Research

Benchmarking Innovation Impact 2018

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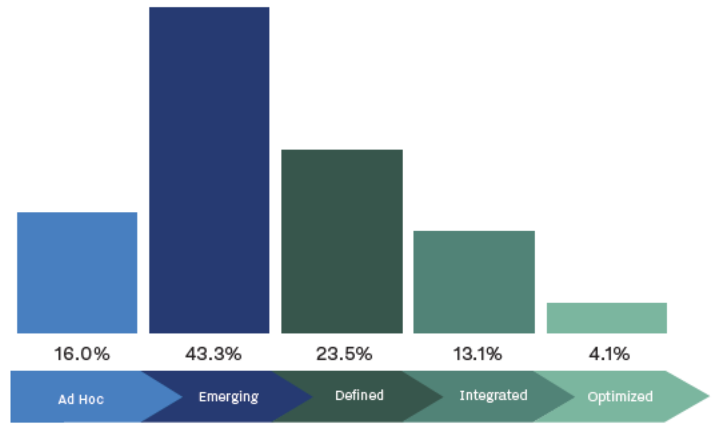
Executive Summary

Inside many companies, there's a growing sense that they need more innovation. The word is thrown around in meetings; mentioned during Wall Street investor calls; and wedged into job titles. The company may even create an innovation center in the heart of Silicon Valley, or launch a global innovation challenge.

The forces behind this activity are real: commoditization, changing buying behaviors, startups that are increasingly able to challenge incumbents, new digital marketplaces, and more. But our survey of 270 executives responsible for innovation, R&D, and strategy at large companies found that these innovation efforts are still very young at most companies.

The teams driving them are still small. They are largely under-resourced. And they are encountering serious organizational resistance — even when they have the blessing of the CEO or another C-suite executive. For companies seeking to integrate innovation into the way they work — in order to compete with a fast-moving, nimble, hungry pack of competitors — there is much work to be done.



Maturity (All respondents)

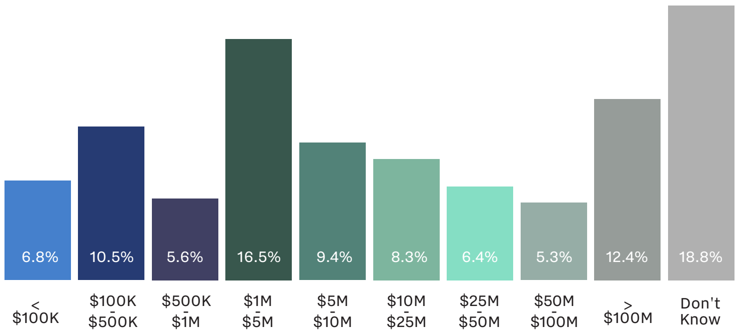
COMPANIES ARE STILL IN THE EARLY STAGES OF THE JOURNEY

Despite all this activity, most companies consider themselves to be in the early stages of innovation maturity. To gauge this, we defined five stages of innovation maturity, from little or no structure around innovation activities to an "optimized" environment where innovation is part of the organization's DNA (stages are outlined in detail on p.90). Nearly 60 percent of companies place themselves into the first or second stages, according to our survey data.

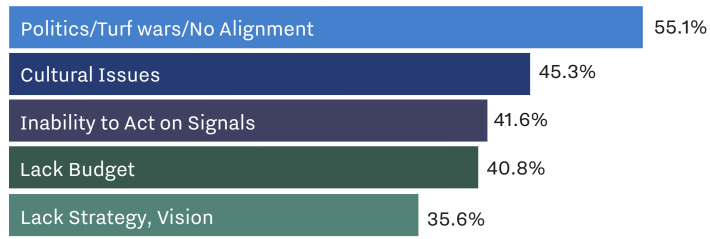
But 17 percent of companies said they were in the two furthest-along stages. The three industries that consider themselves to be most sophisticated? Technology, healthcare, and financial services.

AS SOPHISTICATION INCREASES, SO DOES INVESTMENT

Those companies at the more sophisticated end of the spectrum are investing seriously in innovation. That includes financial investment and human resources. Fully one-third of more mature companies describe their annual program budget as $25 million or more, and 49 percent say it is $10 million or more. Just 13 percent say it is less than $1 million annually.



Innovation investment (All respondents)



Innovation obstacles (All respondents)

When it comes to staffing, about one-third of the more mature companies (36 percent) say they have 50 or more people working on innovation, and 47 percent have a staff of at least 25.

