INNOVATION LEADER
ISSUE Nº 4 — WINTER 2017

Home Depot Looks to the Future

PLUS:

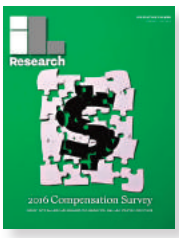
INSIDE TARGET'S COLAB | PFIZER ON DESIGN THINKING

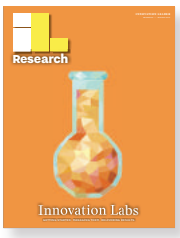
CAN INNOVATORS AND OPERATORS GET ALONG?

Home Depot's Brandon Kearns, immersed in a virtual remodel.

REV UP YOUR INNOVATION METABOLISM.

INNOVATION LEADER'S IN-DEPTH RESEARCH REPORTS, PRODUCED QUARTERLY, **DIVE INTO WHAT THE WORLD'S BEST COMPANIES ARE ACTUALLY DOING — AND HOW THEY ARE MEASURING IMPACT.**





For more, visit **INNOVATIONLEADER.COM/RESEARCH**

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ON THE COVER:
Brandon Kearns of Home Depot takes the Google Daydream VR Viewer ($80) for a spin. Photograph by Tim Redman

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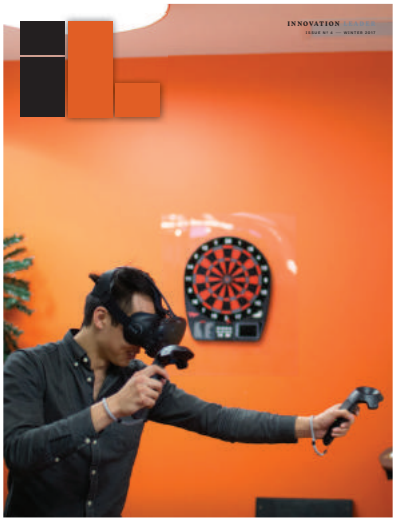
4 GUIDANCE

Our creative director, Patrick Mitchell, creates a lot of rough prototypes for the cover of our magazine, and this issue yielded an array of appealing options, including two images of people immersed in virtual reality, both posed in front of bright orange backgrounds. The one below was shot in the game room at Cardinal Health's Fuse lab; the one on the front, a consensus favorite, at Home Depot.

Mrs. Potato Head was also a strong contender. Who hasn't felt, at some point, that the work of doing innovation in a large organization can have a mix-and-match vibe to it—and that the challenge is to keep smiling through it all?



Scott Kirsner, Nora Neustadt, and Donna Amrhein of Innovation Leader.

Have you figured out the perfect way to collaborate with various business units at your company?

Our feature story in this issue explores different ways that R&D and innovation teams interact with business units—what works, and what doesn't. That subject will also be the focus of our Q1 research report, out in early February.

In this issue of the magazine, you can also find a summary of our 2016 research report on how large companies are developing their strategies for connected products and services (a/k/a the Internet of Things), produced in collaboration with our partners at Altitude, the design and innovation firm. Innovation Leader members can download the complete 21-page PDF from our site, as well as the results of our recent survey on what R&D, strategy, and innovation execs earn, and how their bonuses are structured.

Stories and photo essays in the following pages take you inside several new innovation labs, including Home Depot's Technology Center in Atlanta, Target's Food + Future coLAB in Cambridge, Mass., Procter & Gamble's Clay Street Studio in Cincinnati, Ohio, and Cardinal Health's Fuse facility not far away in Dublin, Ohio.

We love to cover people and initiatives that are generating real change inside big organizations. If you have ideas for us, drop me a note at the address below

Scott Kirsner, Editor & Cofounder
editor@innovationleader.com

WINTER 2017 | ISSUE #4

Scott Cohen
PUBLISHER

Frank Hertz
CFO & COO

Scott Kirsner
EDITOR

Donna Amrhein
MARKETING DIRECTOR

Kelsey Alpaio
EDITORIAL ASSISTANT & RESEARCHER

Patrick Mitchell
CREATIVE DIRECTOR
MODUSOP.NET

CONTRIBUTING WRITERS
Ann Brocklehurst
Stephen Ellison
Sarah Jefferson
Amy Lucas
Steven Melendez
Daniel Seewald
Jerry Spann
Patricia Riedman Yeager

CONTRIBUTING ARTISTS
Breanna Baker
Amy Farr Borgman
Paul Elledge
Moni Garcia
Tim Redman
Kara Swenson

First

1

Winter
2017

Is breaking the rules important to being an innovator?

Steve Wozniak, Co-Founder, Apple Computer:

I believe that a little bit of misbehavior—trying to go beyond the rules and boundaries of the strict maze that we live within—is really critical to creative thinking. The most creative thinkers that I meet, almost all of them have played pranks, fooled people, tried to get further into a computer than you should be able to. I've always tried to figure out how to design things differently than anyone was taught. I didn't follow anything that was in books. I wrote my own book by coming up with my own ideas.

The Apple II computer was going to change the world. But who would buy a computer for their home if all it could do was inventory and sales figures? Who would want it at home? You had to play games. Arcade games had been started by Atari. You could go to a bowling alley and play arcade games like Pong. But Atari games were all black-and-white—no color... The Apple II computer was the first time that arcade games that were color and programmable. A 9-year old kid could write a little program that made things move on the screen.

You have to think way out of the box. I want to work on the absolute optimal solution with the parts that are available this year. I want to come up with the best solution for my need.

Innovation Leader

Steve Wozniak on stage with Innovation Leader editor Scott Kirsner, at the Innovation by Design Summit, held in St. Louis.

Anna Stepanova of Thomson Reuters leads a session on creating a fund to support innovators.

Alex Goryachev of Cisco kicks off the event.

Teach In Boston & Cambridge

October 2016

Co-hosted with the Harvard Innovation Lab, our Teach-In brought together 150 executives for in-depth workshops on funding innovation, design thinking, running hackathons, and remaking R&D organizations, among other topics. We also dropped in on Google Cambridge, Fidelity Labs, Shell TechWorks, and Target's Food + Future coLAB.

Moisés Noreña, Allstate's Director of Strategic Innovation.

Kyle Nel, Executive Director of Lowe's Innovation Labs.

Ideapaint's ThinkTank Mobile ideation studio.

Andrea Kates of LaunchPad Central.


Raoudha Jammoussi of Airbus.


Innovation Leader co-founders Frank Hertz and Scott Cohen.


Neel Mehta, Manager of IT Research & Innovation, Ford.


Pamela Johnson of Medtronic.

‘You Failed. Congratulations.’

Hans Peter Brøndmo of X, Google’s Advanced Research Division:

We focus on learning. The key is, what do you learn from your failures?

How many people have at some point in their life failed and learned something? If you can bring that mentality to business, then we can allow a culture where, look, if we’re going to take risks, we’re going to potentially fail. But then what can we learn from that, and how can we learn fast?

[We should also allow people to acknowledge that something is failing and move on to something different.] “If I’m really brutally honest about the fact that I’m failing at what I’m doing right now, or part of what I’m doing is failing, there’s an opportunity cost associated with continuing to push and push and push,” and try to prove to others that you’re actually not failing and put up a veneer.

What if instead I could say to you, “You know what? You failed. Congratulations. I’ll give you a bonus, and now you actually get to pick your next project. You get to work on something else that unlocks your potential, and I’ll give you the resources to work on that.”

If you create that kind of culture, then people will be more honest and they’ll be more open to admitting that this isn’t working out. “I get to work on something else.” As a company, as an organization, you get to reallocate those resources towards something that might ultimately generate more of a positive outcome.

FROM THE HARVEST SUMMIT, NOVEMBER 2016

Innovation Leader

Winter
2017

Think Big, Start Small, Move Fast, and Iterate Rapidly

FOUR KEYS TO SUCCESSFUL DIGITAL PRODUCT INNOVATION

BY **BOB KLEIN**, CHIEF EXECUTIVE OFFICER, AND **VISHI GONDI**,
CHIEF TECHNOLOGY OFFICER, DIGITAL SCIENTISTS

DIGITAL TECHNOLOGIES ARE DISRUPTING WHOLE industries and radically changing the way we do business. Companies that harness these digital technologies to deliver innovative products are better positioned to achieve a competitive advantage in the market.

Yet, the road to successful product delivery can be paved with near-misses, dead-ends and failures. Only 30 percent of executives at the world's 2,000 largest public companies are "very satisfied" with their performance in converting ideas into market-ready products. And nearly the same number (28 percent) cite lateness to market as the key reason for product innovation failure, according to Accenture.

Why does product innovation often fail or fall short? The causes can often be traced back to one of three common factors: lack of time, lack of budget, or lack of resources. In other cases, projects may lack stakeholder agreement, suffer from scope creep, or get sidetracked as in-house IT staff struggle to make progress in the face of competing operational demands. All of these can play a role in the success or failure of a digital product initiative. However, it is often the process—the way we go about digital product innovation and development—that is to blame. Successful digital product innovation requires radically different mindsets and methods than traditional software development.

In our experience, the four major keys to successful digital product innovation are: Think Big, Start Small, Move Fast, and Iterate Rapidly. Companies that adopt these proven approaches are rewarded with faster time-to-market, enhanced scalability, lower development costs, higher user satisfaction, and better performance from digital products.

Think Big

Established companies may have made significant investments in creating innovation centers that generate interesting ideas and products. Startups often take a "just do it" approach and start down the road of product development, failing to put the proper process and digital product development methodologies in place.

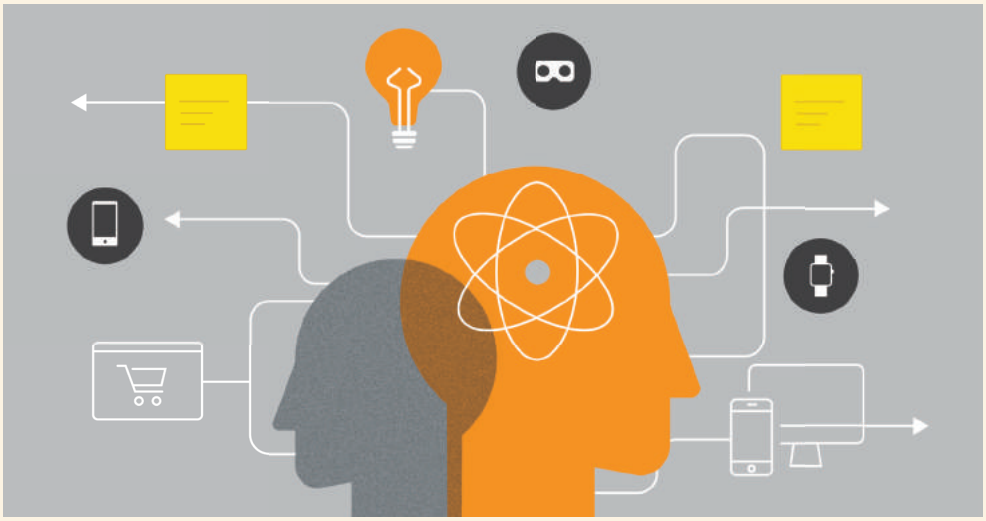
In many cases, businesses may spend years developing and perfecting these products—without spending the necessary time on the front end showing the product to prospective users to determine whether the product fills a real customer need. By the time they uncover critical usability issues or product/market fit problems, it may be too late.

As Eric Ries' "Lean Startup" methodology directs us, "The question is not, 'Can this product be built?' Instead, the question is, 'Should this product be built?' and 'Can we build a sustainable business around this set of products and services?'" To think big, we must start by having a clear picture of what overall success looks like. What are the business model and the key performance indicators for the new product (such as net revenue, usage, or customer loyalty metrics)?

However, that is not enough. Before we go very far with the product idea, we must identify and validate user needs. We must learn what the customer problem is. When enterprises spend sufficient time at the outset to conduct market research and analyze existing data such as customer satisfaction statistics, it can help to ensure they are armed with the information and insights they need before embarking on a new digital product development initiative.

Start Small: Keep it Simple and Focused

Starting small begins with building the right core team focused on a smaller project. Studies show that teams tackling smaller projects can greatly increase the chances of success. Sixty-two percent of smaller projects



are deemed successful, compared to 9 percent of medium-sized projects or 6 percent of large projects, according to The Standish Group.

At the same time, a smaller, nimble team, made up of in-house subject matter experts and external digital innovation consultants and partners, can often make more progress in a shorter period of time—with fewer communication snafus. By tasking a smaller team to work on a focused business problem first, you can rapidly create a prototype or "minimum viable product" in two to three months or less. The advantage of deploying an MVP as a first step lies in the build-measure-learn-feedback loop that helps you develop better products faster and more effectively—with better results.

Move Fast: Don't Get Bogged Down

The whole focus of a startup—or an innovation center within an established firm—is to transform ideas into products. Then, it's critical to measure customer satisfaction and determine whether to "pivot or persevere" and accelerating the feedback loop through effective processes.

Markets move swiftly. If you wait a year, a competitor or startup could beat you to market. So it's important that development teams avoid getting bogged down by existing processes, technology stack, and tools.

In the beginning, focus instead on the design of the product and its market fit rather than on the technology stack. Modern technology tools and frameworks with an agile development process should be adopted and deployed while continuing to iterate the product. For example, depending on the business need, we might deploy an agile technology stack such as the following: Ionic Framework for hybrid mobile application development, Elasticsearch for super-fast search, AngularJS for the progressive application, Firebase for a real-time database, and Stripe for payment applications.

Design sprints, a concept developed by IDEO and Google Ventures, can be extremely useful, five-day processes for answering critical business questions for a product through design, prototyping, and testing ideas with customers. The sprint enables you to see a finished "product" and gather customer reactions before making costly research and development investments.

Assess Product-Market Fit

While many people may think the project is complete when the MVP launches, we believe that this is where some of the best innovation begins. When it comes to product innovation, great is never good enough; there's always room for improvement. The iterative process is focused on measuring and assessing product market fit and enhancement. According to Marc Andreessen[1], market fit is the only thing that should matter to a startup. The iterative process is where we road-test the product and assess its market fit according to activation, acquisition, retention, referral, and revenue. At this stage, users become truly part of the team. Their engagement and satisfaction with the MVP can be measured, and this feedback can help drive data-driven decisions to power a better user experience and create a better product that more closely matches the market's needs. By definition, innovation requires new insights and new ways of seeing. As Einstein put it, "The significant problems we face cannot be solved at the same level of thinking we were at when we created them."

[1] "The only thing that matters," blog post by Marc Andreessen, June 25, 2007.

Getting Connected

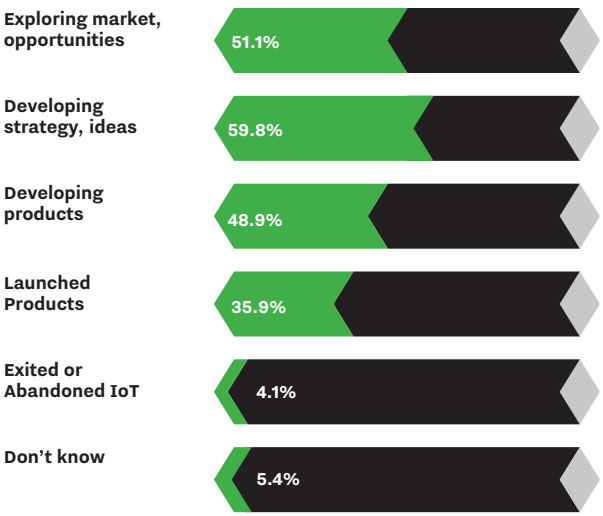
CHALLENGES AND SUCCESS FACTORS FOR IOT PRODUCTS

BY SCOTT KIRSNER

Why do so many companies seem to be sitting on the sidelines when it comes to creating connected products and designing services that tie into them?

The cost of adding wireless connectivity to a device is plummeting toward $1. Projections about how many Internet of Things (IoT) objects will be in our lives, at work or at home, range from 12 billion by 2020 (Cisco) to 50 billion (Ericsson and Intel).

What Stage is Your Company at with Connected Products?



We've seen early hit products, from the Fitbit activity monitor, the Nest learning thermostat, the Sonos digital music system, and Amazon's Echo speech-driven assistant, released in late 2014 and now estimated to have sold more than five million units.

Industrial deployment of connected products and services is ahead of consumer use, by all assessments. Last year, General Electric CTO Harel Kodesh predicted that within the next decade, we'll see "self-healing, self-optimizing" factories, which will have humans monitoring them, instead of manning the machinery.

