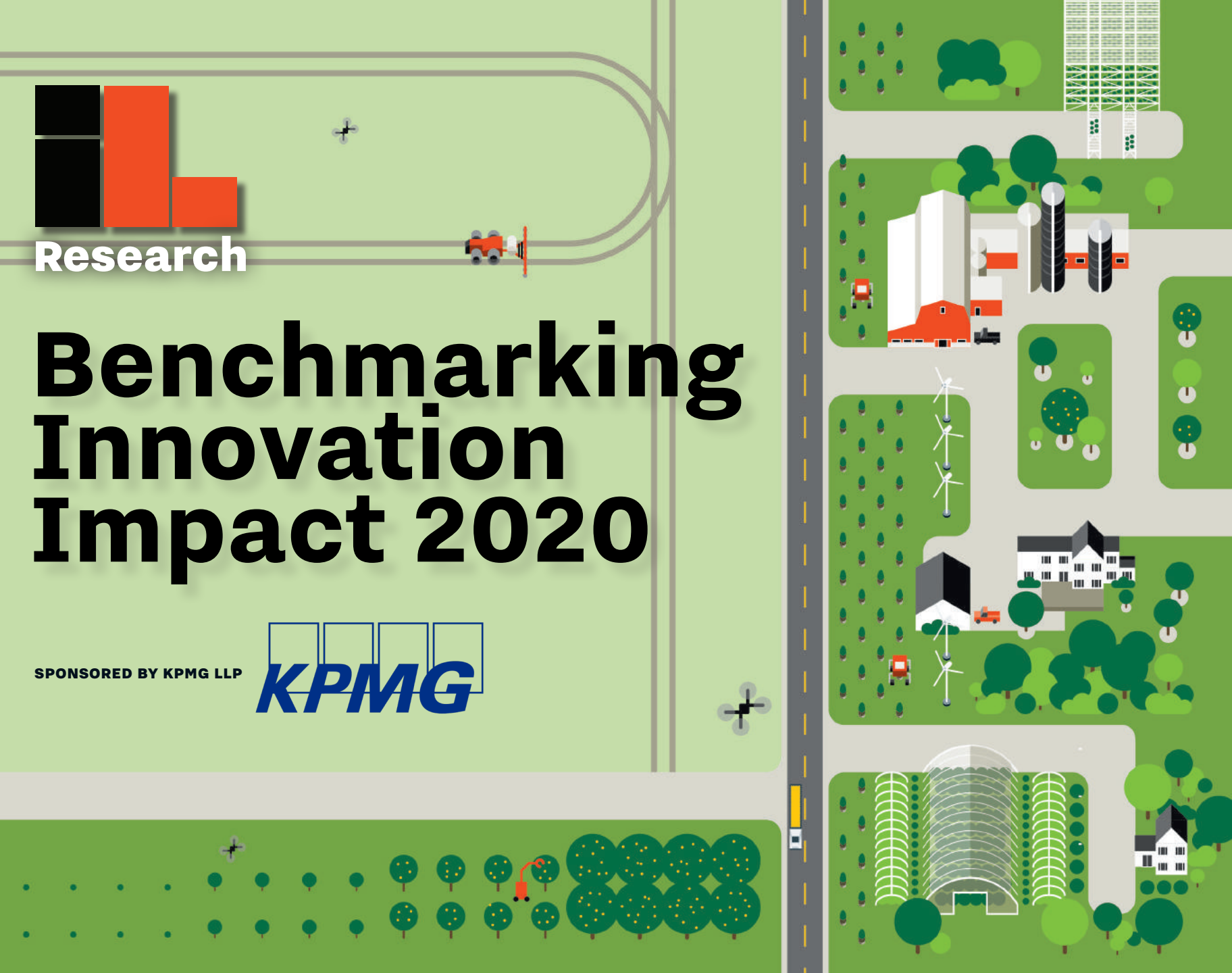


Research

# Benchmarking Innovation Impact 2020

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### **About the Cover**

We worked with Nik Schulz of L-Dopa Design and Illustration to create a cover for this year's report that is all about growth — planting, nurturing, and taking things to market. We wanted to emphasize that successful innovators deliver new kinds of growth to their organizations, even if they're working with limited resources.