On the other end of the spectrum, companies in the two earliest stages of developing an innovation strategy, just 18 percent have a budget of $25 million or more, and 23 percent have a budget of $10 million or more. More than one-quarter of these companies (27 percent) are operating with innovation budgets under $1 million. And half of these companies say they have between zero and 9 full-time employees (or full-time equivalents) focusing on innovation.

PROGRESS IS STYMIED BY POLITICS AND TURF WARS

Survey respondents agree about the biggest obstacles to delivering impact for their organizations. The first is a group of challenges we dubbed "company politics, turf wars, or lack of alignment." The second most common obstacle was "cultural issues." For large corporations, infusing the culture with entrepreneurialism and risk-taking is extraordinarily challenging.

The next two obstacles were "inability to act on signals" and changes affecting customers or the marketplace, and insufficient budget. At even the most sophisticated companies, budget is a challenge, and innovation groups must figure out how to balance the need to show shorter-term results with longer-term investments that can create significant new growth for the company, and position it as an innovation leader within its industry.

Many of the comments we received in asking about organizational obstacles to innovation will sound familiar: "we're extremely risk-averse"..."we're too busy on urgent issues, with no time for important ones"..."we'd rather analyze again than execute"..."we lack clear governance for innovation efforts."

And it's true that at most companies, the focus on this quarter's activities and next quarter's plans can crowd out almost everything else. But to have an impact, it's vital to create the time, focus, and accountability for innovation.

Companies also need to think through the right level of separation — so that innovation isn't sucked into the vortex of the day-to-day — but also the right connectivity, so that communica-

EXECUTIVE SUMMARY

tion between innovators and operators is happening; expertise on both sides is being shared; and new concepts can be tested and launched in the market.

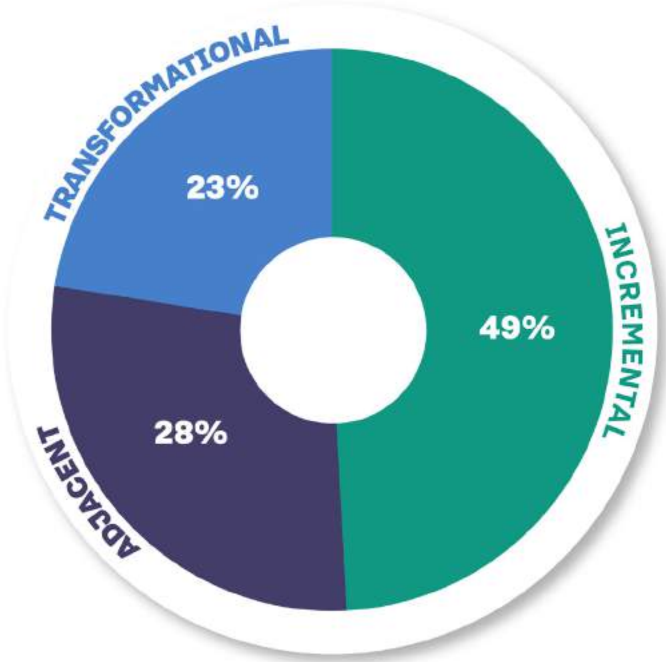
Not surprisingly, executives say that leadership support is the number one enabler of innovation success. But the second most important enabler is the “ability to test, learn, and iterate.” More mature companies indicated the value of setting the right strategy and vision for innovation — what do you hope to achieve? — and putting in place the right team with the right set of skills.

DIALING UP THE EMPHASIS ON TRANSFORMATIONAL

We found that incremental improvements and upgrades are largely the responsibility of the business units and functions.

But the innovation groups themselves — whether an R&D team, new ventures group, or innovation lab — are spending 49 percent of their efforts on supporting or supplementing that incremental, near-term work; helping the businesses to improve existing products and services; or streamlining processes. But 28 percent of their efforts are dedicated to adjacent innovation, like entering related markets or leveraging existing capabilities in new ways, and the remaining 23 percent to transformational innovation — products or services the company doesn’t yet offer, or launching new business models.

Responses from the most mature companies differ, with 40 percent of their efforts focused on incremental work, 30 percent adjacent, and 30 percent transformational. Those companies are not only investing more money and human resources in innovation, but they are committing to exploring opportunities in new markets and new customer sets over a period of years, not months. When it comes to financial metrics, these most mature companies are looking at one metric above all else: how much revenue is being generated by new products and offerings?