In our survey of companies active in, interested in, or developing connected products, conducted in Q3 2016 in collaboration with the design and innovation firm Altitude, we heard from 92 executives. While the majority told us they were still exploring opportunities and hammering out a strategy, 36 percent said they'd already launched a product. Of the companies that have some experience in the market already, 67 percent described the product as either meeting or exceeding their expectations.

But we also heard about challenges that were keeping more than half of our respondents on the bench, rather than on the field, such as:

- Articulating the ROI or business case
- Coordinating partners or other players in an ecosystem
- Support or resources from senior leadership
- The need for cultural changes, or the development of new capabilities
- Concerns about data security, usage, and privacy
- Understanding the consumer and creating a simple user experience.

The complete 21-page report is available to Innovation Leader members in the "Reports" area of our site. Below are some highlights.

The top two bars of the chart on the opposite page represent a category you might call "serious investors." Fully 75 percent of the software and technology respondents fell into that category; 70 percent of services companies did; and 65 percent of product/manufacturing companies did.

Success Factors

We asked survey respondents to rank the factors they feel will most contribute to the success of a connected product or service in 2020.

1. Job to be done that product or service addresses
2. User experience/design
3. Privacy/security
4. Technology platform/ecosystem that it is tied to
5. Pricing model for the connected product or service
6. Marketing/brand name

Top challenges

Respondents shared with us the top challenges their organizations face; these were the four most commonly mentioned.

1. Making the business case

"Selling right now must occur on vision and potential rather than quantifiable outcomes."

"The financial benefits are uncertain and unproved, so getting enterprise support has been difficult."

It is a challenge to justify "the investment needed to launch products for a fragmented market, with the main return being consumer data and not revenue."

2. Developing the necessary capabilities

"Doing stuff we've never done before with people that don't have quite the right experience/expertise."

Acquiring in-house software development capabilities.

Creating a consistent user experience across several product categories.

"Making it work in the first place, which is challenging enough."

3. Getting sufficient resources or funding for projects

"Finding bandwidth in the organization to research and develop the concepts. Other priorities overtake this all the time."

"We have to fix our current systems and make an operational investment to be at parity before we can think about IoT and be a leader."

"[We need] buy-in from senior leadership to invest $ and resources."

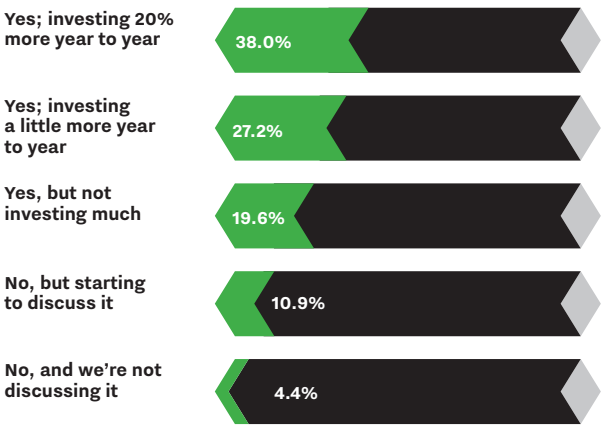
4. Identifying customers and persuading them to buy

"Technology is still expensive, so the cost-value equation doesn't always work for customers that are not early adopters."

"Finding a customer with the problem that IoT solves... (we're doing it backwards)."

TO ACCESS THE COMPLETE REPORT, "CONNECTED PRODUCTS STRATEGY SURVEY: CHALLENGES AND SUCCESS FACTORS FOR LARGE COMPANIES LAUNCHING IOT PRODUCTS AND SERVICES," VISIT INNOVATIONLEADER.COM AND CLICK "REPORTS."

Are IoT/Connected Products a Key Focus for Your Organization?



Executives from Deloitte, Cuna Mutual, Philip Morris and Imaginatik at the New York roundtable.

Innovation Roundtable Series

Fall 2016

Starting in September, we brought together executives for a series of off-the-record roundtables on topics like running hackathons, creating internal incubators, and moving along the "innovation maturity curve." Co-hosted with our friends at Imaginatik, roundtables took place in Boston, New York, San Francisco, Dallas, Atlanta, Seattle, and Chicago. More are on the way in 2017...

Renee Dye, Chief Strategy & Innovation Officer at Navigant Consulting.

The Atlanta roundtable was hosted at WeWork, Buckhead.

Southern Co. Director Of Innovation Julie Pigott.

TO LEARN ABOUT FUTURE GATHERINGS, VISIT INNOVATION LEADER.COM/EVENTS.

Ravi Godbole, Global Lead: Research, Advanced Engineering and Innovation Initiatives, Agco Corp.

Philip Morris innovation leader Victor Lopez.

The Imaginatik Team, from left: Ralph Welborn, Lisa Falcone, Daniel Friedman, and Chris Townsend.

Jo-Anne Bloch, Team Leader of the Global Innovation Hub at Mercer.

Emile Homsi of SABIC at the Boston roundtable.

Tanya Dumrongmanee of Dell EMC

When Innovation Centers Don't Work

BY **CHRIS TOWNSEND**, CHIEF MARKETING OFFICER, IMAGINATIK

CREATING AN INNOVATION CENTER, INNOVATION Lab, or "incubator" space is arguably the trendiest initiative in corporate innovation. In the last few years, companies ranging from financial services (Visa), energy (Shell), and consumer retail (Home Depot) have taken the plunge.

Most of these centers have been set up for very good, sensible business reasons, such as:

- Innovation Lab to develop digital-business growth hacks
- Network or Centers of Excellence to explore and validate emerging technologies
- Business Incubators to experiment with new markets and products
- Innovation Scouts placed in entrepreneurial hot-spots.

Collectively, we'll refer to these efforts as Innovation Centers. Although there are differences, they all enjoy some operational separation from the core business, combined with decision-making authority over their program. Further, they all have "innovation"-oriented missions that employ unique skills, methods, and tools that may be foreign to the rest of the company.

Most of the Innovation Centers we've seen have solid business logic behind their inception, often carefully designed at a senior executive level. The better among them are adding real value to their organizations, and they keep getting better as they mature.

And yet, many of them will fail. In fact, some already have.

This is avoidable—but only by following three critical elements for success and longevity.

Create the On-Ramp

Many Innovation Centers are christened by senior leadership with a generalized mandate, and wide latitude to clarify their own charters over time. In most cases, this consigns the effort to defeat.

Here's one example: a large professional services firm spent the past few years setting up a network of innovation labs in different cities. Each lab was focused on the exploration of emerging technologies, but was allowed autonomy in choosing its balance of work.

Seems reasonable. Digital technologies are changing the modern workforce, and thus the nature of professional services. Senior leadership recognized the need to explore the use of new technologies before they become mainstream. They understood the payback might take years.

Yet, despite doing good work, these labs have been deemed a failure, and may soon be discontinued.

Silicon Valley investor Peter Thiel has famously said that a startup must dominate a small market first, before expanding to a larger playing field. An analogous lesson applies to innovation groups within big companies.

Rather than a broad mandate, start by creating one Innovation Center, with a narrowly-defined purpose. For the professional services firm, this might have been an Innovation Center specifically tasked with building next-gen analytics technologies for workforce automation. Their key performance indicators would hinge on developing new back-office business process outsourcing service lines delivered partly or entirely by machines, rather than humans.

If starting with only one Innovation Center feels too slow, then multiply the above model by chartering a parallel set of independent Centers, each with their own mission. Each must then prove its own worth individually, on its own merits. Collectively, the various centers are also competing to become the foundation of that broader, generalized innovation program—at some point in the future.

Win the Hearts and Minds

The more focused an Innovation Center's

initial mission, the more likely it is to create friction within the organization. Thus it must work proactively to build bridges and create reasons to collaborate.

Consider a home appliance manufacturer with a specific IoT-focused innovation strategy. They launched an Innovation Center to create and commercialize new sensor-enabled products.

This was a necessary move. It was not reasonable for the mainline products function to follow the strategy. There were too many competing operational goals, some short- and some long-term. Arbitrating among these priorities, the product group's tendency was always to mortgage long-term innovation moves in favor of short-term business results.

Yet, creating the IoT Innovation Center generated obvious tension with the products group. By the end of year one, the innovation group was running into constant roadblocks. The marketing and product groups quietly refused to grant access to market-test and product-launch levers. The new product concepts languished.

Rarely, if ever, does an Innovation Center operate in a vacuum. Process hooks into key functions and organizational stakeholders are critical to success. Although the Innovation Center needs autonomy to fulfill their mission, they also depend on sharing a larger mission with internal partners.

Creating the conditions for teamwork and follow-through happens both in the C-Suite and on the ground. Executives must do their part to create objectives that reinforce the strategic mission, for both the Innovation Center and its organizational partners. They must also outline corresponding incentives so each group is motivated to play its role.

High-level direction must then be combined with the right collaboration habits on the ground. The burden is on the Innovation Center to create an environment of active collaboration, in which both project ideas and key work streams are shared bi-directionally. This back-and-forth yields a tangible, everyday rhythm of working together toward the larger shared mission.

Transition to an Occupying Force

If it clears the first two hurdles, an Innovation Center must tackle the biggest obstacle of all: its own success. The more significant the initial success, the higher the subsequent hurdle.

A senior leader at a major financial services company quietly incubated an innovation team effort to build a new product line from scratch. That effort proved wildly successful, resulting in a profitable new multi-billion-dollar business. The ensuing excitement spread throughout the company. Soon, a wide variety of people came knocking, each with their own innovation strategy to pursue.

Being the subject of workplace adoration is exhilarating. It can also lead to intense internal pressure to take on a much broader mandate. But the magic behind the first innovation may not translate directly to other efforts. Sending every innovation opportunity through the center is a recipe for disaster—project bloat, mission creep, loss of focus.

"The more focused an Innovation Center's initial mission, the more likely it is to create friction within the organization … it must work proactively to build bridges and create reasons to collaborate."

As the Innovation Center succeeds, it must maintain discipline in scoping its mission—and the expanding set of promises it makes to the organization. The early wins will have solidified certain skill sets within the Innovation Center—such as insight detection, breakthrough ideation, and rapid prototyping.

Over time, the Innovation Center must also build a sensible plan to augment its expertise, process levers, tools, and skills. Not all innovations can be pursued in the same way. And once the innovation group is perceived as owning the corporate innovation portfolio, its willingness to take on new projects must grow outward—or it will risk losing its charter.

The initial success of an Innovation Center depends on judiciously laying siege to the established internal order. If the siege works, there is now a castle to defend and maintain. Guerillas play a vastly different game than incumbents—in mentality, objectives, and operational footprint. Make sure you're prepared for the transition.

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Peer Perspectives

2

Winter
2017

What We Learned Building a Network of Innovation Champions

BY SARAH JEFFERSON, ASHOKA, **AND JERRY SPANN**, VODAFONE GLOBAL ENTERPRISE

In the face of rapid, complex global change and shifting customer purchasing power and behaviors, large companies feel pressure to continuously adapt and innovate new products and services to remain competitive and relevant. However, in the face of this urgency, many companies rely on traditional innovation structures to ask themselves: "What products and services will differentiate ourselves from competitors and meet our customers' needs?"

By jumping straight to the "what," companies are missing a critical aspect of innovation—they are skipping over the "how" of innovation. Continuous and responsive innovations require a company to envision more fluid and decentralized team structures and a company culture that provides an enabling environment for creativity, intrapreneurship, and risk-taking. Essentially, companies need to be increasingly innovative in how they "do innovation."

Vodafone is one example of a large, multinational telecommunications company that has turned a centralized and traditional innovation structure on its head through the introduction in 2011 of its innovation program. Instead of a rigid, top-down model, Vodafone developed a distributed and fluid process of innovation and experimentation led by what is now a network of 60 employees around the world. The cornerstone of this program are the "Innovation Champions." These champions are Vodafone employees representing over 24 countries and a dozen different departments, from government affairs to sales and marketing. Their sole role—beyond their full-time positions that Vodafone hired them for—is to lead conversations face-to-face with Vodafone's customers and to innovate with them.

One important ripple effect is organizational culture change—champions of innovation begin to infuse their direct teams and country offices with new behavior and ways of thinking and organizing. This type of bottom-up change becomes a fantastic complement to efforts led by senior leadership, which are often met with doubt and resistance.

Vodafone and Ashoka, a global network

of 3,500 social entrepreneurs demonstrating new ways of organizing across silos for greater impact, conducted a series of interviews with Vodafone's innovation champions to identify the key design principles involved in a distributed and fluid process of innovation. This process also identified the major benefits of such an approach, for both Vodafone the company, its customers, and its employees. The research also surfaced insight and knowledge for those corporate executives exasperated with the old way of doing innovation. You can find a lengthier version of this piece on InnovationLeader.com, but here are some of the highlights.

EVERYTHING IS CENTERED AROUND THE CUSTOMER

The innovation program in Vodafone's Global Enterprise business (VGE) is based on the idea that by listening to customers, Vodafone can help them to transform their businesses.

Vodafone starts the journey with design-thinking inspired innovation workshops. These are day-long conversations with senior executives from Vodafone Enterprise that explore how they envision their business progressing in the next three years, and how mobile technology can help to realize that vision. Vodafone has embraced rapid prototyping, lean startup, and agile methodologies to enable fast responses to new opportunities.

It's a shift that involves moving from traditional solutions-selling to being comfortable saying to a customer, "Tell me your problems—what keeps you awake at night, what are your fears?" It's about changing the relationship with the customer from one of service provider/client to one of partners, and from selling to listening.

DECENTRALIZED, BUT INTEGRATED

As in most organizations, there were already positive troublemakers at Vodafone, and the idea was to use these change agents – from across diverse country offices and departments – to deliver the innovation program globally. Vodafone enables the success of these "Innovation Champions," as they are called, by providing a globally-consistent methodology for speaking to customers, endorsed by senior leaders and supported by training, community, recognition and rewards for the group's innovation work. While the approach is global, Vodafone recognizes the need to give these employees the flexibility and permission they need to operate. That creates a decentralized, but integrated structure.

An interview with an innovation champion from Government Affairs spoke about the siloed nature of the company's departments, where teams are naturally focused on improving their direct KPIs [key performance indicators] through their respective product lines. Several champions noted how the innovation program fosters better collaboration and integration across products, teams, functions, and KPIs.

"There were already positive troublemakers at Vodafone, and the idea was to use these change agents...to deliver the innovation program globally."

The principle of "decentralized but integrated" is aided by the fact that innovation champions have full-time roles at Vodafone that may have nothing—or very little—to do with innovation or interacting directly with customers (while for others, the integration into their full-time role may be more natural.) This helps to embed innovation across the entire organization. Teams that normally have no relationship with innovation processes begin to associate innovation with new revenue streams.

ONLY THE MOST PASSIONATE EMPLOYEES

Employees who raise their hands to be part of the innovation program generally have an internal spark to do things differently. They are the out-of-the-box thinkers. The role is largely in addition to an individual's daily job, so it has to tap into a real personal passion. But for those natural, positive troublemakers, the innovation program at Vodafone acts as an excellent outlet for developing and encouraging intrapreneurial talent.

Furthermore, allowing employees to self-select to become champions allows Vodafone to identify those employees who have a desire to innovate.

Interviews conducted with innovation champions surfaced several common charac-

teristics among these individuals:

- Comfort with ambiguity of process and outcome
- Agility
- Enjoyment of personal challenges
- Risk-takers
- Systems thinkers (one champion referred to the image of connecting Legos)
- Storytellers
- High level of self-definition (comfortable holding a vision and pushing it forward)
- Cognitive empathy and good listening skills
- Accountability/follow up
- Ability to get buy-in and navigate the system
- Willingness to embrace failure
- Confidence to present to senior executives

It is not uncommon for innovation champions to have intrapreneurial and diverse backgrounds, including one former chef who compared the two roles: "In a previous life I was a chef. I loved the adrenaline rush and high-paced environment, the ambiguity and agility, the not knowing what you'll get out. You need to be on your game and think quick, and you need to be able to command the room."

BENEFITS TO VODAFONE

Having demonstrable positive impact to the bottom line is table stakes for the innovation team's continued growth. But there are other ways the innovation champions program provides additional value to the organization:

Retention and development of top talent: Throughout our interviews, we heard time and time again from innovation champions that the best part of their jobs is the role they play contributing to innovation. It feeds employees' pride and satisfaction, especially for those employee change agents who might get frustrated if not given an opportunity to tap into their talents and passions. By providing a global "support community" as well as learning and development, Vodafone can increase their chances of success.

Vodafone also benefits from having individuals trained in 21st century leadership skills—facilitation, ideation, storytelling, executive engagement, active listening, lean startup, cognitive empathy, collaborative leadership, etc.