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## Welcome

At KPMG LLP, we're pleased to have sponsored — for a second year — Innovation Leader's benchmarking research, the results of which are detailed in this report. Based on extensive survey data and wide ranging interviews with global executives, the report provides a variety of ideas and considerations for those seeking answers to the question every innovation leader and C-level executive should be asking: Do we have the right innovation strategies, investments, and approaches in place to drive growth for our future?

We're operating in an incredibly dynamic market environment where the level of disruption and pace of change are exponentially increasing. This makes innovation all the more complex and table stakes high as the cost of not innovating could mean disintermediation of the company. To help meet these challenges, Innovation Leader's research provides you with insights on the successes and learnings from innovation at companies like yours. These insights cover the most important and challenging topics related to innovation: (1) aligning strategically, (2) funding and resourcing deliberately, (3) overcoming obstacles, and (4) executing for impact. Methods and approaches can vary, but finding what works is critical.

To help you assess your own efforts and progress, and consider alternative ideas, the report provides:

- Benchmarking data : Survey results and analysis collected by Innovation Leader about what your peers are (and are not) doing today. This includes insights from "role model companies," organizations that are leading the way in innovation.
- Innovator perspectives : Thoughtful commentary from innovation leaders at a range of companies, as elicited in interviews conducted by Innovation Leader.
- KPMG Insights : Points-of-view based on the work KPMG has done in our own business and with clients leading enterprise-scale innovation efforts. These perspectives are included throughout the report as well as in our "top 10 learnings" on p.66 of the report.

We encourage you to become familiar with the breadth and richness of this content, share it, and use it as a reference when you need data, examples, or inspiration. We hope this information will enable you to evaluate your company's unique circumstances and to have greater impact from innovation over time. The world is changing quickly. Many companies are running as fast as they can simply to keep up, but are challenged to pick up the pace. The question for all of us is, are we being audacious enough? Investing enough in the right things at the right time to make an impact? We hope this report guides you to the answers you need to move forward.

— Fiona Grandi, National Managing Partner, Innovation & Enterprise Solutions, KPMG LLP



# How to Use This Report

We created Innovation Leader to be the essential resource for anyone charged with making change inside a large organization. And in assembling this year's *Benchmarking Innovation Impact* report, we wanted to present you with useful information and insights that will help you move the needle — whether you're designing a new initiative or refining one that already exists.

## WHAT'S DIFFERENT

This year, we looked at the data through two lenses: one that includes the complete set of 215 respondents, and a second that includes about 25 “role model” companies that put themselves at the more advanced end of the innovation maturity spectrum. We also identified a dozen “role model” companies to interview, because they've had innovation, new ventures, or R&D initiatives in place for several years; have been delivering tangible results; and are widely regarded as industry leaders. We introduced several new questions to this year's survey, to better understand whether budgets have been trending up (or down), and what sorts of activities our respondents have stopped doing, among other topics. You'll see those new questions indicated with a “New Question 2020” label throughout.

## WHAT'S INSIDE

There are four components to the report:

1. Our review of the data from a 2019 survey of corporate innovators — including lots of charts and graphs. You'll see the complete data set compared to the smaller group of about 25 “role model” companies.

2. Learnings and advice from a dozen corporate innovation professionals at companies we chose as role models for this report. This group included Google, Intel, ESPN, Ford, and Nasdaq, among others.
3. Insights from KPMG professionals about what the results of this year's survey might mean for you, and alternative approaches to consider.
4. Key questions for you to discuss with your team and your leadership, and additional resources that Innovation Leader has created around topics like making the initial case internally about why an innovation program may be necessary, or measuring progress once you've set one up.

## HOW TO USE IT

We divided this year's report into five sections to help you:

1. Think through how to create a winning strategy.
2. Lay out the appropriate resources and funding you will need.
3. Work through the inevitable barriers and obstacles.
4. Measure your progress.
5. Understand what approaches have (and haven't) worked for our survey respondents.

How else can we be helpful? Drop me a note...

