they're not forgetting the need to keep Platform relevant and fresh—a different experience on every visit.

"I hope that Platform's a good enough brand where people want to just get up and go there, but it's...about staying relevant," Miller admits. "People look to us and say, 'OK, what's new? What's new in fitness? What's new in crafts?' ... We spend a lot of time thinking about that."

But with Platform's tenant occupancy at 100 percent as of September 2018, Miller and Fishbein have so far figured out how to thrive amidst the retail apocalypse. ⬢

Bird Brooklyn, a New York-based boutique, brings east coast fashion to Southern California.

Interior design, personalized shopping, and high-quality create a "concierge level" of service for shoppers.

Big Questions

Best Practices for Building Your Innovation Ecosystem

By Peter Gardner
STARTGRID

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INNOVATE OR DIE?

The world's top companies poured more than $700 billion into R&D in 2017, yet many still lag in the innovation race behind more agile startups. Many well-known market leaders have foundered, shrunk, grown obsolete, or been acquired by rivals that grew stronger.

Why do larger companies struggle to innovate? There are a variety of reasons. Organizational politics and competing internal priorities can slow down good ideas. Public companies must also meet quarterly earnings and shareholder expectations, which can shift the focus from longer-term initiatives to short-term profits and earnings. And bigger companies often lack the entrepreneurial, risk-taking mindset that is typically found within smaller startups.

Practically speaking, while many companies recognize the value of joining forces with more agile entrepreneurs in the startup community, they lack the ability to find and manage these external partnerships.

An Outside-In Approach to Innovation

Open innovation models are outpacing traditional R&D as companies seek to tap into a wider ecosystem for new ideas, talent, and technologies. In an open approach to innovation, the motivation is to get better products to market quickly, in a world that is moving too fast to go it alone.

Companies adopting an open innovation approach recognize that great ideas exist beyond the confines of their internal product development teams. Critically important innovations can be found among a collection of startups, universities, research consortia, and other organizations. Now the question becomes, who has the best solution for our business, and how do we collaborate intelligently with innovators both inside and outside of our organization?

When sourced and managed effectively, outside-in partnerships can be the fastest, most effective way to accelerate innovation and drive the business forward. Below are three best practices for effective collaboration across an open innovation ecosystem.

Best Practice 1: Innovation Aligned with Strategy
For an innovation initiative to pay off, the effort must clearly align with a company's strategy. This successful alignment between executives, R&D teams, innovation partners, and business strategy continues to elude most companies. In a recent INNOVATION LEADER survey, lack of alignment emerged as the single biggest obstacle to innovation.

What makes alignment so difficult is the fact that innovation efforts within a large company have become more decentralized. Historically, new inventions were entrusted to a dedicated R&D function, where work could proceed with utmost secrecy and control. A rapidly growing ecosystem of innovators around the world makes it easier for business units to pursue many new ideas quickly and independently. The downside is hundreds of innovation projects undertaken simultaneously, without clear oversight, transparency, or accountability.

Overcoming this challenge requires the ability to first define and prioritize business needs: which aspects of the business are most vulnerable to disruptive forces, where will future revenue growth come from, and what can reasonably be built internally. Once priorities are established, it's possible to evaluate potential partners against specific needs. The next step is to connect cross-functional teams to these best-fit solution providers through a common platform. This ensures smoother hand-offs between innovation scouts and the stakeholders responsible for delivering products to market. Faster, informed, and efficient interactions with the right ecosystem partners leads to better project outcomes, which in turn drives business value.

Best Practice 2: Actionable Market Intelligence
In the same INNOVATION LEADER survey, the inability to act on market "signals" was ranked as another major obstacle to innovation by global executives. These signals herald a change in customer demands or the market that, if undetected or unheeded, could wreak serious damage to a company's growth prospects.

In a decentralized innovation model, everyone in the company needs to be looking for these signals of change, and be able to act upon them early.

Capturing up-to-date market intelligence from external sources is critical to identifying emerging technology trends and maintaining market leadership. In an economy where disruption is a fact of life, it's imperative to deliver the right insights to the right decision makers at the right time.

A shared market intelligence framework is the ideal way to collect and correlate data sourced during day-to-day interactions with innovation partners. This framework allows companies to capture all relevant data from external sources and internal stakeholders in a central repository structured around specific priorities. Reporting tools synthesize this data into easily digestible information for executives and key stakeholders, who can then discuss and act on notable market trends quickly.