New business models: Vodafone's approach to co-innovation helps to drive the awareness and adoption of new business models, both for Vodafone and for its customers. For example, the shifting from traditional car insurance models to usage-based insurance, or empowering car manufacturers to participate in the sharing economy. They also include digital vouchers for refugees in eastern Africa, or digital solutions to empower farmers in partnership with Unilever.

Ecosystem development: Maintaining a global network of champions also enables the cultivation of a strong innovation ecosystem. Each region develops its own relationships with potential partners—be they startups, established corporations, NGOs, or governmental organizations. The global community allows champions to connect their colleagues and ideas with the appropriate customers and partners to accelerate successful prototype development and scale. Startups are approached with vetted business needs identified by the world's largest companies, which lets them quickly develop go-to-market solutions with Vodafone.

"Maintaining a global network of champions also enables the cultivation of a strong innovation ecosystem. Each region develops its own relationships."

BEST PRACTICES

Five years of leveling-up the champions program revealed some best practices for cultivating an intrapreneurial community.

1. **Know your DNA** The first and most important step in kicking off an innovation/intrapreneur program is to fully understand the DNA of the business; not just the corporate strategy, mission statement, or values, but how the organization really operates. And understanding the current pain points and possible threats can help to paint a picture of why change is inevitable, and how the response should be structured.

2. **Passion-driven** Intrapreneurs cannot be created; they need to be discovered and empowered. Those intrapreneurs exist within

all organizations, and it is their passion that makes them successful. By definition they will be pushing the organization in new directions and thus will encounter barriers; their passion will help them overcome obstacles and inspire customers and employees.

3. Senior-level sponsorship Senior-level sponsorship must be the first step in the process. Without executive support, the program will not be truly successful. The innovation team should be taking the whole organization on a journey, with constant iteration, impact measurement, and buy-in. The more the executives understand the methodologies and value of the program, the more the team will receive investment and support. This is particularly important for maintaining the space and permission for the intrapreneurs to participate.

4. Grow organically Employing the lean startup philosophy can help to ensure success. You want to build, measure, learn — in small, incremental stages. Growing too fast may increase the expectations from the organization to deliver beyond the current capabilities. Developing a healthy innovation culture takes time.

5. Use organizational structures The best way to support intrapreneurs is to tie into official organizational support structures as quickly as possible. Leveraging programs like global top performer recognition programs has the two-way value of increasing the visibility and incentives for the intrapreneurs, but also helps to validate that the program is delivering on core key values. Expanding those programs to include a few select spaces for the top performing intrapreneurs is an excellent way to increase the likelihood of recognition for your team while garnering executive support and recognition.

6. Data, data, data Finally, as much as corporations may philosophically believe they need an innovation program, without data to show impact, those programs will not last long. The data can be incremental; the mechanisms for growing impact should become more robust year after year. Creating the space to explore disruptive innovation, which may take time to develop, needs to be delicately balanced with the need to show immediate impact to the bottom line.

However, while focusing on more traditional (short-term bottom line) impact is key, if an innovation program is tracked exclusively on in-year financial impact, it becomes a sales team rather than a long-term growth engine. Vodafone sought to track other metrics that were also important to the business, but less direct—like numbers of new senior-level executive relationships established, customer satisfaction metrics, thought leadership impact, number of champions certified internally, and of course, number of projects successfully launched. The ability to collect "ripple effect" data is important to long-term viability of any innovation program. This "ripple effect" data paired with the shorter-term, bottom line impact, allows the innovation team to push the organization to explore new business models, including those that also incorporate social impact, with little risk to the continued sponsorship of the program.

IMPACT TO DATE

Vodafone quickly recognized the value of the innovation program. The demand for workshops grew from 30 workshops during the first year to 150 the second year. Vodafone now delivers an average of 100 workshops per year.

Impact metrics include the number of new executive customer relationships established, feedback from workshop participants, and the number of new opportunities identified per workshop (five is the average), as well as changes in external perception of Vodafone as a global innovation leader. And finally, Vodafone tracks the impact that the program has on new customer relationships and increased revenue.

IN CONCLUSION

The next big challenge for multinational corporations is to invest in the internal processes and teams, and to create the enabling environments that allow intrapreneurial spirit to flourish, and radical innovation to take place. This requires moving away from "command and control" management and embracing fluid, decentralized teams led by passionate and driven employees. Only then can multinationals compete with startups for new markets, and attract and retain top talent. ●

Where Design Thinking Breaks Down—and How to Avoid It

BY DANIEL SEEWALD
SENIOR DIRECTOR, WORLDWIDE INNOVATION
PFIZER

SOCRATES ONCE TOLD THE tale of an old sea captain who is confronted by the sailors on his ship, each believing that he had the skill and the right to steer the vessel. And although the sailors were well versed in the mechanics of sailing, they had never properly learned the art of navigation. Nevertheless, the inexperienced mariners took the helm of the ship and, after a matter of days, found themselves hopelessly adrift. These allegorical sailors teach us an important lesson about overestimating our own expertise. This ancient tale also applies to our world—even to the fields of design and innovation.

I'm a big believer in the benefits of design thinking, but many people get so excited about its potential that they want to take the wheel and set off for adventure before they're really ready. I want to share with you three measures that can help your organization avoid several little-known design thinking hazards.

Design thinking, which traces its roots back nearly 50 years, has exploded onto the corporate scene over the past decade and is in use in many Fortune 500 companies. The essence of the design thinking movement is deep understanding of, and empathy with, the customer's attitudes, behaviors, and unmet needs. By embedding this capability within an organization, businesses become more adept at creating solutions that solve problems and "delight" customers. But the design thinking approach demands that your design thinkers are well versed and trained in the art of questioning, listening, and learning from customers.

Design thinking starts with empathy. As a designer, you need to understand the people for whom you are designing, and build empathy for who they are and what is important to them. In order to build empathy, the traditional approach is to "observe" and "engage" by interviewing users. On the surface, this is a sensible and thoughtful way of arriving at understanding of a problem, spotting an actionable insight, and designing a human-centered solution. However, when organizations scale design thinking across many people, the essential skills and techniques such as

interviewing and observation get very short shrift. And this is where the practice of design thinking can break down.

In a typical design thinking workshop, participants are asked to go out into the world and conduct "interviews," either independently or in a team, with a small complement of "target customers." Preparation is often minimal. The interviewers are given perhaps a short crash course on interviewing techniques and then unleashed onto the world. The findings from these customer interviews will often become the foundation for their problem definition and ideation. If questions are poorly framed, overly leading, or the responses misinterpreted, the clues they gather will likely create a distorted portrait of the customer and their experiences. As the old computing adage goes: garbage in, garbage out.

So what can you do to ensure that your designers are using effective techniques to build an appropriate foundation for customer insight? Here are some recommendations:

Start by defining the problem: Searching for insight without clear problem definition is a bit like shooting in the dark; you might hit something, but you won't know if you hit the right target until its too late. Before you release your interviewers into the wild it is essential that you have thoughtfully explored and visually mapped your challenge. Designers must commit time in advance to understand the project sponsor's vision of success; the research scope; and the customer audience in order to conduct meaningful interviews.

Separate process from content: One of the basic tenets of great interviewing is to "always stay in the process." This represents the single greatest hurdle for upstart design thinkers, because they often feel so personally invested in the outcome. The inexperienced designer assumes you can wear both hats: interviewer and innovator. But in practice, these two are like oil and water. To overcome this barrier, every team should identify a member who is properly briefed and given the exclusive role of facilitating the inquiry process with the customer. That individual should have no stake in the outcome, so that he or she can maintain independence as well as compassionate and curious inquiry.

Know thyself: No matter how good of an interviewer you think you are, it can be challenging to be perfectly objective. These three key research biases often manifest when conducting empathy interviews with target customers. Being on the lookout for them will help you gather untainted insight.

1. The experimenter bias is the well-established tendency, throughout the behavioral sciences, for experimenters to be biased by their own expectations. People tend to find whatever they expected to find.

"Design thinking starts with empathy. You need to understand the people for whom you are designing."

2. The observer-expectancy effect is a form of reactivity in which a researcher's cognitive bias causes them to subconsciously influence the participants of an experiment.

3. The Hawthorne effect is a type of reactivity in which individuals modify or improve an aspect of their behavior in response to their awareness of being observed. The result is that the respondents form an interpretation of the experiment's purpose and unconsciously change their behavior accordingly.

To combat these inherent biases, we need to practice the art of self-awareness. By reminding ourselves of these biases, we can often pre-empt or catch ourselves falling into their traps. An additional fail-safe is preparing another team member to serve as a check and balance on the researcher.

While just about anyone can have a conversation, not everyone can effectively carry out an empathy interview and glean insight. The payoff, if done right, can be invaluable. But if the interviewers are not properly prepared to design, conduct, and analyze customer research, the findings can be misguided at its best and utterly misleading at its worst. Spotting important patterns in truth is art and science; but the deliberate practice and experience of the interviewer in design is absolutely essential.

To borrow from Socrates' analogy, if you put the ship's wheel in the hands of any willing sailor, you shouldn't be surprised if you end up on the rocks. ●

How R&D and Innovation Work Together at Northrup Grumman

INTERVIEW BY SCOTT COHEN

How do you build innovation muscle in a company already known for having serious R&D brawn?

That's the challenge at companies like Northrop Grumman, which have historically relied on research and development divisions to supply breakthroughs for customers—but which want to find ways to innovate in other parts of their business, and make the overall company culture more accepting of blue-sky thinking and experimentation.

Kevin Parsons has been at Northrop Grumman for 19 years, and he leads multiple change initiatives at the company, working closely with executive leadership to develop an environment and the capabilities to transform culture and drive breakthrough innovations. Northrop Grumman, with $23 billion in 2015 revenue, talks about its mission as "preserving freedom and advancing human discovery," and among its products are the Global Hawk high-altitude drone, the James Webb space telescope, military radar, and cybersecurity software and services. (It's also the company that developed the lunar module that carried Apollo astronauts to the surface of the moon.)

We spoke with Parsons in November, as part of our Innovation Leader Live series of conference calls.

INNOVATION AT NORTHROP GRUMMAN

[Innovation at Northrop Grumman] reports into a specific team within our global operations group, which is focused on change initiatives of various types.

We've only been in this team for one year. The innovation initiative has been going on for three years. This is the third business unit that it has been in. We were originally aligned with the business development functional organization business unit, in with the intellectual property group. Then we moved into the engineering and global product development organization. Now we're part of global operations.

You may ask, what are the reasons for all those changes? It really comes down to aligning this initiative with the business leaders

that were most passionate about making this happen. When you start a fledgling initiative in a large company, you want the leaders to be fully supportive and behind what you're doing.

The secondary benefit has been that there are now multiple large organizations that feel a personal sense of ownership and deep insight into what we're doing. As a result, they're more supportive of what we're trying to achieve.

One thing you may have noted is that none of those three organizations was our R&D organization. That's actually been asked internally: "Why wouldn't innovation be in our R&D organization?"

Our R&D group is called NG NEXT, and that group is focused around four key areas: basic research, applied research, advanced design, and rapid prototyping. Their focus is on next-generation technologies and systems, not so much on the follow-on systems or enhancements or upgrades to our current contract.

The way I like to say this is NG NEXT is filled with full-time innovators. They get to do innovation all day long and are expected to. My team is more focused on innovation for everyone else—for the more than 20,000 other employees who have great ideas and want to make a difference, and for the other business units who actually need innovation to drive their business outcomes, and we become a partner for them in that process. My group helps connect innovators and the business challenges together to make magic happen, and the R&D group is focused on some very specific full-time things to drive some of those next generation technologies.

INNOVATION AND R&D WORKING TOGETHER

It's really important that companies' R&D groups and innovation groups work together. Let me summarize a few tips I have about what has made us successful working together.

First of all, we don't set ourselves up as competition for the R&D group. I think that's really key. When it comes to discretionary funding, it can't be a battle between the two groups for the same pot of money. By nature, you tend to be adversarial.

Second is establishing clear roles and responsibilities. It's really important to play to each team's strengths, and don't try to do the same things. What is the R&D organization great at? Let them do it. In our case, we're having our innovation organization create value elsewhere and letting R&D focus on what they do.

We're working together on a broad strategy for how to drive innovation, invention, research and development. It's a joint effort, which allows us to both get behind it. Our innovation initiative is about supporting the business, not setting up an empire.

This was really critical, because I feel strongly that the innovation team needs to be about making the business successful. Innovation is a means to an end to achieve our overall business objectives. We use innovations to enable business success, which will benefit all groups—including the R&D group.

"We're working together on a broad strategy — a proper structure for how to drive innovation, invention, research and development."

The innovation team casts a wide net for ideas to seed fund and develop, but we always partner with the business units when it comes to evaluating the ideas that come in, selecting the ideas we choose to incubate and seed fund.

Then we end up handing off the most promising ideas back to the business units for monetization. So, it's a partnership throughout the whole process where everyone wins in the end, because it's the business units that end up moving it forward to make it happen.

Back to R&D specifically...I view the innovation team as a source of internal people and projects that can help make them successful. In the case of people, we've been able to discover a lot of underutilized talent [where] it would probably make more sense for them to be full-time innovators.

As such, we've had at least three employees who have been identified through our efforts that have already transitioned to working full-time within NG NEXT, and so R&D is gaining direct value through the projects and the people that we're funneling to them.

DRIVING INNOVATION IN ESTABLISHED CULTURES

Our founders in Northrop Grumman, of all the companies that Northrop Grumman is a conglomerate of—Northrop, Grumman, TRW, Ryan Aerospace, and a number of other companies as well—were all innovators and inventors. Every one of them had at least one patent.

That's our roots. They were notable engineers, not big businesspeople. However, as with many businesses, the focus shifts over time to operational efficiency, and innovation as a core value is minimized. In our business, the notable exception to the minimization of innovation is in new contracts and where we're looking to meet specific customer requirements.

I call this "innovation by necessity." You have to innovate in order to win a contract. You have to innovate in order to get the cost down to execute the contract. It's the urgent needs that create the necessity for inspiration and the spark for innovation. That's always been a hallmark of our success.

What I consider our real challenge on the culture side—and a lot of [other] companies have this—is to drive innovative thinking and behaviors outside these traditional silos, outside these traditional hard needs, and not just have innovation by necessity, but make it part of our thinking at all times on all fronts. This creates a very different culture, where innovation is truly part of our DNA, and everyone benefits from that type of thinking.

"We need innovation to both get us new technology, new products, new business—as well as to drive affordability and efficiency and eliminate bureaucracy."

[How do you measure success?] The truth as to whether the culture has shifted is whether there's change in the trenches where the core work is getting done —in our case, on the aircraft production line, in satellite design reviews, in financial planning meetings, and maintenance. This is really tough to measure.

Fundamentally, it comes down to whether employees feel a new sense of comfort with sharing an idea with their team. Perhaps one that they are not sure is very good, but the environment and the culture encourages and welcomes those things. "We expect you to be sharing ideas. We expect you to be comfortable giving us thoughts about how to do things differently or better."

The question is, is the culture creating the pull for you to take it the next step, and empower you to try it. And it's OK if you fail.

A second point is there's a lot of research that indicates that a greater mixing of people outside their normal teams is a real key to innovation, because it brings in diversity of thought.

We're looking at multiple things, like leader training and creating environments...that will help drive the mixing between groups and will allow for behaviors to change and new habits to form that will most impact the day-to-day innovation happening across our organization.

COMPETITIONS & CHALLENGES

This has been a really exciting year because we have two big internal innovation competitions that were really well received by employees and leaders alike.

The first one is based on the "Harry Potter" game of Quidditch. It was actually inspired by our president, who said, "I would love to make the Harry Potter game of Quidditch a reality by quadcopter"—autonomous robotic Quidditch.

We've created a whole internal competition that we call Quad Cup, and it'll be a multi-year competition. This is year one, where we're taking elements of the game and trying to have teams work to bring that game to life. That's been super fun—mostly in people's free time, on weekends and on nights. Hundreds of employees have participated in it and just geeked out over it. It's wonderful.

The second thing, which we're in the middle of right now, is called the Wildlife Challenge. We've partnered with the San Diego Zoo Global in order to develop capabilities to help them with longer observations of habitats for endangered animals. We held a competition similar to Quad Cup for our employees to develop specific capabilities for monitoring ice floes around polar bear habitats, to help [the zoo] with their research.

Northrup Grumman employees working with a drone that will monitor habitats of endangered animals.

As a matter of fact, the winning team recently arrived in Churchill, Manitoba, Canada to test their vehicle.

We also do smaller hackathons through our makerspaces, and there's a YouTube video on our Northrop Grumman channel about a recent one where we helped a local artist regain [his ability to make] art through developing devices that could help him, because he has muscular dystrophy and has been deteriorating significantly.