— *Scott Kirsner, Co-Founder and Editor-in-Chief, Innovation Leader*  
[editor@innovationleader.com](mailto:editor@innovationleader.com)

**Note: Innovation Leader's staff was responsible for analyzing the data, producing the content, and interviewing the innovators inside; where KPMG's perspective is included throughout the report, we've indicated that clearly.**

# Executive Summary

Here's a look at some of the key learnings that emerge from this report's data and qualitative interviews. We've organized this according to the four key sections of the report.

## 1. CREATING THE RIGHT STRATEGY

- **Amidst the need for “base hits,” don't forget to swing for the fences.** Nearly everyone we've ever interviewed cites the need for early, tangible successes (“base hits”) to prove that a new initiative can provide value to the company. Often, those are delivered in close collaboration with colleagues in the business units. But our data shows that about 25 percent of effort is focused on adjacent innovations (think of these as “doubles” and “triples”), and another 25 percent on transformational innovations that could turn into significant new sources of competitive advantage for the company (“home runs.”) Among the role model set, there is less focus on incremental and adjacent innovation, and more (37 percent, compared to 25 percent) on transformational work.

## 2. RESOURCING AND FUNDING INNOVATION

- **Most innovation efforts are still tiny — and young.** Innovation labs, corporate venture capital programs, and ecosystem-building are not yet well-established functions in most companies. Our survey found that 43 percent of innovation-related programs have fewer than 10 full-time equivalents dedicated to them. Nearly 60 percent of our survey respondents said these programs were in the earliest stages of evolution. One respondent told us that “creating structure to organize the chaos is the one thing we have done that has had the most impact.” Innovation teams almost always begin life with lim-

ited resources and staffing. It takes time to deliver the proof points that get investment to an appropriate level.

- **Business units need to be bought in.** Culture clashes can flare up when colleagues in the business units are surprised by something the innovation team has been working on, because they weren't bought in from the start. Our survey found that business unit staff are often involved in incremental and adjacent innovation activity as partners and funders. And support from business unit leaders was cited as one of the key enablers of innovation success. As Linda Tong, Vice President of Innovation Labs at AppDynamics, put it, “Getting the right resources, to me, means aligning yourself more tightly with the business and understanding it enough.” (See p.27)

## 3. BREAKING THROUGH THE BARRIERS

- **Cultural issues can't be avoided.** Yes, innovators would rather be building new products, investing in startups, or deploying cutting-edge technologies. But they can't ignore the way the company culture will respond to the work they're doing. Politics, turf wars, and culture were some of the top obstacles cited by innovators in this year's survey (these were also at the top of the list in 2018.) And when we asked a new question about the challenges to rolling out ideas more broadly in the company, or the market, one of the top challenges was “company culture or entrenched attitudes.” How will you ensure that colleagues are ready to embrace the work you're doing — rather than reject it?
- **Learn to test, cheaply and quickly.** One way that innovation teams can prove their value is by developing the capability to experiment and capture learnings faster and with less expense than other parts

of the organization. The ability to test, learn, and iterate was mentioned as one of the key enablers of success by our respondents. And our “role model” set cited “learnings and insights generated” as the top non-financial metric that they track. In many cases, these early tests can capture data that helps attract more funding. As Ryan Spoon of ESPN put it, “It’s much harder to do when the ask is coming from a PowerPoint deck — as opposed to some examples of success you’ve already demonstrated.” (See p.40)

- **Seeing isn’t the same as doing.** Most companies see and talk regularly about the changes affecting their growth and profitability — like fast-moving competitors or changing customer behaviors. But they lack the ability to link those observations to fast action. While just 15 percent of companies say that it’s a challenge for them to “pick up on signals” of change that are relevant to their business, 42 percent say that they’re unable to act on those signals.

#### 4. DELIVERING IMPACT AND MEASURING SUCCESS

- **Trophies are OK; time and money are better.** The most commonly-used incentive to get employees participating in innovation programs is some sort of award or recognition. But among the role model set, we found a higher percentage of companies supplementing recognition with dedicated time to continue developing an idea (30 percent) or seed funding (22 percent.) Google’s “20 percent time” for pet projects may be a bit of a myth (“we joke that it’s more like 120 percent time,” says Googler Russ Wilson), but some companies are trying to help employees get the time and funding they need to keep moving their projects forward.
- **Metrics are a must.** One quarter of survey respondents told us they do not track any financial metrics; that number drops precipitously, however, as companies move from the early to more sophisticated stages of innovation. Among our “role model” set, revenue gener-

ated by new products or services was being measured by fully two-thirds of respondents. And 41 percent said they were also tracking cost reductions or efficiencies. It’s not enough just to collect metrics, though — they need to be communicated and disseminated to relevant colleagues up and down the org chart.