Best Practice 3: Transparent Access to Network Knowledge
For most companies trying to scale innovation, the biggest hurdle is managing the flow of conversations and ideas within a large network of partners. Stakeholders need easy access to the ecosystem to ensure the best potential solutions are aligned with the right requirements. Without these capabilities, at scale, enterprises will struggle with developing a robust pipeline of opportunities in a disciplined way.

This challenge is best addressed by a new set of processes and metrics for managing relationships in the innovation ecosystem. A platform to centrally manage contacts and communications, and track the progress of solutions underway, helps avoid "data silos" that accumulate in spreadsheets and email accounts. Reporting tools turn this data into easily digestible information to help the innovation team, business heads, and executives make faster, more accurate decisions. Visual dashboards and scorecards help hold teams accountable for their initiatives, and show measurable results.

SPOTLIGHT

As external innovation efforts scaled for a major U.S. bank, alignment suffered. Scouts from multiple labs were tracking relationships on spreadsheets and personal contact management tools, inadvertently creating information silos and poor coordination across the bank. Using Startgrid, relevant details about partners and projects are captured in a single knowledge base. Labs can readily map the right Fintech partners to projects, track engagements holistically, and keep executive sponsors better informed.

Challenge	Best Practice
Uncoordinated innovation efforts across multiple business units can result in competing priorities and lack of focus.	**Align Innovation with Strategy.** Prioritize business requirements, identify best-fit solutions, and track progress against goals.
Undetected market "signals" cause companies to miss opportunities or react too slowly in identifying the right innovation partnerships.	**Actionable Market Intelligence.** Capture and disseminate relevant data from external partners and internal stakeholders for timelier decision making.
"Siloed" communications with external partners make it harder to effectively manage the company's innovation pipeline.	**Transparent Access to Network Knowledge.** Centrally manage contacts and communications with external innovation partners, with clear visibility into projects underway.

Conclusion
Cultivating relationships within a global network of innovation partners has become essential to competitive advantage. An outside-in approach to innovation can be the fastest, most effective way to stay ahead of the disruptors.

When sourced and managed effectively, outside-in partnerships can deliver a pipeline of strategic innovation aligned with business priorities. The result is faster time-to-market, access to new growth opportunities, and improved responsiveness in dynamic markets.

"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?'"

Sunil Gupta, Harvard Business School

Guidance

4


Driving Digital Strategy

Are You Taking Digital Seriously Enough?

Sunil Gupta of Harvard Business School Talks About Amazon, Platform Businesses, and His Latest Book, *Driving Digital Strategy*

Interview by Scott Kirsner Photograph by Diana Levine

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.

• •

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?

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.

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?

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.

We did an event in Chicago a couple weeks ago, with 18 or 20 large compa-

nies 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?

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.

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

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.

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?

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.

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.

Explain to me what you mean by complements?

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

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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 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.

A Peloton bike with screen.

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

Yeah.

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

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.

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."

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.

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.

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 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.

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?

> **"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."**

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.

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

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. ⬢

Big Questions

Extending Your Business in the Digital Era: Do You Move Capability-out or Customer-back?

"**THERE ARE TWO** ways to extend a business. Take inventory of what you're good at and extend out from your skills. Or determine what your customers need and work backward, even if it requires learning new skills. We do some of both."

– Jeff Bezos

By Pontus Siren and Utsav Bhatt
INNOSIGHT

When Amazon's Jeff Bezos said this nearly a decade ago, in a *Fast Company* interview, he cited the new Kindle business as an example of the customer-back approach: identifying under-addressed needs of existing customers and developing new capabilities to address them. Yet he acknowledged, too, that Amazon often extends existing capabilities to create new businesses.

In the digital era, both extension strategies are viable, but we will look at the choice from the point of view of non-digital-native companies who are incumbents in their industries. These are the established companies that have grown up before the digital era, and whose success is not predicated on a digital business model. For these firms, the customer-back model is typically more viable.

The Bigger Opportunity for Incumbents

There are two primary reasons for our view: first, the capability-out model requires the incumbent to compete on its digital technology capabilities, often around data capture and processing, and the non-digital incumbents typically don't have distinct digital capabilities. Second, successful non-digital incumbents have access to—and data from—a large and proprietary customer base, and this customer and data asset is highly valuable in the digital era.