'INCREASING AWESOME AND DECREASING SUCK'

This is my way of saying that we need innovation everywhere—that innovation isn't limited to new technology and product innovation, although we like to focus on those.

We need innovation to get us new technology, new products, new business—that's the increased awesome—as well as to drive affordability and efficiency and eliminate bureaucracy, and that's the decreased suck.

I say that just to bring people back to the fact that innovation can affect every single thing we do, and we care about it all and we want to improve it all.

MAKERSPACES AND INNOVATION LABS

We just finished year three [of our innovation initiative], and in the first year we set up a makerspace in Redondo Beach, California called the Fab Lab, which stands for fabrication lab.

This was really created by the people for the people, but it's bringing huge value to our business. The rules of the game are you get trained and you can use it anytime you want for work or personal use. We pay for the materials.

The space has 3D printers and metalworking and woodworking and electronics workbenches...

[It has] created this groundswell of support, with our core business saying, "It's so great having access to this for our users," and then people can also say, "Let's put together a project team to do whatever we want."

It's been a wonderful environment for this mixing of the people to create a culture of innovation, but then we also have seen a number of side benefits as a result. Many of our engineers that do a lot of design work don't have a lot of experience in building and making things. Basically they go in there, they learn about this for fun, but then it can influence their effectiveness in their day job, which is a very powerful lever.

Then, people who know how to do things that others might want to learn have a forum and an outlet for teaching other people what they know, which is another great way of knowledge sharing within the company.

TO SEE THE SCHEDULE OF UPCOMING INNOVATION LEADER LIVE CONFERENCE CALLS, VISIT WWW.INNOVATIONLEADER.COM/IL-LIVE

HOW TO FIND YOUR INNOVATION CHAMPIONS

We've found that [innovators] largely reveal themselves. We have what's called our innovation pipeline, which is crowdsourcing for ideas, and we find certain repeat guests over and over again that submit constantly. Therefore, we get to know them and know the quality of their innovations. As we fund projects and move those forward, we get to know people in a totally different way. This is where we discovered some of this hidden talent.

"Even at the early seed-funding stages, we assign a project mentor or a project champion from the business unit that we believe will be the business unit to eventually adopt and monetize that project."

There's a second way we've done this. It was at least in part inspired by the book "Creativity, Inc.," where this group [at Pixar] called the brain trust is described. We have a brain trust as well, and it is essentially innovators nominated by others at the company.

We have almost 2,000 people on an e-mail list that have signed up to get regular updates on our innovation website. We went out to those folks and said, "Who are some great innovators you know...with these attributes that we can call upon periodically to come in and bring in diversity of thought into teams to help solve problems among our various business units?" We received like 500 names submitted that way.

As we sit down and work with those folks in those environments, it becomes really clear who's really good [to] bring helpful, respectful suggestions to our business units that will help move their objectives forward.

AVOIDING THE 'NOT INVENTED HERE' MENTALITY

Over the years, we've identified really great thinkers that are trusted people within each of our major business units that we know get the value of innovation and can speak on behalf of their organization, and be supportive of our efforts.

They're part of the review team. All of the ideas that come in, they're part of looking at those ideas to see if they have the potential of making us money or saving us money. Then we have that internal partner who is part of that business unit who can be the conduit for an on-going partnership, as appropriate, depending on the type of idea it is.

Immediately, even at the early seed-funding stages, we assign a project mentor or a project champion from the business unit that we believe will be the business unit to eventually adopt and monetize that project.

That's been a key part of our success, because they're part of our project throughout the whole thing, helping to shape it. The other half of the equation that is really key is talking to the business leaders in advance about what their unsolved problems are, and really focusing challenges and crowdsourcing around their stated needs and desires, and then driving those solutions back to the business...

Those two elements are really critical to the success of partnering effectively and doing the hand-off effectively. ●

Apple Store Creator Ron Johnson on the Next Wave of Digital Commerce

INTERVIEW BY SCOTT KIRSNER

Ron Johnson has been responsible for bringing new ideas—not always successfully—to companies like Target, Apple, and JC Penney.

As a merchandising VP for Target, he brought in designers like Michael Graves to create high-style products at affordable prices. At Apple, he worked alongside Steve Jobs to launch the first Apple Store in 2001; the retail outlets now generate more revenue per square foot than any U.S. rival. But his tenure as CEO of department store chain JC Penney lasted less than two years, and included one quarter in which same-store sales dropped by a third. After being ousted at Penney, Johnson launched an e-commerce startup called Enjoy, which has raised $80 million in venture capital funding.

We spoke with Johnson about Enjoy's unique blend of online selling with an in-home set-up experience, and also the model he sees as most effective when it comes to creating something new within an established company. Hint: keep it small, and make sure the CEO has got your back.

DEFINING DIGITAL COMMERCE

We're in the early days of what I would call digital commerce. We have all these devices. We buy through websites and apps and Facebook Messenger. It has led to extraordinary convenience. It has become a part of our retail commerce system, but a very small part—about 7 percent of all sales happen digitally.

Most of the digital commerce companies have been started by tech people, like Jeff Bezos, who have focused on digital convenience—making the transaction easier, eliminating friction. If you look at the physical world, [retailers have] one of two strategies. Either you're going to be about convenience, like shopping at Target, or experience, like shopping at Nordstrom or an Apple Store.

WHAT ENJOY DELIVERS

In the online world, nobody has thought about, "How do you deliver a digital experience?" When you order from Enjoy, you get the convenience of ordering from any device you want. You pick a time and place,

and we will hand-deliver a product to you in as fast as four hours, with a trained expert with exceptional people skills. In a world that has gone digital, we're not going to give up on help; we're just going to deliver it in a new way. The old retail adage was "location, location, location." We think about where you use the product as the location, not the store. How do we reimagine a high-touch service experience, by bringing the product to the customer where they're going to use it?

Savant makes home automation technology that can control your homes lights, curtains, and home theater. You can buy that in a store, but if you take it home, you have to figure out how to connect the remote to all your devices. With Enjoy, we bring it to you. Our expert sits down and says, "Let's set up this remote."

We're now in cities including Miami, Atlanta, Chicago, and New York. In every market, we place a team. They have a physical place where they can meet. We keep the inventory there—it's like a really nice back-of-house of a store. Our employees are full-time or part-time, salaried with benefits, but they get to set their own schedule. Instead of [customers] going to the store, the store comes to you. Our experts take public transportation or their own vehicle, and we reimburse them. We invest all of our energy into training people and the experience we deliver, whether it's in a home, an office, or a coffee shop.

"We're moving pretty rapidly into an experience economy. That's particularly true for Millennials, who are focused on the life they live today, rather than the life they'll live in a decade. They don't acquire things in the same way. But they go out to dinner, they travel."

BUILD SMALL TEAMS THAT FUNCTION LIKE STARTUPS

Big companies are known for execution; they're not known for innovation. In many ways, the larger and older the company, the slower you have to move. I learned that lesson at Penney's. We had a vision for dramatic change, and wanting to move fast—and I moved way too fast for our employees and our board members and our customers.

At Apple, Steve [Jobs] let me set up my own team. I reported directly to Steve. It was like a startup within a medium-sized company at the time. I was able to innovate really quickly, leveraging Apple's IT and design leadership to really build out a retail chain pretty quickly. Most companies don't empower new teams to work like that.

My guess is that's probably the best way to do [new ventures] — be intentional and focused. We were a tiny team at Apple Store. We had one employee at headquarters per store, [at a time when] when we had 100 stores.

At Enjoy, we've assembled a team that primarily comes from successful startups—people who were early at Facebook or Google, or they're right out of school. Eighty percent of employees at Enjoy come from the startup world, so the only way they know how to work is a lean mode. You get things in the market, find out what customers think. You learn, pivot, react, run sprints.

BUYING EXPERIENCES, NOT THINGS

Look at a company like SoulCycle. On any device, you pick your class, pick your bike, pick your instructor, and pay for the class. Then you show up and have an experience of exercise that's pretty magical. You order online, but they deliver an experience. With Airbnb, you don't call and make a reservation with a hotel's call center; you you pick a place and experience a neighborhood.

We're moving pretty rapidly into an experience economy. That's particularly true for Millennials, who are focused on the life they live today, rather than the life they'll live in a decade. They don't acquire things in the same way. But they go out to dinner, they travel more. They increasingly work in this mobile economy where they have more freedom of schedule. Maybe they drive for Uber, or they're an expert for Enjoy, so that they can pursue a passion, like being a pastry chef or being a musician.

People are living their lives differently. When I grew up, you were expected to go get a job, and work 9-to-5. You were saving money to live a great life in your 30s and 40s, and saving for retirement. Millennials and young people don't live that way. They care about things they can post on Instagram. It's the life they create and share every day on social media.

Previously, stuff was a marker of status, at a party or when you showed up at school. Today, the average person spends 25 minutes on Instagram a day. They are looking at images

Ron Johnson, center, with Enjoy colleagues.

of great brands they follow, athletes and celebrities like Steph Curry, and they're looking at their friends. You want to share experiences every day. Rather than buying clothes, I'm going to spend more money going to concerts and SoulCycle and restaurants. The idea of doing transactional things is less appealing—buying something and coming home and fumbling with a manual.

THE BEST THINGS ARE DISCOVERED, NOT MARKETED

Primarily, we are focused on helping the consumer electronics companies establish a direct relationship with their customers, so Enjoy is integrated into the websites and buying experiences of our customers. You go to AT&T or Savant and you pick Enjoy. But people also discover us through word-of-mouth or social media. But we're not investing money in building the brand. That is really expensive, and I firmly believe the best things are discovered, not marketed. With the Apple Stores, we wanted people to discover the Genius Bar and tell their friends about it.

GREAT COMPANIES TODAY ARE LED, NOT MANAGED

When I went to business school, in the 80s, no one had data. You had to have an army of smart people to run spreadsheets. The companies that won were organized to be managed, with Six Sigma and other management systems. Now, you're in a world where information is instantaneous. You don't need large management processes. You need nimble work groups to learn and execute. Amazon is the kind of company that grew up in this era when you don't need management; you need to innovate.

Are Apple and Amazon excellent innovators because they are, or were, founder-led companies? That is probably part of it. But companies established in the last 20 years, after the information revolution had taken place—they have to be led, not managed. Great companies in the 1980s were managed. You had Jack Welch, and books like "The One-Minute Manager." All the great companies now are led. Look at Tesla or Facebook. It is a different era. ●

Organizing for Simultaneous Innovation Capability

BY **MAGNUS PENKER**, CEO, INNOVATION 360 GROUP

AFTER COLLECTING AND STUDYING INNOVATION data from over 1,000 companies in 62 countries, I'm often asked whether small and mid-size enterprises (SMEs) are more innovative and entrepreneurial than larger corporations. In times when the market dynamics, technology development, and diffusion are faster then ever, it is a natural question. So let's dig into some key findings and see what we can learn.

All companies have a conscious or unconscious strategy, leadership, culture, capabilities, and competencies they use to improve and innovate business internally (e.g. processes) and externally (e.g. value proposition). According to Steve Coley, co-author of "The Alchemy of Growth," the innovation work can be divided into three parallel horizons, each one representing an S-curve. The first Horizon (H1) is about incremental innovation in today's business, extending the existing S-curve of the company. Horizon 2 (H2) is about expanding and building new business (the next S-curve) through innovations. Horizon 3 (H3) is an explorative approach to future S-curves, to be commercialized in H2, ending up in H1.

Another source on the theme, O'Reilly III and Tushman, talks about being able to work ambidextrously with incremental and radical innovation at the same time.

The insight of dividing innovation work into different Horizons in order to manage it effectively is, in my experience, often well known at C-level. At the same time, large H1 projects are prioritized to the extent that they are causing internal traffic jams among projects sharing resources. This results in projects that are too numerous, too big, and often less value-creating. Instead, companies can utilize common resources more optimally, improving and caring for today's profit (H1), developing tomorrow's profit and market shares (H2) and learning for the future (H3).

Besides killing zombie projects in H1 that otherwise would not die, it is about using and developing the leadership, culture, capabilities, and competencies most efficiently. The key lies in understanding how to organize and transform into an organization that's able to work short-, mid-, and long -term, maximizing the utilization of all resources from tangibles to intangibles.

Before we compare and contrast SMEs and large corporations—and what they might learn from each other—we'll start with some key findings in the studied companies.

Correlations in the data studied shown in Table A state that different Horizons call for different strategies, leadership styles, capabilities, competencies, and metrics.

In H1, where most companies put their effort (up to 99 percent, according to many studies), incremental so-called spiral staircase leadership (Table A) works. This is when leaders work step-by-step towards well-defined goals calculating ROI and predicting the future.

In H2, the strategy is not to understand and respond to the market, but instead to understand needs and use technology in new ways. Platform and design thinking, prototyping, ideation, project selection, and speed are imperative capabilities. The leadership in H2 is more entrepreneurial, challenging the business model (Cauldron style, Table A), seed-funding external projects then buying them back (Pacman style, Table A), as well as acting as the gardener on a fertile field (trying out what's working and removing what isn't.) H2 projects are measurable by working with small experiments and prototyping, building the base for cash flow assumptions.

H3 is the explorative style: needs are investigated on a deeper level and new technology used to disrupt. It's essential here to sharpen the future possibilities with external knowledge sharing, open innovation, and

	Horizon 1	Horizon 2	Horizon 3
Scope	Core Business	Growth business	Future business
Strategic Focus	Exploit and optimize existing business, incremental innovation	Expanding existing and building new business, adjacent innovation	Explore options, place small bets on emerging opportunities, radical innovation
Innovation Strategy[1]	Market Reader, Technology Drivers (incremental)	Technology Drivers (partly radical) and Need Seeker	Technology Drivers (Radical) And Need Seeker
Leadership Style[2]	Spiral Staircase	Cauldron, Fertile Field, Pacman	Explorer
Capabilities With Strong Correlation To Strategy And Leadership	Clear Vision, Goal-Oriented Leadership, Core Focus, Market Insights	Platform and Design Thinking, Prototyping, Speed To Market, Project Selection, Ideation	External knowledge sharing, Co-Creation, Open Innovation, Anthropology, Technology Watch
Competencies	Fully assembled	To be acquired or developed	Requirements uncertain
Metrics	Return On Investment	Net Present Value based on prototyping and hypothesis	Strategic Option Value based on scenarios

Table A. Based on the work of Ralph-Christian Ohr and Kevin McFarthing. [1]Based on Jaruzelski & Dehoff (2010). [2]Based on Loewe, Williamson, Chapman Wood (2001). All data is collected and analyzed in InnoSurvey™ (2016).

co-creation. H3 projects cannot be measured by traditional methods such as ROI. They are more about exploring.

In my studies, I divided the companies into two groups: SMEs and larger companies. The SMEs, unlike the larger companies, clearly state that they are prioritizing innovation. SMEs perceive a clearer vision, ideation, and exploration: setting the scene for H2/H3.

Larger corporations perceive their strength in reading the market (H1) and selecting the right innovation projects (H2). It's noteworthy that SMEs perceive several concomitant leadership styles (up to three), while larger corporations tend to be more uniform. Larger corporations tend to have all types of innovation strategies, which is not the case with SMEs. This illuminates why many SMEs can adapt easily to an innovation Horizon model but are strategically struggling (inflexible). Larger corporations easily change and set strategy, but struggle with the leadership when trying to work with innovation Horizons. It seems that SMEs and larger corporations can learn from each other.

Finally, some findings are key regardless of company size. Companies stating that they apply radical innovation also apply incremental innovation, but not the other way around. It seems that radical innovators are more mature in innovation management, systematically dividing into several innovation Horizons. They are able to maintain and nurture appropriate multi-leadership and multi-strategies for optimal resource usage and value creation.

This quote from Peter Drucker summarizes it all: "Innovation is the specific instrument of entrepreneurship...the act that endows resources with a new capacity to create wealth."