What percentage of your innovation efforts are focused on the following strategies? (All respondents)

THE ANSWER IS...

The answer to your company’s innovation dilemma is, unfortunately, that there is no single solution that can be applied to every company. Cultures and business contexts are just too different. But this report collects data to help you understand how the typical company has structured its innovation program — along with how the most mature companies have done it. It collects examples from your peers at other large companies on how they approach innovation, and insights from KPMG.

Commitment to an initiative over the course of years is the big — and obvious — differentiator between companies that are just starting to dabble in innovation and those that are using it to drive competitive advantage.

In large organizations, the evolution from innovation laggard to innovation leader is one that requires both a sense of urgency — that hunger for more innovation that we alluded to at the beginning — as well as patience as you build momentum and see results. ◆

THREE DIFFERENT TYPES OF INNOVATION

DEFINING INNOVATION

Much of this report alludes to three types of innovation that have become normative across industries, but are worth defining more clearly:

1. **Incremental**— Sometimes called "Core" or "Horizon One" (H1) innovations, these typically serve existing customers or markets. They may involve new, improved, refined, or "incrementally better" products or services. These innovations are usually closely tied to the core business. An example of incremental innovation might be Coca-Cola's recent local flavor launch, which included locally-sourced flavors such as "Georgia Peach" and "California Raspberry"; the company's "specialty soda" segment was up 8 percent in 2016, while most other carbonated soft drinks stayed flat that year.

2. **Adjacent** — These innovations, often called "Horizon Two" or H2 innovations, typically involve expansion to an "adjacent" business or customer segment. These innovations usually leverage the company's expertise, but do so in new or innovative ways. Two examples of adjacent innovation might be General Motors' new "Maven" car-sharing subscription service, or Nike's "NikePlus" membership program. Both offerings leverage their companies' core expertise, but introduce new business models to appeal to new demographics and new customers.

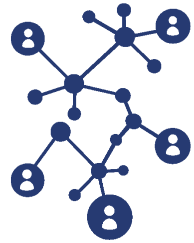
3. **Transformational** — Sometimes called "Breakthrough," "Horizon 3" or disruptive innovation, transformational innovation involves the creation of entirely new businesses to serve new markets and new customers. Considered the most high-risk style of innovation, transformational innovation often requires new capabilities, and yields totally new products and markets. The most frequently cited example of transformational innovation comes from Amazon, which launched a cloud-based service called Amazon Web Services or AWS in 2006. The on-demand computing platform, which was a completely new business unrelated to its core ecommerce business, generated more than $17 billion in revenue in 2017.

DATA HIGHLIGHTS

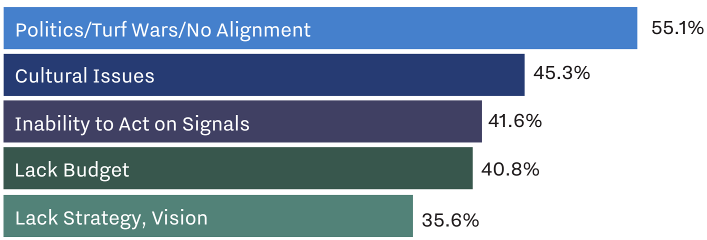
We pulled out some of the most interesting data points from our survey of 270 innovation, strategy, and R&D executives.

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

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



The biggest barriers to innovation are...



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

#1 Innovation team

#2 R&D team

#3 Outside resources

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

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

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

Innovation focus:

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

ABOUT INNOVATION LEADER

Innovation Leader is a media and events company that covers innovation inside global companies. Since 2013, Innovation Leader has built the largest community of corporate executives responsible for strategy, R&D, new product development, design, and innovation at large public and private companies. We help these executives enhance their innovation programs using case studies and guidance on our website, learn from peers during live events, webinars and conference calls, and visit innovative labs and workplaces around the globe. Our research reports are written by Innovation Leader staff; whenever there's input from outside entities, we make that clear. If you quote from this report or reference it, kindly credit Innovation Leader and KPMG LLP. For an index of our past research reports, please visit innovationleader.com/research. If you received this report as a pass-along copy, you can learn more about Innovation Leader membership by emailing adam@innovationleader.com.

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

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

Inside, you'll discover how more than 270 global companies think about innovation funding, staffing, incentives, and metrics. You'll get the breakdown on how much time and energy they are spending on incremental improvements versus truly transformational, market-changing ideas. You'll also learn about the top obstacles that corporate innovators encounter, as well as the things they view as key enablers of success.

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

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