The real opportunity for non-digital incumbents is to develop digital business models that combine unique customer and data assets with established digital technologies. This approach gives incumbents a competitive edge versus the digital challengers, who may have advantages in technology and may be faster business model innovators, but who don't have ready access to large customer groups or associated data.

As Sunil Gupta points out in his book *Driving Digital Strategy*, customer access and customer data don't appear on the balance sheets of companies, but they are some of the most valuable assets for incumbents. In many ways, the race between the non-digital incumbents and the digital challengers is one where the challengers try to achieve critical mass in customer access and data, and the non-digital incumbents try to innovate the business model.

Or to paraphrase the philosophy of the venture capital firm Andressen Horowitz: incumbents win if they get innovation before startups get distribution.

A Quick Review of Capabilities-Out

Before we turn to the customer-back model, it is worth examining how the capability-out model has been leveraged in the digital era. Companies such as IBM Watson, Weather Company's WeatherFX, and Uber have all successfully used the capability-out model to extend their business.

For IBM, the Watson supercomputer has the unique ability to process large data sets, to constantly improve its algorithms, and thus to improve its analytical and predictive capabilities over time. It can be used, among other things, to fight cybercrime, personalize shopping, and empower driverless cars. The Weather Company (now part of IBM) has leveraged its capabilities not just to predict the weather but also to consult with retailers on how weather drives consumer behavior, and even to help shampoo producer Pantene promote their products through the Haircast mobile app that alerts users to "bad hair" days.

Meanwhile, Uber has expanded to Uber Eats, Uber Freight, and Uber Health to match drivers with service providers and end users. So this can work well.

The Power of Customer-Back

On the other side, the customer-back model has been extensively leveraged by digital incumbents such as Amazon and Alibaba. These two companies serve their customers across retail, payments, entertainment, logistics, home and consumer electronics, and other services.

Amazon's consumer business is a customer-back model that identifies a new job-to-be-done: the tasks that people are trying to accomplish for functional, social, and emotional reasons. Amazon's continuous and high-value interactions with its customers uniquely positions it to extend its business by developing new product and service offerings.

As Bezos pointed out, "When we win a Golden Globe Award, it helps us sell more shoes."

Similarly, Alibaba has pursued a customer-back strategy by developing a portfolio of complimentary products that are a combination of Amazon, eBay, PayPal, Google, FedEx, wholesalers, and related financial services. The company has constantly developed new technology solutions to address customer needs, ranging from managing payments and logistics to distributing micro loans to Chinese SMEs that are enabled by the vast amount of data it has on these companies through its retail and distribution businesses.

As Alibaba chief strategist Ming Zeng pointed out in a *Harvard Business Review* article: "Every transaction, every-communication between seller and buyer, every connection with other services available at Alibaba, indeed every action taken on our platform, affects a business's credit score."

The Choice for Non-Digital Incumbents

It's surprisingly hard to identify non-digital incumbents that have successfully leveraged the customer- back model to develop scaled and profitable digital business models.

Airlines such as Australia's Qantas have developed successful businesses around their loyalty programs that are digital platforms leveraging a customer-back approach. The Qantas loyalty program offers a range of services and benefits to members and captures value through value-added services it offers to retailers and other partners. As Bloomberg pointed out recently, the model is simple: "Partners buy Qantas points to reward their own customers. ... The cost to Qantas of redeeming a point is less than the money it's sold for, so Qantas makes money on every point."

As a result, Qantas leverages customer access more than customer data, but as the reach and scope of the program continues to expand, the richness and relevance of the data will increase commensurately.

Industrial companies like John Deere have developed a range of value-added services related to precision operations, autonomous vehicles, environmental monitoring services, and weather-related services that they offer to their customers. Its digital platform, MyJohnDeere, helps agricultural producers optimize the management of farm operations. It has opened the platform to third-party software developers to create a central platform for farm equipment hardware and software makers and agricultural producers.

By expanding its service offering far beyond farm machinery, John Deere is increasing the frequency and richness of its customer interaction and the associated data it can capture. It will be well-positioned to develop new value-added services.

Changing the Basis of Competition

The customer-back model requires companies to develop new technology capabilities, but it does not require them to compete on those capabilities.

Rather, by combining unique access to and data about customers, with robust (but not unique) technology capabilities, companies can successfully extend their business.