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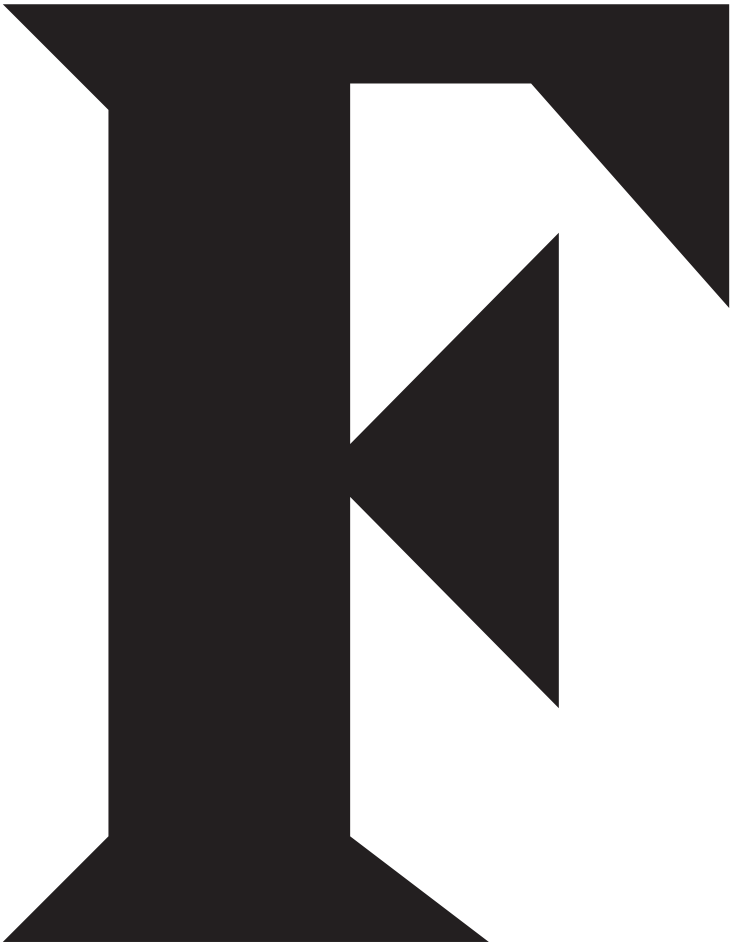
The Great Divide

CAN INNOVATORS AND OPERATORS LEARN TO GET ALONG?

STORY BY SCOTT KIRSNER & AMY LUCAS

ILLUSTRATIONS BY MONI GARCIA



Few relationships in a large company are as challenging as the one between an innovation team or a research and development group and the business units. Business units are operators. They're driven by concrete, near-term financial goals—the thrill of the big deal, the press release that moves the stock price. They excel at keeping supply chains and factories humming, and overseeing complex networks of salespeople, distributors, and retailers. Innovation teams are explorers. By definition, they're responsible for looking further ahead, exploring terrain that hasn't yet been mapped. They're motivated by spotting something first—whether an emerging customer preference, a new business model, or a technological possibility. Often their prototypes and projects can seem like an entry in the science fair.

How well will this work at scale? Will customers even want it? Why are none of our competitors doing this yet?

The cultural chasm between the two is huge. So it isn't surprising that conflict can arise when the business units are responsible for setting an R&D group's direction, or funding its projects. Or when a "skunkworks" innovation group that has been nurturing a new product or service hands it over to a business unit to bring it to market—only to realize that no one there is invested in its success.

Our Q1 Research Report, available to Innovation Leader members in February, will focus on the relationship between business units and the R&D/innovation team. Here are seven essentials to creating a productive partnership.

BLENDED FUNDING

When money comes entirely from the business units, that can pull an innovation group toward near-term projects, filling gaps in next year's product line, for example. But when funding comes entirely from the corporate budget, it can make things feel unfocused—a group of people building a rocketship with no particular mission in mind.

Many companies take a blended approach, with business units backing projects of strategic interest to them, but some "sandbox money" that allows them to explore areas the businesses may not yet be interested in, or that don't fit neatly under one business unit's umbrella.

At Johnson & Johnson's network of innovation centers, which focus on investments and collaborations with fledgling healthcare companies, "the business units provide at least 50 percent of our deal funding," says Darren Snellgrove, Chief Financial Officer of J&J Innovation. "We've found that both sides having skin in the game and a say in the decision-making is an important component of success." Snellgrove says that in analyzing past investments, "we've found that deals

perform better when there's this kind of 50-50 collaboration approach." Without involvement, the business units don't pay enough attention to the deals; with too much, they may not take enough risk, Snellgrove says.

DEFINING FOCUS

What is the innovation team's mandate? How close in or far out is its focus? Many teams created in a rush of enthusiasm, by CEO mandate, neglect to answer these questions. Or they do it with input only from senior leadership, and not the business units.

At Houston-based Reliant Energy, an energy services provider that is part of NRG Energy, business unit leaders help set the strategy, "which becomes our guidepost for the innovation program," says Scott Burns, Senior Director of Innovation and Customer Experience. "We're not a bunch of creative people who go into a room and brainstorm, and have Play-Doh and things to play with and come out with a bunch of great ideas. I tend to hire generalists on my team, who understand the business, so they can do a good job communicating and gaining consensus on projects so that they're much more likely to be accepted by the organization, and a success if we launch them."

Jim Winkler, the Global Chief Innovation Officer at Aon Health, part of $11.7 billion Aon Hewitt, says that as part of the annual budgeting process, "we have a day-long innovation session with our line of business leaders and a lot of our product people, folks from IT, etcetera, who walk through where we see the marketplace evolving to, and the competitive landscape. Then, we present both our short-term product roadmap—the nip and tucks we need to do next year—and our big three, bet-the-ranch kinds of solutions that could take us a while to build. We ask, 'Is all that stuff still the right stuff to be doing?' The line of business leaders are very vocal participants in that process."

"We're not a bunch of creative people who go into a room and brainstorm, and have Play-Doh and things to play with and come out with a bunch of great ideas," says Scott Burns of Reliant Energy.

At a large New York-based insurer, projects typically have a sponsor from the business unit. But "when we're doing more exploratory stuff," says a Senior Vice President there, "a business unit sponsor isn't required, but [they are] always informed about what we are looking at and why."

The materials and fabrics producer W.L. Gore, headquartered in Newark, Delaware, is setting up a Silicon Valley innovation center in 2017, and the conscious decision is that it will search for new sources of growth. "At least initially, we're not driven from or by the business units," says Linda Elkins, the head of the new center. "The innovation center will be its own cost center, and that will be independent of business unit funding." (A separate innovation "center of excellence" team at W.L. Gore works with business units to deploy lean startup and other methodologies, as a way to help them explore new applications and line extensions.)

Focus areas at GOJO Industries, the privately-held Ohio company best-known for

its Purell brand of hand sanitizers "aren't so tight that they restrict creativity," says April Bertram, "but there are enough guard rails where, if they brought something to us after doing [market probing], it's something we could likely commercialize after we work through some of the risk management. That was critical—getting strategic alignment. Completely critical." Bertram is a Business Development Director for SMARTLINK Solutions, a startup within GOJO; she previously served as an Innovation Management Director at the company.

ROTATING AND EMBEDDING

Innovation teams can gain market expertise when they bring in staffers from the businesses, says Winkler at Aon Health. When a line of business is "going to benefit from the solution we're building, we borrow their people periodically," he says. "It's all done virtually—we don't have a lab in a specific location." Other companies physically rotate people through stints at the innovation center. The central team then benefits from a network of innovation advocates when they return to their business units.

Embedding is a different approach—putting staffers with innovation expertise into the business units.

At GOJO, innovation directors or small teams work within the business unit. These staffers "don't have any responsibility for incremental or short-term innovation, but are looking more long-term," explains Bertram. That practice began in the company's healthcare division, but has since spread. They have dotted line reporting to GOJO's corporate

innovation group, and when that central group needs subject matter experts from a particular sector, they provide it.

Similarly, The Clorox Company has moved most innovation roles into the business units over the past five years. A corporate team focuses on coaching and improving processes, but "the majority of time and resources spent on innovation is at the business unit level," says Patrick O'Loughlin, Innovation Business Leader at Clorox. "Each brand has an innovation team composed of marketing, research, and R&D folks planning one to five years out."

Having innovation-oriented executives inside the major business units, rather than centralized, gives them "the market intimacy and the knowledge of that business unit," Bertram says, "so that we can make sure we are solving the right problems."

"Great examples of collaboration occur when the corporate innovation team pulls two or three business units together, who can leverage a common project investment," says one VP of corporate innovation.

Other companies, like BASF and Vodafone, have created networks of innovation champions or ambassadors outside of the central team. "They spread innovation ideas, knowledge, and best practices across the company," says Svetlana Dimovski, formerly the Senior Manager of Innovation Excellence at BASF, the German chemicals and materials company.

SERVING MULTIPLE BUSINESS UNITS WITH ONE PROJECT

Rather than becoming a "consulting arm" of a single business unit, and dedicating serious resources to serving their needs, the innovation teams at some companies try to focus on projects that can benefit several different business units. "Great examples of collaboration occur when the corporate innovation team pulls two or even three business units together, who can utilize or leverage a common project investment," says the Vice President of Corporate Innovation at a large U.S. chemicals company. "That's truly finding the white space between businesses."

COORDINATION AND COMMUNICATION

Frustration often ensues when people in a business unit and an innovation group end up taking separate meetings with the same prospective partner. (It can be frustrating not just internally, but to the partner as well.) It's difficult to "label" partners that might be near-term versus longer-term suppliers of a new technology, or enablers of a new business model. So the more sophisticated companies try to deploy tools for coordinating these conversations. "We have a database that lets anyone in the organization say, 'Hey, I'm meeting with this potential partner, just to let you know,'" says Bertram at GOJO. "That lets us check to see if anyone else has touched them, why they'd worked with them, so we can make sure that no one is duplicating work in exploring partnerships."

Presentations, internal blogs, and video series can also help communicate what the innovation team is doing, so that business units aren't left in the dark. At BASF, for instance, an annual event called Inno>ent "brings together BASF innovators across the globe so they can share what they are working on, and connect with colleagues from different business units and functions." External partners come, as well. There are not just presentations about projects already underway, but short problem-solving challenges, where a project team from R&D "can present their challenge and get fresh ideas and expertise and help from their colleagues," Dimovski says. "Often, colleagues from a different business segment will bring a different perspective and create an instant breakthrough."

CUSTOMER CONNECTIONS

Innovation teams often find they have to clear their own path to customers to get input into things they're building—and business unit staffers can feel territorial when that happens. So strong working relationships with marketing, customer support, and account reps who work directly with customers can supply valuable information about pain points, or early reactions to prototypes. That, says Dimovski at BASF, "can inform them about the realities of customer aspirations and expectations. Good relationships are essential."

ACCOUNTABILITY AND METRICS

Business units are, understandably, metrics-obsessed, and they tend to be skeptical of innovation or R&D groups that have no

metrics, or extremely nebulous ones. While metrics for discovery-oriented work will naturally be different from sales and operational metrics, innovation teams do need to have a set of concrete things that they plan to measure and report on.

"You need metrics to figure out if you're on the right track," says Tuoyo Louis, Managing Director of Zaffre Investments, a venture capital team within Blue Cross Blue Shield of Massachusetts. He often tries to get startups in which Zaffre has invested running pilots with business units inside Blue Cross Blue Shield. "What are the outcomes and what defines success and how are you going to measure it? If you're trying to improve associate engagement, or help people manage their blood sugar level, or you want a million people to download an app, those are concrete things to work against when you're launching something or running a pilot."

At Reliant Energy, Burns says that just identifying things that could be measured is a different thing from actually gathering data and reporting it regularly. "We've actually made it part of the process that you have to establish what the metrics are, who's doing the measurement, and how it's being reported, prior to launch," he says. "That feeds back into the process, so we all understand what the wins were, what the losses were, what performed above and below expectations, and what we can do to improve."

Finally, just as innovation and R&D groups ought to be accountable for supplying products and services to the business units that can generate future growth, the reverse should be true as well. Business units need to be transparent about what happens to prototypes and projects that are handed off to them for refinement, marketing, and launch. How much resources are they devoting? Are timeframes being met, or do promising concepts keep dropping to the bottom of the priority list?

Many companies measure the impact of their R&D and innovation efforts by tracking the number of new patents issued, or revenue from products and services launched recently. Those are important, but there should also be attention given to ideas that don't get sufficient support from the business units—and either never launch, or launch in a sub-optimal way. That creates hostility, and it undercuts all the funding the company is devoting to innovation. Often, it leads to the decline of innovation groups.

Mohan Nair, the Chief Innovation Officer at Cambia Health Solutions, observes that the relationship between innovation groups and business units is very much a two-sided relationship—both sides need to invest in it, and feel they're benefitting from it. His quote from a 2016 article in Innovation Leader still resonates: "Your program's scale depends on the business unit leadership's trust in you." ●

TIPS ON TYING INNOVATION TO THE BUSINESS

JASON BERNS, SVP OF PRODUCT INNOVATION, RALPH LAUREN

► **BUILDING TRUST** It's the same in a lot of ways, working with internal partners as external partners. How do you build trust and how do you show them that you know what you're talking about, without creating a position where you are overhyping or building expectations that aren't really reasonable. Also resisting the temptation of making things seem simple that aren't. This is hard stuff. I often see innovation leaders who are trying to solve things through tools and idea-generation, and are kind of missing the execution [focus.] If you think, "idea generation is going to solve all our problems," well, not really. You have to bring it to the endpoint at some level.

► **THERE WILL BE BUMPS** You don't want to forget that innovation is a fundamentally a creative process, and you hit a lot of bumps along the way. It's easy to be overly optimistic about what can be delivered by when. Everybody wants innovation, but it's hard to deliver real innovation, and you must be really clear about that upfront. "I can't wave the innovation magic wand and have innovation growing like mushrooms in your products in twelve months." It doesn't happen that fast. You need to find the right opportunities, develop them, and show they're going to work for your customer financially.

► **SIMPLE METRICS** I'm a big fan of simple metrics at the beginning. Did we lay out a process? Is our process working? Are we building and managing a portfolio? Are we getting rid of projects that seem like dogs? Are we doing what we said we're going to do, as far as talking to our customer? At the outset, those are the type of metrics I'd look at. More sophisticated metrics around "how successful have our initiatives been?" become more important as you mature.

Getting Executive Buy-In for a Crowdsourced Innovation Program

BY **BILL TRUETTNER**, DIRECTOR OF INNOVATION STRATEGY, SPIGIT

ENGAGING THE "CROWD" AT SCALE IN YOUR innovation initiative has been proven to fundamentally transform companies.

In fact, Gartner recently named crowdsourcing as the most effective independent discipline that CIOs can adopt to drive digital transformation.

There are plenty of examples that show this, from vehicle manufacturer Polaris leveraging its employees' creativity to out-innovate the likes of Harley Davidson, to the United Nations' refugee agency, UNHCR, changing the lives of millions of refugees through crowdsourcing ideas.

The advantages of crowdsourced innovation can't be ignored. But what's the secret to creating and sustaining a successful innovation program? It starts with getting executive buy-in.

Create a plan of attack

Pitching a crowdsourced innovation program to an executive team is a lot like pitching a startup to a venture capitalist.

You need a clear plan that conveys value and answers the major questions your executive team will likely have. Your pitch should outline key items such as:

- Why a crowdsourced innovation program matters for your company
- The key benefits
- The objectives you aim to accomplish based on company goals and pain points
- Estimated resources needed to run and sustain the program (i.e. tools, staffing)
- How success will be measured – and goals
- Real-life case studies

Step 1: Start with why

As with anything new, in order for an executive to fully grasp and buy into investing in a crowdsourced innovation program, they need to understand why it's important—how the program will solve company problems and impact the bottom line.

A good starting point in this process is explaining the power of crowds in moving the business forward faster. Each of your employees, for example, has industry expertise and customer knowledge that can be tapped into.

At the end of the day, the objective for any executive team is to grow the business. By explaining that through crowdsourcing, the company will accelerate the achievement of goals with lasting, effective solutions, you're aligning the core purpose of the crowdsourced innovation program with their goals.

Step 2: Stress key benefits

Now that you have a clear and compelling "why," what's the next step? Outlining the key benefits.

There's a set of benefits that are consistent across the board for any crowdsourced innovation program. They include:

- Company-wide collaboration, learning and sharing (breaking down silos)
- Increased employee engagement and retention
- Larger supply of ideas for new products, services, markets and improvements
- Innovation pipeline acceleration
- Higher quality ideas due to stronger contributor diversity

Then there are benefits that are tailored to your business's unique goals and needs. For example:

- How do we find new ways to drive down the cost of materials?
- What opportunities are there to streamline our processes across business units?
- What adjacent markets make sense for our business to enter?

Step 3: State key objectives and strategy

What are the critical business objectives and how can crowdsourcing contribute to achieving them?

While your answers will depend on com-

pany needs, market dynamics, and a whole host of other factors, having at least one crowdsourcing objective and strategy to start is critical—they create clarity.

An easy way to approach objective setting is to reflect priorities the company has already set. In other words, target your ideation challenges on critical improvement areas (e.g. cost control, new revenue opportunities, increasing market share.)

Let's say the business is going through a down cycle in its industry and therefore retaining customers is crucial—a perfectly appropriate crowdsourcing objective.

Once you have your objective set, your strategies around what questions you ask, how you communicate, how you motivate participation, and how you select and enrich ideas for implementation will align accordingly.