#### 5. MOVING FORWARD

- **You need a “stop sign.”** Many innovation programs try a lot of things in their first year or two of existence. But attempting to do too much can result in nothing having a significant impact. It’s OK to put a stop to some things. Our respondents told us that they’d “stopped working on projects that don’t have senior exec sponsorship”... stopped “trying to stimulate innovation in all parts of the org”... stopped supporting the core business’ needs with staff that were supposed to be dedicated to transformational innovation... stopped “ad hoc design thinking training”... and much more. (See p.62)
- **Support, strategy, and the right people are more important than the ability to accept failure.** There’s been a lot of rhetoric in recent years around “celebrating failure” and becoming more tolerant of failure as a necessary shift, to create more space for experiments that may not pay off. But in many organizations, explaining that it’s OK to “fail fast” is not something the broad employee base is ever going to understand or embrace. The organization’s ability to “accept failure well” was not seen as a key enabler of success by the survey’s “role model” respondents. What was? Support from leadership; crafting the right strategy and vision for the innovation initiative; and assembling a team with the necessary skill sets to deliver on that strategy.

And in a corporate environment where leadership, strategies, staffing levels, and market conditions are constantly changing, perhaps the biggest challenge of all is keeping the innovation activity and investment on a steady course long enough to deliver substantial results.

# DATA HIGHLIGHTS

## CONFIDENCE IS ON THE RISE

# 42%

of respondents say that their **confidence has grown** over the last year, when it comes to their belief that their company's strategy and investment in innovation will enable it to remain competitive. *(Just 19 percent say their confidence has been decreasing.)* (See p.9)



**Business units** were the leading supplier of funding for incremental and adjacent innovation activities. Transformational work was more likely to be funded by the **executive team**. (See p.26)

## CONNECTIONS



Innovation and R&D professionals said it was more likely they had strong ties to (or were integrated with) their company's **strategy group**. They were somewhat less well-connected to corporate venture capital groups, and even more distant from corporate development and M&A groups. (See p.15)

**THE INDUSTRIES** that were best represented in this year's set of respondents were:



FINANCIAL SERVICES

# 16%



CONSUMER GOODS  
AND PRODUCTS

# 13%



TECH

# 9%



## OVERALL INVESTMENT

**↑ 56%**

of respondents expect their company's overall innovation investment to increase from 2019 to 2020.

**Just 7% ↓**

expect a decrease. (See p.31)



Politics



Turf Wars



Lack of Alignment

**THE OBSTACLES** above remained the most commonly-encountered blockers in this year's survey, repeating from our 2018 edition. For the "role model" companies in this year's survey, though, the top obstacle was different: it was **accessing the talent and skillsets they need**. (See p.35)

## METRICS



The most commonly-used financial metric for innovation programs is **revenue generated**, with **58%** of respondents using that to gauge the impact they're having. (One quarter of respondents say they do not track financial impact.) (See p.52)

## INCENTIVES

About **half of our respondents** offer some kind of **recognition or award for participation** in innovation activities. But more than one-third don't offer incentives of any kind. (See p.49)



## SCALING CHALLENGES

What happens when it's time to scale a new innovation, making it widely available to customers or employees?

**61%**

of respondents say the challenge they most frequently encounter is **competing priorities**.