However, relatively few non-digital incumbents have successfully developed digital business models that extend their business by leveraging customer access and data.

Instead, they end up with a winning equation that changes the basis of competition. The model of customer access + data + digital business model + (existing) digital technology requires companies to change the metrics they use in evaluating new opportunities and how they think about value creation in their business.

The implications cut straight to the heart of how incumbent companies will grow in the future. New service offerings that increase the frequency and richness of the interaction with customers and that generate data that can be captured must be viewed as inherently interesting. In the future, the companies that consider new profit formula by harnessing the customer-back model will be the ones that create and capture value.

Training and Education

COURSE LISTINGS FROM OUR STRATEGIC EDUCATION PARTNERS

At the request of our members, we have created this training and education guide, which catalogs leading courses and curricula related to innovation. These courses, delivered by our Strategic Education Partners, are deeply aligned with the needs of our members, who regularly contact us with requests for information on design thinking, rapid prototyping, data-driven decisionmaking, lean startup, and other frameworks, methodologies, and tools. For more information on these classes, select "Resources" at innovationleader.com.

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UPCOMING PROGRAM

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Leveraging Systematic Inventive Thinking

DESCRIPTION

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PARTICIPANT PROFILE

Design Your Innovation Blueprint is designed for mid to upper-level executives who have been charged–formally or informally–with creating a culture of innovation in their organizations and translating it into a sustainable practice that supports the business strategy and translates into quantifiable top-line and bottom-line results.

FORMAT

In person

DATES

Nov 14–16, 2018
Jun 17–19, 2019
Nov 13–15, 2019

PRICE

$5,980

LOCATION

Columbia Business School Campus, New York City

CONTACT

Anthony Madonna
+1-212-854-6016
anthony.madonna@gsb.columbia.edu

LEARN MORE: https://www8.gsb.columbia.edu/execed/program-pages/details/1056/DIB

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UPCOMING PROGRAM

Certified Innovation Mentor Program

DESCRIPTION

Our flagship innovation program provides rigorous, in-depth innovation education and application for innovation leaders charged with leading teams through innovation methodologies and tools.

FACULTY

Innovation experts including Dr. Nancy Tennant, Chief Innovation Officer Emeritus for Whirlpool Corporation.

FORMAT

Three separate classroom modules, two intersessions including online content along with application of classroom learning via participation in a team innovation project, and completion of an individual innovation project implemented within the participant's organization.

DATES

Module #1: Mar 11-15, 2019
Module #2: Jun 10-14, 2019
Module #3: Sep 9-13, 2019

PRICE

$19,500

LOCATION

University of Notre Dame
South Bend, Indiana

CONTACT

Donna Porter
574.631.8876
dporter5@nd.edu

OTHER CUSTOM OFFERINGS

Innovation Mentor Boot Camp: Our intensive innovation workshop–offering broad-based, short-format innovation training for corporate teams who leave with an action plan for success.

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UPCOMING PROGRAM

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DESCRIPTION

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FACULTY

Doug Hall, founder and CEO of the Eureka! Ranch, Innovation Engineering Institute and Brain Brew Ventures.

FORMAT

Each course is in three parts: 1) on-line, 2) in person, 3) 12-month personalized certification work plan to apply new skills to your real work, with the help of an experienced Innovation Engineering Black Belt Coach.

DATES

Pre-requisite Courses:
November 6-7, 2018; February 5-6, 2019
(also available in a 100% online course)
Black Belt Courses:
October 16-18, 2018; January 15-17, 2019

PRICE

$15,000

LOCATION

The Eureka! Ranch,
Cincinnati, Ohio

CONTACT

Lydia Carson
513-509- 6405
Lydia@InnovationEngineering.org

OTHER CUSTOM OFFERINGS

Innovation Engineering Blue Belt Certification: A fundamentals courses where everyone can learn reliable systems and tools for being more innovative in their current job right now.

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Planetm.com
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PlanetM is Michigan's mobility brand and business development program driven by a partnership of mobility organizations, communities, educational institutions, research and development, and government agencies working together to develop and deploy the mobility technologies of the future. Michigan has always been the leader of the automotive industry, and as vehicle and transportation technologies continue to evolve in amazing ways, Michigan is continuing to lead the way.