Step 4: List the resources needed to get up and running

How much investment will the program need to get up and running? What resources (budget, people, etc.) are needed to support the program?

The resources you'll need to run an innovation program will depend heavily on any tools you use, staffing requirements, and a host of other factors relating back to your objectives. If it's too early for your company to invest in a large innovation team, for example, that may affect your selection of tools.

For example, Spigit customers can run an innovation program that engages tens of thousands of people with just one person due to the software's automation, crowd science, and collaborative features. And it easily scales if they decide to expand their innovation teams.

Some innovation software solutions require large teams to manage out of the box, which is fine if your company is willing to invest in staffing upfront.

You need to be realistic about what's needed in the short-term to get up and running—and what's long-term to sustain the program.

Step 5: Include how success will be measured

Measuring the impact of your innovation program will depend on your company's goals.

Let's say your company's objective is to increase employee engagement in an effort to stop churn, increase collaboration, and ultimately create a culture that attracts new talent.

If an innovation program is implemented, success can initially be measured based on the number of ideas submitted, or activities such as comments and votes. These measurements will give you a good indication of how engaged your workforce is in the early stages of the program.

However, as the program matures, the metrics you would look at to determine overall success must map back to the original objective—especially when you need to justify ongoing investment to your executive team. For this example, the question you would ask yourself is: did this program impact employee churn, collaboration, and help attract new talent? The more quantifiable you can get when determining success, the better.

Step 6: Share case studies

One of the most impactful things you can do to increase the odds of getting executive buy-in is to share case studies highlighting companies (preferably in your industry) who have developed successful innovation programs.

Not only does this create a fear of missing out for executive, especially if the companies are in your industry, but case studies act as social proof for the practicality of an innovation program and offer use cases. Tell them the story about how Pfizer, one of the largest pharmaceutical companies in the world, reduced its cost for clinical trials and expenditures by 60 percent. Or tell them the story about how Cambia Health Solutions went from being a health insurer to a health solutions company that became a leading innovator in its industry—this is on top of generating over $170 million in contributed revenue and adding five new healthcare businesses to its portfolio all through crowdsourced innovation.

As the old saying goes, seeing is believing.

Conclusion

Ultimately, your job is to educate and inform. If your executive team can see the vision and how it will help them accomplish the goals for the business, you stand a great chance of getting the go-ahead.

LEARN MORE AT SPIGIT.COM, AND FOLLOW THE FIRM ON TWITTER: @SPIGIT.

Case Studies

3

Winter
2017

Fruitful Co

TARGET EXPLORES THE FUTURE OF FOOD

BY SCOTT KIRSNER

PHOTOGRAPHS BY KARA SWENSON

llaboration

Target coLAB
Cambridge, Massachusetts

No one would mistake Target's Food + Future coLAB in Cambridge, Mass., with a typical Target retail location. The bull's-eye logo is nowhere in evidence, and there's also not a single parking spot out front, let alone acres of them. ¶ But enter the (non-automatic) glass door and descend an industrial staircase, and you've entered into a laboratory where Target is trying to envision the future of its grocery business—and get ahead of changing consumer preferences around food. ¶ The coLAB is a creation of $74 billion Target, headquartered in Minneapolis, Minn., the design and consulting firm IDEO, and the MIT Media Lab, located just a few blocks away. Overseeing the project is Greg Shewmaker, who joined Target as an Entrepreneur-in-Residence in 2015 after stints at Tesco, Staples, and an e-commerce company called 3c Marketlabs. ¶ The idea behind the creation of the coLAB, as Shewmaker explains it, is that "we know less about our food than we ever have at any other time in history. We want to do something about it. I don't want to go sell more Greek yogurt or healthy products. I want to go do something big, and fix some big problems." →

Innovation Leader

To get there, the coLAB began in late 2015 to bring in entrepreneurs, students, and even farmers for "make-a-thon" events that explore different approaches to three key themes that the coLAB focuses on: understanding your food, accessing better food, and trusting your food. Often, a make-a-thon begins on Monday with experts coming in to give insight into certain food industry issues and concludes on Friday with demos that are open to the public. For the first one, Target received about 300 applications, and had 100 people participate.

Several projects, like new approaches to food labeling and a handheld scanning device, now called Illuminate, for testing the freshness and nutrient level of produce, have already been tested in a Boston-area Target store. Another project, a self-contained, tabletop growing system dubbed Poly, was displayed at the South by South Lawn event at the White House last October.

"The only parameters [for the coLAB] were, don't look at things that are next to the core of the business," Shewmaker says. "Go out there a little bit further."

Target execs including CEO Brian Cornell and Chief Corporate Social Responsibility Officer Laysha Ward have already dropped by the coLAB, as have food scientists, supply chain staffers, and merchandisers. The visitors, Shewmaker says, "are turning out to be our biggest ambassadors. They're going back there and telling everyone, 'Hey, you've got to be part of this.' It's not a movement yet, but those ambassadors are starting to go back and spread the message." Shewmaker says the coLAB team produces regular video clips that are shared internally throughout the company, and there's a coLAB Twitter account as well.

After just over a year of activity in Cambridge, the coLAB seems to be gaining momentum. Intel recently signed on as a new member, and Shewmaker says that the group will be moving to a bigger, higher-profile space in Cambridge sometime in 2017.

Senior execs, he says, see the coLAB as a "new blueprint for innovation"—and one that is more transparent, and more tied to the academic and entrepreneurial ecosystems, than traditional research and development divisions. "The idea of this is that we can do this better than any one big company on its own, faster than a startup, and light years faster than academia," he says.

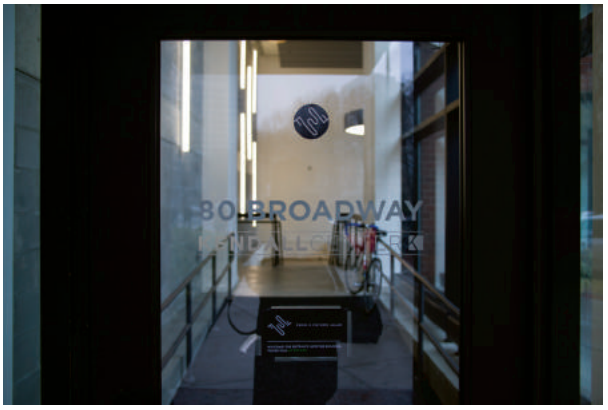
"If you're part of the coLAB—whether as a foundational member or otherwise—you have to bring something besides money. Money isn't our biggest challenge. It's getting things into the world."

The coLAB brings together entrepreneurs, students, and even farmers for week-long "make-a-thon" events, concluding with a demo day.

Target coLAB
Cambridge, Massachusetts

“This is a new blueprint for innovation. ...It’s purpose-driven, it’s transparent, and it’s going to actually create ventures and not just be an R&D vehicle.”

Above, the Illuminate handheld food scanner, which can analyze freshness and nutrient value. Below, a poster outlining the coLAB’s areas of interest, and the non-descript front entrance.




EXIT

Money Changes Everything

HOW THE CATALYST FUND FOR NEW IDEAS WORKS AT THOMSON REUTERS

STORY BY SCOTT KIRSNER

PHOTOGRAPHS BY FREDRIK BRODEN & BREANNA BAKER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Ideas

are easy to harvest, sift, shape, and vote on. But when you actually want to make them real, you need cash. And often you need more than the $1000 that some innovation programs, such as Adobe's Kickbox initiative, offer to participating employees. ¶ Thomson Reuters is one company that has come to the realization that building proof-of-concepts and prototypes can require significant funding. The $13 billion media and information company, headquartered in New York, created an internal seed fund called the Catalyst Fund in January 2014, overseen by CEO Jim Smith and Katherine Manuel, the Senior Vice President for Innovation. It provides up to $350,000 in funding to build and test prototypes. ¶ So far, the Catalyst Fund has supported more than 20 ideas that are either in market or poised for launch. Manuel explained how it works. →

Katherine Manuel, the Senior Vice President for Innovation, oversees the Catalyst Fund at Thomson Reuters along with CEO Jim Smith.

Jim Smith, Thomson Reuters CEO.

► "Our history is growing through acquisition," Manuel says, but now the company is looking at how to spur more internal innovation. "When you move from being an M&A led company, to an organic growth company, you have to rewire things. So we've put in place programs to get more of that [organic growth activity] stimulated."

► "In 2014, we focused on ideation: share your ideas, any idea is a good idea, let's sift through what we get. Then we figured out how to create the structure and build the capability to rank ideas. But what we started realizing then was that the bottleneck was building fast proof-of-concepts, and testing things with customers—having the resources to validate the ideas."

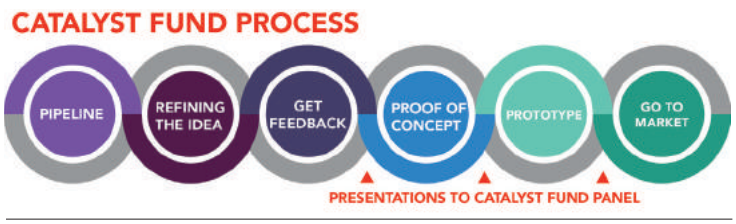
► New ideas are initially sent to the company's Innovators Council, a group of senior employees, for review and ranking. Based on the ranked results, the best ideas are selected to go in front of the Catalyst Fund panel. Feedback from the Innovators Council is aggregated and shared with the innovators, who can then work on addressing these comments and prepare their pitches for the Catalyst Fund panel. The actual time of the presentation to the Catalyst Fund panel is quite short—about 10 minutes, including the Q&A, so the pitch needs to be very focused.

► "The Catalyst Fund is a seed fund that is supported and sponsored by our CEO, Jim Smith. Ideas come from all regions of the company, and all levels of employees, and we have a pretty good process to vet ideas. We meet monthly with Jim." Among the criteria that Manuel and Smith use in vetting ideas are factors like organic growth potential; scale across the enterprise; and learning potential.

► "Jim talks to every one of the innovators. He's at every Catalyst Fund meeting. He gets to know the innovators, who are often very young. He wants to know what problem would this solve for the customer, or what is the market looking like around this idea. It really does drive that sense of commitment."

► "With the Catalyst Fund, the funding is to have budget to bring in contractors to help build out a proof-of-concept, and eventually create a prototype and go to market with a product. Or, you could use the funding to backfill your current role so you can work on the project full-time."

► "You can spend up to $100,000 for the first stage. You need to be clear on what the plan is, like to build a proof-of-concept. If that is [approved], then you need a business unit sponsor that supports it and says it res-



onates with their customers. The idea doesn't necessarily need to be product-driven; it can be related to the customer experience as well. At the next stage, we can split another $250,000 in funding between corporate budget and the business unit to build out a prototype. Then, at the final stage, you come back with your prototype and discuss plans for what happens next. Then it needs to be fully absorbed by the business unit."

▸ Throughout the prototype stage, which lasts about 3-6 months, the team continues working with the fund through the regular monthly check-in meetings. When ready, the team presents again to the fund panel, discussing lessons learned and next steps, which are either to discontinue the project or proceed into "go to market." Manuel says the company sees either one as an equally valid outcome. From that point on, the project becomes part of the "Business as Usual" processes at the company, and needs to be financed as part of the Thomson Reuters capital allocation process.

▸ Manuel encourages teams to talk to customers early in the process. "We like for market research and customer discussions to happen as soon as possible," she says. "Often, the best initial pitches have some customer voice included. If they don't, it is often the first thing the teams commit to doing."

▸ "We've had 74 projects submitted, over 50 ideas funded, and 18 that are now in market or poised for launch."

▸ "The most innovative people in the company are now playing with us. They're the early adopters, and they're getting on board. Everyone knows that the Catalyst Fund cannot just be a one- or two-year whim. The rhythm needs to continue; that beat needs to keep happening across the company. It shows continued support for this, that this is a new way of doing things at Thomson Reuters."

▸ What Manuel is focusing on now: "How do we take strong prototypes and get them into the hands of our businesses to really scale and get those to market. We're working to bring in business unit stakeholders earlier. When an idea comes up that seems like it could be something, they immediately will come up with a general architecture of what the idea could be, and bring in customers early, and contribute domain expertise from the business unit. The most basic thing is making everyone feel ownership—that their fingerprints are on something that we're creating. And our CEO wants to figure out how to fast-track some of these ideas, in the spirit of innovation and solving customers' problems, rather than waiting for next year's plan." ●

PROJECT EXAMPLES

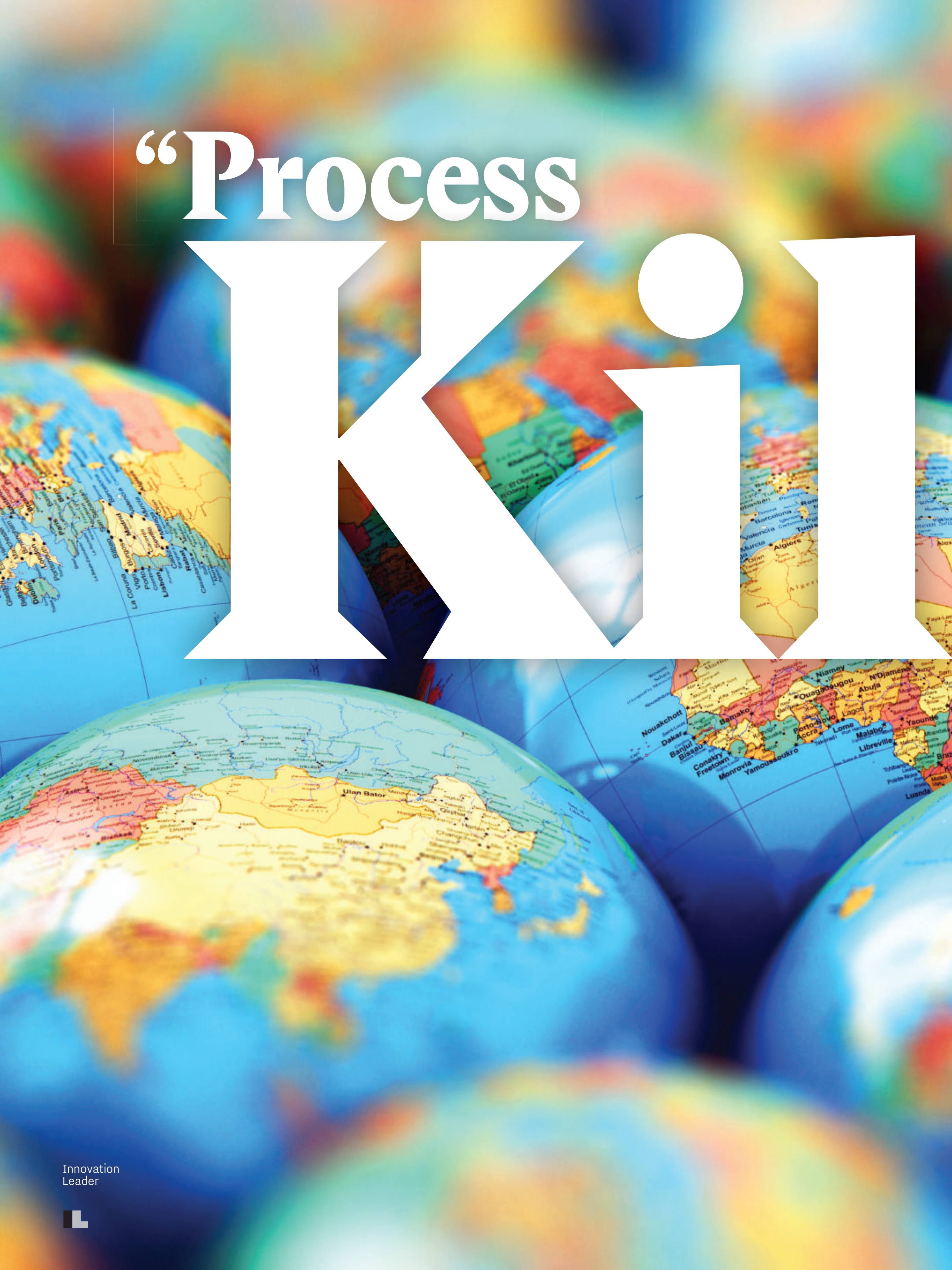
Healthcare Intelligence App The Eikon app targets equity research analysts (buy-side and sell-side) and investment bankers that cover the biotech and pharmaceutical sector. It integrates detailed drug pipeline information into an intuitive, yet powerful app that has proven to be a clear point of differentiation for Eikon in the market.

The team came up with the idea after finding out that the day-to-day workflow of a healthcare research professional was significantly fragmented and inefficient. These users were spending an inordinate amount of time collecting and curating drug pipeline information from a number of different providers; Thomson Reuters has almost all of the content that these users need. One client commented: "Your app achieves in seconds what currently takes me weeks."