**59%**

a close second, say it's **company culture or entrenched attitudes**. (See p.41)

# 1. CREATING THE RIGHT STRATEGY

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- 14 CONNECTIVITY TO OTHER GROUPS
- 16 KPMG INSIGHT: BLURRING LINES BETWEEN INNOVATION, STRATEGY, AND TRANSFORMATION
- 18 CAPITAL ONE: BRINGING IN THE CUSTOMER PERSPECTIVE

## NEW QUESTION 2020

# Confidence Check

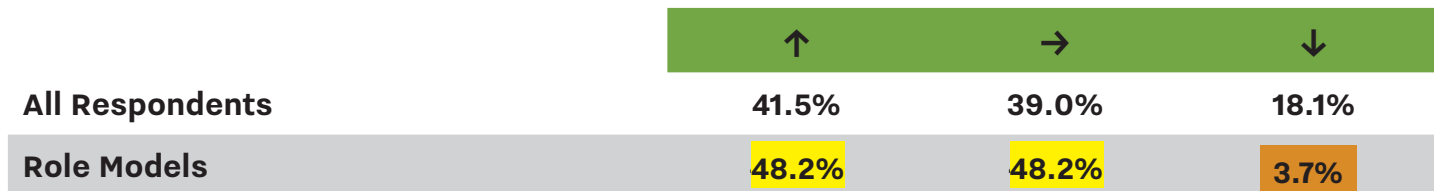
→ We introduced this new question about sentiment to understand, over time, how our respondents' confidence levels are changing, and to see whether certain industries are feeling more or less optimistic about their ability to remain competitive. The role model set, below, is feeling more confident by two full points. And it is far less likely that their confidence is dropping year-over-year (4 percent versus 19 percent in the complete respondent set). That may be because their programs have survived the risky toddler and adolescent years, and have matured into something that is viewed as essential to the organization's growth and continued relevance. They're beyond searching for ways to prove their value, or strategizing to get the appropriate resources — and are just doing the work.

### Confidence in innovation strategy and investment



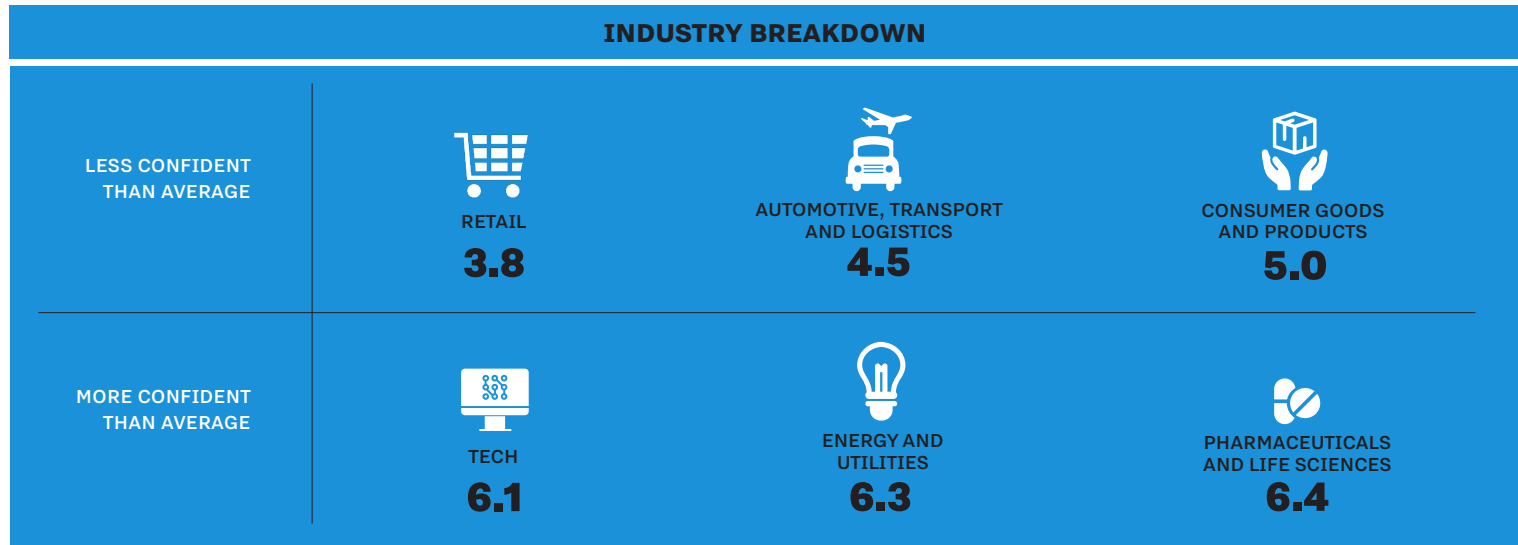
Note: Zero indicates "not confident at all." Ten indicates "completely confident."