PROSEEDER
CORPORATE VENTURE & INNOVATION

Proseeder.com
@ProSeeder

The Proseeder platform empowers corporations with adaptive tools for managing deal flow, collaboration, diligence, and execution; quantifying strategic ROI of investments and partnerships that supercharge corporations efforts to innovate iteratively.

Qmarkets
Collective intelligence solutions

Qmarkets.net
@QmarketsGlobal

For over 10 years Qmarkets has offered the most comprehensive crowdsourcing solutions. Its modular approach allows organizations to configure a process that adapts to requirements of any group within the business, while maintaining centralized control and visibility. This extends beyond innovation management to include process improvement and operational excellence, open innovation, M&A scouting, employee suggestion boxes, best practice sharing, virtual innovation workshops, and prediction markets techniques. It offers technical and visual flexibility to a list of global clients; including Nestle, Ford, Lufthansa, Ab InBev, Phillip Morris International, and UniCredit.

RTI | Innovation Advisors

Rti.org
@RTI_Intl

RTI Innovation Advisors provides strategic innovation consulting services, technology intelligence and research, and commercialization services to accelerate technologies and products to market. With over 50 years of experience, we have the experience and capabilities to help any private sector company or government entity improve innovation outcomes.

Sopheon
Your Partner for Innovation Performance™

Sopheon.com
@sopheon

Sopheon's Accolade® software, services, and best practices provide end-to-end decision support and process automation for the entire innovation management, new product development and strategic initiative lifecycles. The end result is business agility and increased performance of innovation investments required for long-term relevance in a fast-changing market. For the first time, businesses can access a single source of the truth across strategic innovation planning, roadmapping, idea and concept development, process and program management, portfolio optimization, resource capacity planning, and in-market management.

SPIGIT

spigit.com
@spigit

Spigit is the #1 ideation management platform and enables you to harness the collective intelligence of your employees, customers, and partners to solve today's problems, maximize tomorrow's opportunities, and accelerate innovation.

Startgrid

Startgrid.com
@startgridco

Startgrid is an innovation platform helping companies make their external innovation efforts more successful. From tracking business needs to scouting startups to discovering the best solutions, Startgrid makes it easy for teams to solve problems, share intelligence, and measure the impact of their efforts on the business.

Strategos

Strategos.com
@StrategosTeam

Strategos is a strategy and innovation consultancy founded by a group of talented professionals and Professor Gary Hamel.
For over 20 years, we have helped clients across the globe develop game changing strategies, identify opportunities for growth, and embed innovation at the heart of their organization. Our approaches, methods and tools enable a creative and systemic approach to strategy and innovation that have been time tested and proven to deliver results.

XPLANE

XPLANE.com
@XPLANE

XPLANE is a global consulting partner that helps large organizations transform their business and accelerate results. We combine the strategic expertise and organizational strength of a consulting firm with the creative power of a design studio. We leverage visual thinking, design facilitation, co-creation, and people-centered design to help clients solve complex problems and drive immediate and lasting results.

OCTOBER 16-18

IMPACT 2018

Boston, MA

Our biggest gathering of the year (formerly known as the Teach-In) returns to Boston. On the opening afternoon, you'll get the chance to visit the Harvard Innovation Lab, Harvard Business School, MIT's Engine startup incubator, or participate in a walking tour of Harvard Square, or rowing clinic on the Charles River. Mainstage sessions feature speakers from Lyft, Google X, and LucasFilm. Smaller whiteboard sessions give you a chance to learn from fellow leaders at Prudential, Porsche, Clorox, Kellogg, Goodyear, Facebook, USAA, Northrop Grumman, Amazon, and more.
www.innovationleader.com/impact

OCTOBER 25 & DECEMBER 4

THE UNDERGROUND

Seattle & Atlanta

The Innovation Leader Underground is a small roundtable series for selected senior executives working in innovation, strategy, and R&D. By creating a confidential and off-the-record space, and facilitating highly-participatory conversations, we're empowering executives to share recommendations, insights, and guidance with one another. Our final Underground roundtables of 2018, co-hosted with Spigit, will focus on building the support required to keep good ideas alive as they move toward the market.
www.innovationleader.com/underground