Satori Satori allows any customer working with Pangea3 (a Thomson Reuters business that specializes in outsourced legal services) to request work and keep track of the status of their work from one simple interface. Customers can tell what is happening with their work at a glance. This saves customers time, and gives Pangea3 better control over workflow.

Court Wire Court Wire combines data from Thomson Reuters legal research provider Westlaw, Thomson Reuters tick history data about global asset prices, and the analytical features of Eikon to create a one-stop source for equity traders and other buy-side professionals to make investment decisions based on a legal action. The app provides automatic alerts in a trader's stock portfolio when a lawsuit has been filed against a corporation, and charts historical data to show how the stock prices of other companies and industries have reacted in similar circumstances. Court Wire reporters monitor over 200 key courts in the U.S.; report filings are delivered to clients hours, days, or in some cases weeks before the cases are scheduled on a court docket.

“Process Kil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Accra
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Niamey
Abuja
Malabo
Libreville
Luanda
Algiers
Barcelona
Valencia
Murcia
Tunis
Lisbon
La Coruna

Merck & Co.
Kenilworth, New Jersey

Is Innovation”

ADVICE FROM MERCK ON FOSTERING INNOVATION IN A GLOBAL BUSINESS

STORY BY PATRICIA RIEDMAN YEAGER
PHOTOGRAPHS BY MIKE LUND

Merck & Co.
Kenilworth, New Jeresy

Why are a growing number of companies setting up regional innovation initiatives that enlist everyone from executives to lower-level employees? What are the benefits—and the pitfalls? ¶ Few people are better-positioned to address those questions than Wim Vandenhouweele, who runs commercial innovation for the $40 billion pharmaceutical giant Merck & Co. in emerging markets, Europe, and Canada. Vandenhouweele's mission: helping to foster an innovation mindset globally. →

Wim Vandenhouweele, Commercial Innovation Leader, initially joined Merck in Belgium in 1983.

Distributed and Focused

Vandenhouweele's approach to global innovation is similar to those that Innovation Leader has encountered at companies such as Vodafone and Pfizer. Specifically, he brought a distributed philosophy to the challenge. "I don't want to build a team," he says. "I believe that process kills innovation."

Instead, Vandenhouweele identified in every region a "country innovation leader." In each case, that leader had another position at the company; for example, a marketing, medical, or other role. Between 40 and 50 employees across the world are chosen by this country leader to be responsible for commercial innovation. Vandenhouweele is in regular contact with them to provide guidance and advice; he is currently tracking a portfolio for each region that has approximately 10 to 12 initiatives in each.

According to Vandenhouweele, this distributed approach has helped country leaders zero in on innovations that address a commercial problem or a customer problem. This is very different from the company's classic R&D function, he says.

According to Vandenhouweele, the process of identifying and pursuing those innovations comes down to three Ps:

PROBLEM: Start with the problem, rather than a solution;

PASSION: Identify and support the people who are passionate about their innovation project;

PROCESS: Avoid it.

I. PROBLEM

Vandenhouweele emphasizes that it is absolutely critical to start with a real problem identified on the ground locally.

Too often, says Vandenhouweele, companies take a solution-first approach directed from a centralized innovation lab or corporate headquarters. Those solutions, developed far from target countries and customers, are rarely successful due to implementation challenges in developing nations. "Large companies come up with a great idea, and say, 'This is really great ... what we need to do is to find someone somewhere who can implement it.'" And while sometimes there will be good synergy between HQ and the in-country team, Vandenhouweele says this approach rarely works.

To illustrate this dynamic, Vandenhouweele discussed Merck's approach to drug adherence, or making sure patients take their full regimen of medication. This perennial healthcare issue could be addressed from HQ with a smart pillbox or reminder app, but

those solutions would miss the mark. That's because, according to Vandenhouweele, the on-the-ground adherence problem in certain nations may be different than the adherence challenge envisioned within the headquarters market. Smart pillboxes and reminder apps are good for those who forget to take their meds, says Vandenhouweele. But in emerging markets, patients might stop taking medicine for other reasons, like a fear of potential side effects. "A simple phone call could address that better than a smart pill box," he says.

This disconnect between "top down" centralized innovation, and "bottom up" innovation from global teams in-country, is critical for companies to understand and solve. "Corporate HQ may come to the conclusion that adherence is the problem," says Vandenhouweele, "but the reasons for non-adherence may differ widely in emerging nations."

To approach the adherence problem from the "bottom up," the team worked directly with teams in Australia, India, and the Philippines to address the adherence challenge at the regional level. The teams sought to understand the market dynamics in each country—including patients, hospitals, doctors, pharmacists, and more—and ultimately discovered that leveraging drugstore chains was the fastest and most efficient way to engage patients.

The final adherence program—which has been tested in multiple markets and is now being rolled out to 15 countries—has multiple components, including call centers and technology, such as reminder apps. "We got those learnings over time," says Vandenhouweele. "Once they reached that proof-of-concept, then I took the team that developed that solution, and asked them to share the results with the senior management team."

"One of the first things traditional managers ask when someone comes up with an innovative idea is, 'What is the ROI?' Very often, you have no clue."

Vandenhouweele was able to analyze key success criteria and identify all the countries and products that would benefit from the program. "Then we made a recommendation: 'This is what we should be scaling to in these countries; here are the resources we would need; here are the resources the country would need; and we need this center of excellence to help countries,'" he says.

According to Vandenhouweele, the program is a perfect example of how on-the-ground "bottom up" approaches to innovation in counties can have a big impact. "It has dramatically increased adherence to many of the diseases Merck medicines address, especially diabetes."

Of course there are no guarantees that this local approach will work; in fact, Vandenhouweele admits that failure is not only accepted, but expected within the organization. "We have a significant failure rate, because I am only looking for things that have never been done before," he says.

II. PASSION

Just as important as the locally-driven, "bottom up" approach, is finding passionate leaders for innovative initiatives.

In the beginning, Vandenhouweele says he selected regional innovation leaders whose more senior status and credibility within Merck might help get innovations implemented. Unfortunately, that was "a total failure," he says.

Vandenhouweele found that these high-ranking managers have so many responsibilities that they often have limited capacity. More importantly, Vandenhouweele found these managers didn't always have an affinity for innovation. For example, those who move up the corporate ladder often are great at seeking out for efficiencies and adjacent opportunities. But those characteristics, says Vandenhouweele, are not necessarily what you want in a champion of innovation and further-out ideas.

Instead, Vandenhouweele began seeking out specialists in a particular area, some of who were very junior in that country's organization. "I've seen examples of someone who was four levels below the managing director," he says, "but made a major change in that country because she was so passionate about it."

In one particular case, Vandenhouweele says a lower-level executive from the company's Venezuelan team had devised a simple plan to promote innovation by showcasing examples of successful Merck programs from Venezuela and the rest of the world. She even persuaded management to do a company-wide meeting to promote the program, and launched an annual innovation competition, with awards and incentives for winners.

"She made an enormous change in the organization," Vandenhouweele says. "I see this repeatedly in other countries," he adds,

noting that this approach has allowed him to identify high-performing individuals that may be under-the-radar. "I go away from the requirement of the level of authority, and focus on each person's absolute passion."

Ultimately, investing in innovation is about delivering results, and Vandenhouweele says working with passionate leaders helps get the company there. "If you have passion for a solution, you're going to go after it and you're going to find the time, resources, colleagues, and collaborators," he says.

Vandenhouweele also inspires his teams with monthly calls with the entire innovation network, in which they share ideas, initiatives, or programs that different countries are implementing. When he brought the aforementioned Venezuelan innovator on the call, "suddenly she became a celebrity," says Vandenhouweele. "That was another reinforcement to continue to do it." Now Vandenhouweele says he sees that replicated all over the world. "Those models are infectious."

III. PROCESS

Vandenhouweele isn't opposed to all processes; just those that can create innovation logjams.

"One of the first things traditional managers ask when someone comes up with an innovative idea is, 'What is the ROI?'" he says. "Of course, very often you have no clue, because you don't know if something is even going to work."

As a result, Vandenhouweele has worked hard to streamline the ideation, feasibility evaluation, and pilot stages. "In the front end of innovation, I recommend as little process as possible," he says.

To accomplish that at Merck, he developed a simple framework to help teams quickly identify innovations, examine qualitative assumptions, and work through feasibility issues. He developed worksheets that allow a country innovation team to define a problem in two minutes, and then help them through a quick and low-cost feasibility test. "If it fails, it fails quickly and cheaply," he says. "If it works or there are some adjustments, you adapt it a little bit and then you go forward."

Vandenhouweele's streamlined system ensures innovators talk to stakeholders, collect feedback quickly, validate key assumptions, and make course corrections as needed.

This approach helps maximize participation and productivity. "If you need ten steps and three forms to fill in for every idea you have, nobody is going to do it," he says. "They just give up and they lose all interest." Vandenhouweele's role often entails helping the innovators clear obstacles, whether political, financial, or technical.

But he acknowledges that minimizing process can be tricky on a global scale, especially when it comes to regulatory or compliance matters.

Vandenhouweele's "light on process" approach has evolved to engage early legal and compliance departments, which play critical roles in Merck's core business. "I don't want a blessing or approval [from legal], but they can say to the innovators, 'Watch out for this,' or 'If that is your objective, then this is how you could approach it.'"

In the end, Vandenhouweele acknowledges that spurring global innovation is a complex challenge. "I know the culture of the company is very hard to change," he says. "It's like little flames that I try to [light] across the organization, and hopefully that's going to create a big fire, which will then change the culture." ●

PROJECT EXAMPLE

In one country, Vandenhouweele's team was faced with a particular challenge: high demand for Hepatitis C products, but little patient ability to pay out-of-pocket. "Because of local cash flow issues," says Vandenhouweele, "only about two percent of the populatio could afford the product."

The local Merck innovation team participated in the ideation, stakeholder engagement, and testing activities outlined in this article, and quickly realized that the innovation needed was actually a financial one; namely, a relationship with a bank that could provide each patient with a loan.

The solution turned out to be a win-win for everyone. Patients were able to benefit from the full six-month treatment period, but could finance the treatment over as long as three years. "Because of this approach," says Vandenhouweele, "more than 45 percent of the patients could afford the product."

Similarly, there was an important "win" for the bank: the ability to develop relationships with a new group of customers. That's because most of the patients were living in remote areas, and had no financial history or established relationship with a financial institution

Vandenhouweele says the success of the innovative vaccine-financing program has the potential to expand elsewhere. "When we showed it works for the patient, the partners, and the company, we started to look at other countries where we could scale it."

The Freightliner Argosy, a heavy-duty semi made by Daimler Trucks.

High Gear

TRAINING INTRAPRENEURS AT DAIMLER TRUCKS

STORY BY STEVEN MELENDEZ
PHOTOGRAPHS BY ROBBIE MCCLARAN

Daimler Trucks North America
Portland, Oregon

To help its most promising employees build entrepreneurial skills and cook up novel solutions to customer problems, Daimler Trucks North America sent them to truck dealerships, on long-haul trips, and to improv classes. The company organized horseback rides and banned PowerPoint presentations. It was all part of a three-month program, SPIN, modeled on the tech industry's successful startup accelerators, which the company has run annually since 2013. (SPIN stands for Special Project Idea Navigation.) ¶ "Our industry is very difficult, because it's not super sexy. We have to find ways to be interesting, and we have to attract the best employees and get the most out of them," said Lori Heino-Royer, director of the company's Business Innovation and Program Management Office. Daimler Trucks is a subsidiary of $141 billion Daimler AG. →

Innovation Leader

Lori Heino-Royer oversees the SPIN accelerator at Daimler Trucks once each year, either in the summer or fall.

Accelerator participants devote three months — full-time —to the SPIN program. Consultant Michael Sturn with Heino-Royer.

The SPIN program brings nine carefully selected employees from the 20,000-employee trucks division to Portland, Oregon, its headquarters, where they spend three months effectively working as an internal startup. That means no conference calls or emails with their regular teams, and no going back for meetings, says Heino-Royer.

"The first month, the team basically spends an entire month getting knowledge," she says.

Team members take field trips to Freightliner truck dealerships to see what works and what doesn't—often the first time many have visited a dealership. They visit with customers to see how they use their trucks.

"They actually go for ride-alongs on trucks, and they go on hauls," she says.

BUILDING TEAM BONDS

At the same time, they're also learning to work with each other. There are team activities like golfing and horseback riding, and visits from mentors across the company, often including the CEO and board members, says Heino-Royer. They have daily team lunches and weekly team dinners, where the group shares success (and failure) stories from the week, she says.

"It's an avenue for them to get out of their systems what they are frustrated with," she says.

There are also outside mentors and facilitators who work with the teams: The company works with On Your Feet, an improv-based team-building consultancy, and with facilitators from the Portland Incubator Experiment (PIE), a startup accelerator. In addition, mentors from roughly 20 different companies drop in to help expand participants' thinking beyond Daimler's industry and culture. They're also exposed to different problem-solving methodologies.

The group works in a setting Heino-Royer compares to a living room—complete with its own rules of family-style etiquette, like no tech-mediated communications while in the living room.

"They had to look eyeball to eyeball," she says. "They had to work through all their ideas and their disputes in a face-to-face way, which really changed how they interacted and how quickly they were able to get to new solutions."

The second month of the program is devoted to ideation—translating what the group has gleaned from site visits and research into potential projects. For example, one recent class built a national parts database, tracking vehicle parts available across the company's network of dealers. Previously, Heino-Royer says, each dealer listed its inventory on its own website. "There was no national database of where all the parts were," until the project, which evolved into something live today on Daimler's website.

PITCHING TO THE BOARD, INSTEAD OF VCS

In the final month, the group focuses on developing a prototype and practicing a pitch.

"In a high-tech accelerator, they pitch to VCs at the end, and they look to get funded," she says. Within Daimler Trucks, "we pitch to the board. We want the board to invest in the solution."

Since participants are usually only a few years into their careers at Daimler, it's usually their first time in front of board members. And they're allowed to use any presentation medium except PowerPoint, she says. "It teaches the participants how to better use analogies to tell their story," Heino-Royer explains. "By removing PowerPoint, they have to think differently to get the message across. It also keeps them from reading a slide, so the presentations are much more authentic."

"In a high-tech accelerator, they pitch to VCs at the end," Heino-Royer says. At Daimler Trucks, "we pitch to the board. We want the board to invest in the solution."

The program isn't just about building prototypes—it's about building the participants' relationships with each other, with the company, and with its dealers and customers.

"Some of them end up saying, 'I really have this great relationship now with a customer that I never understood before,'" says Heino-Royer.

"What I learned through SPIN was the idea of embracing failure," says Maria Mar, a Market Planning Analyst who participated in SPIN in 2013. "I realized that it's not always the final goal that's important: you learn during the process. The fact that we didn't know anything about the subject, but at the end we were able to do something that helped the company is incredible. I learned that even if you don't know 100 percent about a topic, you can still be an agent of change." ●


Innovation
Leader

Street Smart

HOW P&G'S CLAY STREET INNOVATION STUDIO HAS EVOLVED TO HAVE BROADER IMPACT

STORY BY ANN BROCKLEHURST
PHOTOGRAPHS BY PAUL ELLEDGE

Back in 2004, when Procter & Gamble initiated the Clay Street Project, the company wanted not only to get employees working in different ways to foster innovation, but also to address the problems that can get in the way of new ideas growing into successful new products. To accomplish that, it took teams of employees out of their day jobs, often for as much as three months at a time, gave them just one task to focus on, and made the teams accountable. ¶ The Clay Street sessions, as they became known, took place in a refurbished brewery in a not-quite-gentrified Cincinnati neighborhood across the river from Procter & Gamble's corporate headquarters. To qualify for entry, teams had to have identified a big problem to solve. And over the years, many did just that. One of Clay Street's early achievements was the reinvention of the flagging Herbal Essences hair care brand. →

Karen Hershenson, leader of Procter & Gamble's Clay Street Studio, joined the company after stints at Coca-Cola and Mattel.

Innovation
Leader

“We want [participants] to get all their bad ideas out of their head. A ‘stupid’ idea gets built on. You start to see new connections. From those connections, great ideas can emerge.”

The Clay Street team meditates together each week, as a way to take a pause and get in sync.

Clay Street staffers, clockwise from upper left: Devin Baldridge, Sarah Heidel, RJ Sargent, and Nancy Schulz.

Moveable walls and "displayed thinking" are core to the Clay Street approach, making everybody's ideas visible, encouraging collaboration, and reinforcing iteration.