### How confidence has changed relative to one year ago



Note: Data highlighted in yellow indicates an increase of 5 percent or more. Data highlighted in orange indicates a decrease of 5 percent or more.

**[Role models] are beyond searching for ways to prove their value, or strategizing to get the appropriate resources – and are just doing the work.**

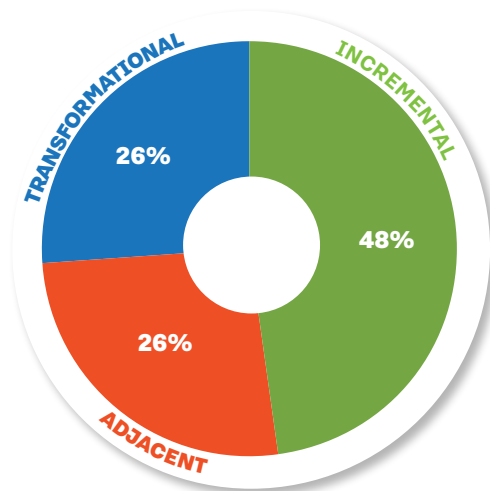


# Innovation Focus

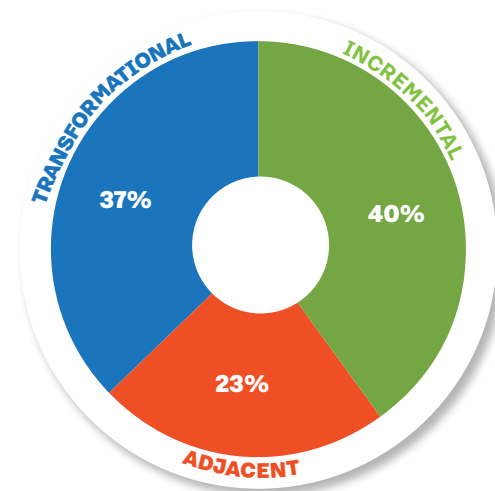
➔ As part of the survey, we wanted to understand how businesses allocate time and resources to different kinds of innovation activity. To do that, we laid out three types of innovation that have become normative across industries, but are worth defining more clearly:

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.
2. **Adjacent** — These innovations, often called “Horizon Two” (H2) innovations, typically involve expansion to an “adjacent” business or customer segment. These innovations usually leverage the company’s expertise or capabilities in new ways.
3. **Transformational** — Sometimes called “Breakthrough,” “Horizon 3” (H3), or disruptive innovation, transformational innovation involves the creation of entirely new businesses to serve new markets and new customers. The most high-risk style of innovation, transformational innovation often requires new capabilities and distribution. The upside? Growth via access to entirely new markets or customer segments.

Innovation focus (All respondents)



Innovation focus (Role models)



The break-down between incremental, adjacent, and transformational work is similar to what we saw in 2018: about half of our respondents' energy is focused on incremental activity, with the remaining quarters split equally between the medium-term and longer-term bets required to do adjacent and transformational innovation successfully. (In 2018, the break-down was 49 percent incremental, 28 percent adjacent, and 23 percent transformational.)

The role models dataset reports spending less time and energy on incremental innovation (8 percent less) and adjacent innovation (3 percent less), and devoting it instead to transformational work. That may be a result of creating strong role clarity and mission for newer innovation teams working alongside more established design, engineering, or product development groups located in the lines of business; or having been given the permission, over time, to develop a portfolio more tilted towards longer-term “big swings”; or a bit of both.

It's worth noting that only four of our 215 respondents said that they were 100 percent focused on transformational innovation; they operate in the foods, aerospace, higher education, and insurance industries.

**“What we will set up is what we call the **killer experiment.**”**

— William Hait, Global Head of External Innovation at J&J

A bigger group, though, said that they do little or no transformational work — instead focusing only on incremental and adjacent innovation. The right mix of activity will be different for every company, based on its business context and what the culture is willing to embrace.