DECEMBER 5-6

INNOVATION LEADER ATLANTA FIELD STUDY

Atlanta, GA

The latest in Innovation Leader's series of Field Study learning expeditions takes 50 corporate executives to R&D labs and innovative sites around Atlanta, including Google, Honeywell, Anthem, Mercedes-Benz, SunTrust Park, and the new Farm Accelerator from Comcast. The focus will be on attracting the best talent and cultivating competitive advantage in your industry. From a 2017 Field Study attendee: "The Field Study was a fantastic experience! There was a ton of practical learning for novices and experts alike."
www.innovationleader.com/atlanta2018

JANUARY 8-11, 2019

CONSUMER ELECTRONICS SHOW

Las Vegas, NV

The enormous trade show takes over Las Vegas every January, covering everything from augmented reality to self-driving cars. IBM CEO Ginni Rometty is among next year's keynoters.
www.ces.tech

JANUARY 13-15, 2019

NRF 2019: RETAIL'S BIG SHOW

New York, NY

The big retail gathering in Manhattan brings together established players, like Nordstrom, Lowe's, and Kohl's, with disruptors like Casper and StubHub.

FEBRUARY 27-28, 2019

INNOVATION LEADER SAN FRANCISCO FIELD STUDY

San Francisco, CA

Past Innovation Leader learning expeditions in San Francisco and Silicon Valley have dropped in on Adobe, Google, Twitter, Autodesk, Y Combinator, Ford's Palo Alto Research Center, Intuit, and Vodafone. It's our most popular Field Study location, so make plans to join us.
www.innovationleader.com/event-calendar

MARCH 8-17, 2019

SOUTH BY SOUTHWEST

Austin, TX

Conference tracks at the 2019 edition of SXSW will cover virtual reality, blockchain, food, and retail. It's never too early to get a hotel room for the event that overwhelms Austin each March.
www.sxsw.com

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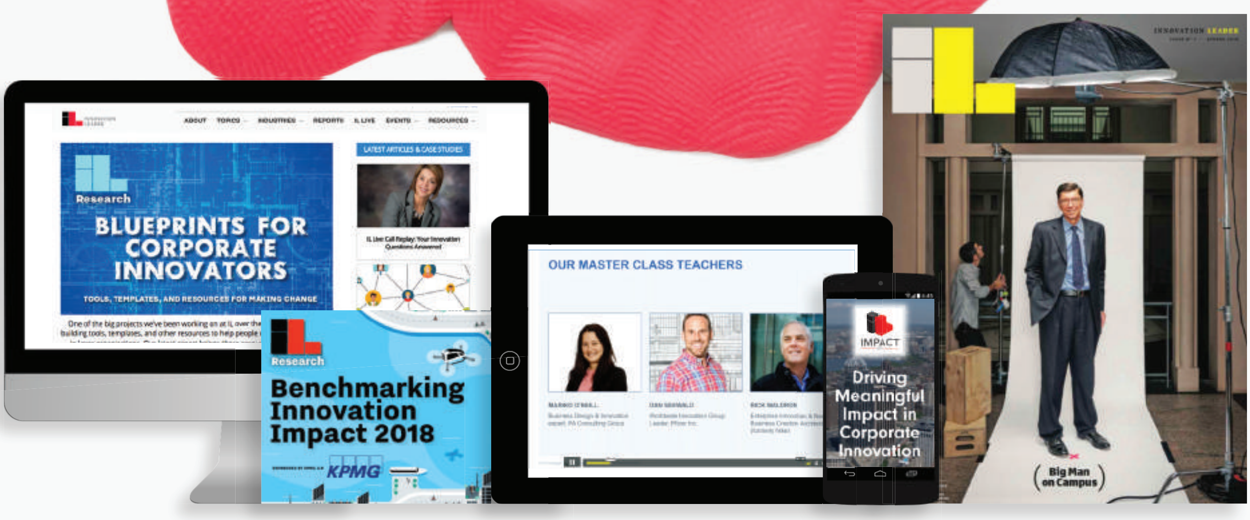
Engage with corporates. Share your knowledge. Build your business.

Innovation Leader reaches more than 25,000 senior innovation, strategy, and R&D executives at leading global corporations. We offer valuable opportunities to reach our membership via our live and virtual events, a quarterly print magazine, dynamic web content, in-depth research reports, and other offerings. See p. 116-119 for the complete list of current strategic partners.

CONTACT **ANDY@INNOVATIONLEADER.COM** FOR MORE INFO

SCULPT YOUR COMPANY'S FUTURE



WWW.INNOVATIONLEADER.COM

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