## INDUSTRY BREAKDOWN

% OF TIME/RESOURCES  
FOCUSED ON  
TRANSFORMATIONAL  
INNOVATION



FINANCIAL SERVICES

**20%**



CONSUMER GOODS  
AND PRODUCTS

**23%**



TECH

**29%**



PHARMACEUTICALS  
AND LIFE SCIENCES

**39%**

### Johnson & Johnson | De-risking Your Way to Success

**William Hait is the Global Head of External Innovation at Johnson & Johnson, where his role focuses on building an R&D pipeline that brings in new science and technology from outside partners – including startups and academic institutions. J&J, with \$82 billion in annual revenue, operates a network of four innovation centers around the world.**

#### **PLUGGING IN TO THE INNOVATION GRID**

When we look out over the world, we see it as an innovation grid. And within that grid, there are what you might think of as grid power stations, where much energy or much innovation is generated, like Boston, London, San Francisco, Shanghai. And what we do to draw down and invest in innovators and their innovation is place groups of people in those areas...

The innovation centers are populated by R&D experts from the core businesses within J&J, from the consumer business, the medical device business, and the pharmaceutical business... And they are tasked with sourcing new innovation from the ecosystem that is consistent with the sector strategies.

#### **SETTING UP THE 'KILLER EXPERIMENT'**

The most important thing for us is that we are identifying opportunities, consistent with our strategic focus that are likely to become a product. So how does one measure that? What we will set up is what we call the killer experiment. If this next experiment wasn't positive, that would stop the process. That's a metric that we look at very, very closely. So as things move along and get further and further de-risked, their probability of success improves. And then we begin to invest more money and give the opportunity more time.

So it's that metric, the ability to get through a killer experiment, and [to] define that killer experiment, that we look at very carefully.

And as these things de-risk, we're able to adjust the PTRS (probability of technical and regulatory success). And that allows us to just adjust the net present value of the opportunity.

#### **GOING DEEP IN A FEW AREAS**

I think one of the things that we did which was extremely valuable, in [our] Janssen [pharmaceutical division], is we decided we would build very deep expertise in just a few areas, and not spread ourselves too thin. And then we supplement [our internal expertise] by engaging experts outside of the company. We knew a lot about a few very important diseases. And with that knowledge, we were able to focus our budget against those fewer things, rather than spreading the budget too thin. We found that it worked very, very well. We became very rapidly the No. 1 pharmaceutical company in the US. You have to stay focused. Make sure your budget is aligned with your priorities, and hire the best talent you can possibly get. And then we leave people to do their thing. That should be a very important part of the formula for success.

For any company, you have to be open to ideas wherever they originate. ... So we decided to really open ourselves up to the world, and put ourselves in the pole position to meet people who have great ideas. And then whenever we can, [we] work together to see if we can turn those great ideas into something valuable for patients. ♦



**WILLIAM HAIT**

**REPORT EXCERPT: To access the full report, become an IL member at [innovationleader.com/join](https://innovationleader.com/join)**

## **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 with 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. If you quote from this excerpt or reference it, kindly credit Innovation Leader and KPMG LLP. For an index of our past research reports, please visit [innovationleader.com/research](https://innovationleader.com/research). If you received this excerpt as a pass-along copy, you can learn more about Innovation Leader membership at [innovationleader.com/join](https://innovationleader.com/join). Follow us @innolead.

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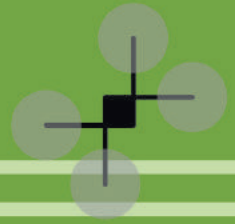
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If you work in the realms of innovation, R&D, or strategy within a large organization, you already know that making change happen and delivering tangible business results is incredibly difficult. Resources are often constrained. And at most organizations, there's pressure to do more — faster — in order to keep pace with changing market and customer dynamics.

*Benchmarking Innovation Impact* collects data, insights, and advice from more than 225 of your peers to help you overcome those challenges. Inside, you'll see how other companies provide funding for innovation initiatives... how they staff them... what metrics they rely on to track progress... and what strategies and tactics they see delivering the most value.

Innovation Leader and KPMG have once again collaborated to create this all-new guide for corporate innovators, based on survey data and interviews with a dozen leaders at companies like Intel, Google, Ford, Kellogg's, and Capital One.

Whether you're designing a new innovation initiative, or upgrading one that already exists, *Benchmarking Innovation Impact* is the definitive resource.