Later there was the Swash session, which led to a new appliance designed to get rid of wrinkles and freshen clothes without constant laundering. And then there was the branding of Procter & Gamble itself: the company had long resisted a P&G brand, instead putting the emphasis on famous products like Tide, Pampers, Crest, Cascade, and Gillette. The popular Procter & Gamble ad spots about athletes and their mothers, shown during the Rio, Sochi, and London Olympic Games, are just one example of the wide-reaching initiatives that started with a Clay Street session.

By any standard, Clay Street proved itself a success, but as any good innovator will tell you, you can't rest on your laurels. While the three-month Clay Street timeframe had originally been selected, in part, because that was the time needed for new work habits to really sink in, it also had a drawback. It limited the number of people who could take part in Clay Street sessions. And, says Karen Hershenson, who leads the Clay Street Project and has been there since the early years, "Sometimes both the people and the ideas had changed so much it was difficult to get them back to the regular P&G system."

Over the years, many of the ideas that had seemed novel when Clay Street first opened—its giant Marimekko bean bags, circle conversations, and cell phone bans—have become mainstream and "really commonplace in the rest of P&G," Hershenson explains. "We want to make sure... that people don't feel they have to be at Clay Street to be innovative, that they can be innovative anywhere. So that's been our goal as we evolve."

"We want to make sure...that people don't feel they have to be at Clay Street to be innovative, that they can be innovative anywhere. So that's been our goal as we evolve."

INTRODUCING A SHORTER IDEATION AND PROTOTYPING SESSION

One of the new core offerings at Clay Street is now a two-week session known as Shift. The pattern of what teams do there remains

the same, says Hershenson. But the pace is accelerated.

The first half of the session is still devoted to inspiration and ideation. To encourage the ability to listen, participants spend each morning in conversation. To further open them up to different points of view, Clay Street regularly brings in outsiders—for example, an architect to talk about stores, or an acting teacher to discuss character as a way to better understand how to develop a relationship with the consumer.

"The consumer understanding is probably the most important part," says Hershenson. "At Procter & Gamble, we have a lot of consumer knowledge, and what we try to do with our teams is move them into understanding and caring about her—not just studying her habits."

In the second part of the session, consumer insights are put to use as the team works to write a strategic story and create a prototype. "At the end of two weeks, leadership comes in for a final presentation. Usually, preparing for that final presentation is when the magic happens," says Hershenson.

FINDING A DIFFERENT WAY TO USE EXPERTS

This is not to suggest the history of Clay Street has been all rainbows and lollipops. Over the years, Hershenson and her team have learned that "some people aren't a good fit for working at Clay Street." One conflict that kept recurring was with participants unwilling or unable to relinquish their expert status. The goal in asking them to take off their "guru" hat was to have everyone on the team stretch themselves and learn. "We want you to bring all the things you know, and be able to accept what everyone else brings," says Hershenson. "Sometimes that expert title gets in the way of collaboration."

A decision was eventually made, says Hershenson, to put "deep experts" into more of a consulting role, where they participated in Clay Street in a different way. Sessions also "spend more time honoring past work and recognizing expertise early on."

While the Clay Street website states that "genius lies inside of everyone" and "it only needs to be revealed," Hershenson says it's

Throughout the Clay Street space are areas for connection and conversation.

not a no-idea-is-a-bad-idea culture.

"If you hear someone say, 'all ideas are welcome,' you might think it's about consensus or everybody just getting along, but that's really not the case. I don't believe every idea is a good idea at all."

"We want [participants] to get all their bad ideas out of their head," says Hershenson, adding that the goal is to make people feel comfortable enough to express even the most outrageous idea. "A 'stupid' idea gets built on. You start to see new connections. From those connections, great ideas can emerge."

Hershenson acknowledges that there are ideas that sometimes spring from the mind of the proverbial lone genius, but she says it takes a multifunctional team to blend the consumer insights, business strategies, and enabling technology that are required for P&G brands to innovate effectively.

INFUSING CLAY STREET INTO THE ORGANIZATION

Clay Street's current focus is on supporting teams after they leave, and "putting the power back in the organization," says Hershenson. Sometimes, teams are brought back to Clay Street every few months. In another case, a Clay Street leader was sent to sit full-time for a year in the team's business to help other employees there develop new habits. While the project was a big success, resources dictate that not every team can take its own full-time facilitator with it when it leaves Clay Street. Hershenson is now trying to figure out how to capture and recreate the same sort of reinforcement and spreading of positive habits, but without a full-time Clay Streeter. "What's working well for teams is when they have a shared space to work together, use displayed thinking, and regularly pause to connect the team and the work."

As simple as that may sound, when it's not done, teams can drift back to old habits and established ways of working, with standing meetings and less intense focus. "The idea," Hershenson emphasizes, "is to use Clay Street to represent a way of working [at P&G] versus a place, so teams can say, 'We created our own Clay Street process.'" ●

The wish pot is a Clay Street artifact each team member receives at the end of a session. Inside, team members place messages for their teammates to highlight their unique strengths and contributions.

Strip Mall Disruptors

INSIDE CARDINAL HEALTH'S FUSE LAB

STORY BY SCOTT KIRSNER
PHOTOGRAPHS BY PAUL ELLEDGE

Cardinal Health, Inc.
Dublin, Ohio

In 2013, Brent Stutz of Cardinal Health was hunting for a place to plant a new innovation center. Given the center's focus on building new technologies to support the healthcare industry, some suggested that Silicon Valley or Boston were obvious locations. But Stutz was convinced that it'd be hard to move many of the company's top technologists out of Dublin, Ohio, where $102 billion Cardinal is based, and that he wanted a spot where senior executives could visit regularly, as opposed to once or twice a year. ¶ "If we're enabling our business to do incremental and disruptive innovation, it needs to be pretty close to our headquarters," says Stutz, Chief Technology Officer for Cardinal's pharmaceutical business. ¶ The problem was that many of the places that Cardinal's real estate team identified felt "incredibly boring," he says. You'd get off the elevator on the third floor of some boxy building, and it looked just like you were at any other Cardinal Health location." ¶ Stutz also was working with a build-out allowance of under $2 million; his boss, Mike Kaufmann, wanted the project to fly under the radar of Cardinal's CEO, George Barrett. "You've got to go skunkworks sometimes," Stutz says. →

As Stutz was beginning to despair about finding the right spot, he got a call from a friend, Bob Myers, who runs Pillar Technology, a digital development firm. "I've found your space, and I'm gonna show you," Myers announced. He drove Stutz over to a Halloween pop-up store in a strip mall. It had a street-level entrance, and was walking distance to a few bars and good restaurants.

"When our senior leaders came, they had major reservations about it," says Stutz. "There were crazy witches popping up when you walked around it, since the Halloween store was just closing down. They were like, 'You want this to be your innovation center?' I said, 'Just trust me." Stutz reports to both Cardinal's Chief Information Officer and the CEO of Cardinal's pharmaceutical business.

THE VISION

Stutz dubbed the new center Fuse, since the vision was for it to be a place where Cardinal's technology expertise, healthcare industry knowledge, and customers' needs would all come together to ignite new projects. "When you come to Fuse, it's all about the customers. It's customer-in." Visiting employees and executives "would leave their business unit affiliations and their badges behind."

"When you come to Fuse, it's all about the customers. It's customer-in." Visiting employees and executives "leave their business unit affiliations and their badges behind."

At Fuse, Cardinal wanted to create a distinction between the technologies it uses internally to run its business, and the commercial technology it deploys to customers like pharmacies, hospitals, and oncology infusion centers. There was a sense that the teams building commercial technology needed more opportunities to interact with and build with customers, and they needed to embrace more flexible development approaches like agile, lean startup, and design thinking.

Stutz likes to say that Fuse works on solutions for hospitals, specialty clinics, and pharmacies. And, he adds, "we are starting to build solutions for patients, [as a way of] enabling our existing customers to build better relationships with their patients—think B2B2C."

Fuse employees often review projects and software code in communal seating areas, rather than conference rooms. Here, Kenny Brady, Jessie Olesnanik, and Edward Liu connect.


HELLO
my name is
Fuse
HELLO
my name is
Fuse

Above left: VP of Product Innovation and Strategy Ben Stormer. Above right: Director of Software Engineering Stephen Langella. Below: Ray Li in Fuse's game room.

CONTEXT-SWITCHING

Working with the Columbus-based architecture firm WSA Studio, Stutz transformed the former Halloween store, adding a bright orange vestibule, an iris scanner for secure access, a large poured concrete table that would bring people together for lunch, and lots of glass. "In our huddle rooms, you can see who's in there together—everything's open and transparent, like we want to be." There are no cubicles—just high and low tables that fit about six employees. "My team size for an agile or design thinking project team is from six to 12," Stutz says. "So teams are either one table or two tables." A team typically focuses on a specific customer project or exploration, like medication adherence, or consumer wellness.

There is a ping pong table in Fuse's front lobby that gets heavy use, and a game room with an Xbox and Wii that employees brought in; those get used less often, Stutz says. But the bean bags and large TV in the game room serve as a comfy place for code reviews. "You'll find a team sitting in bean bags and use the big monitors for their Macs, doing code reviews and talking about requirements," Stutz says.

Installing a kegerator in Fuse's kitchen required roughly "30 hours of executive meetings about the risks that someone would get drunk at Fuse," and the company would be liable. But Stutz prevailed, and a Fuse employee used some of his "spark time"—four hours of undirected project time every other Friday—to build a device that monitors both who is using the kegerator to dispense beer, and how much beer remains in the keg. There are some common-sense rules: employees chip in for beer; the keg doesn't get used before 4 PM; and interns don't have access, regardless of their age.

"When people are coming to Fuse from their daily job, you want to hit them with a little shock and awe," Stutz says. "You've got to have people context-switch. We didn't want senior executives to act like they act at headquarters." But another benefit of the non-traditional space is that Fuse helps Cardinal attract technology talent—from data scientists to user experience specialists to research analysts—who might not otherwise consider working for the company.

STAFFING, EVENTS, PROJECTS SO FAR

Work on Fuse started in February 2014, and employees began moving in that May. Roughly 100 people work out of Fuse—though about 20 percent of those people don't use it as their primary workspace. "They may be a sales VP who has brought in a customer with a pain point, where they want to do some design thinking work with them," Stutz says.

"I have a finance person and HR person who sit at Fuse," he adds. "We have a completely different review system for hiring, for budgeting, for performance reviews" that offers more flexibility than the "mainline" processes at Cardinal.

One of the higher-profile projects to emerge from Fuse is Cardinal Health MedSync Advantage, which helps pharmacists identify patients who would benefit from medication synchronization, so that patients can pick up all their medications in just one trip. That offering was developed by a Fuse team in collaboration the with Cardinal Health Retail Independent business, which was responding to an issue a customer had flagged.

"When people are coming to Fuse from their daily job, you want to hit them with a little shock and awe. You've got to have people context-switch. We didn't want senior executives to act like they act at headquarters."

Fuse regularly hosts hackathons, tours, student coding bootcamps, and after-work meetups on topics like lean startup, agile, and the Hadoop programming framework.

While the initial plan was to set up Fuse with its own P&L responsibility, with the ability to launch new offerings, that has changed. Fuse has built a reputation as a place that can get things done fast, and bring customers into the development process, Stutz says. But he has acknowledge the need for allies within Cardinal's lines of business, some of whom will rotate through Fuse on assignments. The notion now is that Fuse will serve as test-bed, and that once projects prove their worth, "we'll scale and commercialize them through the businesses."

In the two-plus years since it opened, Cardinal executives now believe that Fuse "has done as much for our brand as our new marketing and advertising campaigns," Stutz says. "It has created a sense that Cardinal is willing to listen to our customers; we're no longer just a stodgy wholesaler in the Midwest." ●

Navigating Innovation Options

INNOVATION IS A CORE BUSINESS PROCESS

BY **MICHEL VAN HOVE**, PARTNER, STRATEGOS

MOST EXECUTIVES TODAY WOULD SAY THAT innovation is a core activity of their company. They speak about it in public as key to meeting their customers' needs for new products and services and assert that innovation that keeps ideas flowing from inception to commercialization is key to building a sustainable business.

Resources are allocated, goals defined, responsibility delegated, and idea generation sessions organized. "Big data" is high on everybody's radar and used as input to identify opportunities. Processes to prioritize, conceptualize, and commercialize ideas are implemented either within new product development, or as part of a broader innovation portfolio approach.

Why is it then that so many executives still claim that results are not what they expect and after a few years of trying shut down innovation initiatives? What makes innovation more difficult to embed in an organization than other core business processes? Why aren't companies getting the results they expect?

The Innovation Flavor of the Month

We frequently see clients asking what to do to innovate, and more specifically, how to do it before they've addressed one other critical question: innovation to achieve what? It seems we're most comfortable with the first two questions because they give us clear answers that we can translate into actions. As a result, many companies end up executing the hottest and latest approach in innovation they have read about.

Innovation labs, corporate incubators, startup collaboration, open innovation, lean startup, co-creation, and crowdfunding are all interesting innovation concepts. But unless you know what you're trying to achieve and why, it's very unlikely that the innovation tactics you choose will lead to success. And, unfortunately, there is no generic innovation solution that works in every environment.

Navigating the Options

How do you navigate the increasingly complex landscape of innovation options and make choices that work for you? Here's a very pragmatic way to get started that we apply when we work with clients on shaping their innovation agenda. It engages a group of senior executives and stakeholders and helps them to align their perspectives and ambitions for innovation, and understand choices and tradeoffs they need to make, before starting an innovation initiative.

This method addresses two overarching questions: "What is our vision of success for innovation in our business?" and "What should our innovation capability look like?"

Step 1: Perspectives on the world around us. To start addressing this question, we first ask executives to look outside of the company and define what significant changes they see occuring around them now and in the future; what they believe the implications of such changes are for the company; and then to prioritize those that they can and should address with innovation. The outcome of this exercise provides the foundation, and should be revisited periodically to assess if it is still valid. This provides a way to monitor whether what the company is doing still makes sense and deal with the inherent uncertainty associated with innovation.

Step 2: Define the scope of your innovation effort. Next, we explore innovation scope: what types of opportunities at what stages of development will the work address, and how broad should participation be? An innovation program designed to bring already-identified

ideas to market with the most efficient use of employee time looks much different than a broad, capability-building effort aimed at white space. In many cases, the answer lies somewhere in the middle: innovation isn't an either/or decision, but a portfolio and resource balancing act. And the conclusion shouldn't automatically be that "everybody can and should be participating in innovation."

Step 3: Business outcomes. Innovation should be about delivering results, and we need to be clear up front what we expect it to contribute. This shouldn't be just about financial results, but equally about other dimensions such as geographic footprint, category leadership, new ways of customer engagement, and/or establishment of new economic models. For example, when we defined the vision of success with the leadership of a food and beverage company, the expectation was that innovation should contribute to its market leadership in sustainability, as the senior executives saw that position as key to longer-term survival.

At this point, you should give some thought to how you will measure the business outcomes you seek. Consider potential metrics for inputs (resource view), throughputs (productivity view) and outputs (results view) of the innovation system to obtain a complete picture of your innovation performance.

Step 4: Organizational characteristics. Next, describe the organizational "future state." What does the organization look and feel like, in real terms, to deliver our chosen innovation scope? We ask clients to describe this in terms of transitions from the current state to the future state to identify gaps they must close if they expect to develop the cultural and organizational capacity to innovate.

For instance, with one client, the innovation focus needed to be on commercialization and scaling of opportunities that were outside of their core business. This required a specific set of skills around defining business models and experimentation, and less about "front-end" discovery techniques.

Another client wanted to use innovation as the leverage point for cultural changes including a shift in leadership behavior from "telling" to "asking," and the establishment of much deeper empathy for customers' challenges and desires across the employee population. These goals had direct implications for the design of the innovation program's leadership learning agenda, skill-building activities, and metrics.

Step 5: Barriers and enablers. Identifying barriers and enablers for innovation is important to understand what to amplify, leverage, or overcome. Often, the most critical barriers are not tangible processes or resource constraints, but embedded beliefs about how the business should operate. These beliefs influence how the organization is structured, its processes, policies, and behaviors. They can prevent people from being effective, and in the worst cases, cause innovations to be stopped altogether.

One of our clients in industrial manufacturing observed that despite their ambition to innovate in areas beyond their core business, none of the ideas they had identified ever made it through to feasibility stage. A quick scan showed that resource allocation decisions were primarily being made on the basis of optimizing asset utilization, and so only ideas that fit this agenda were progressed.

By identifying critical barriers and enablers, including belief-based ones, you can address them explicitly in the structure and resourcing of the innovation program.

Creating an Innovation Agenda

To complete your innovation agenda, build a migration map that highlights the various activities that need to be deployed, a 30/60/90 day detailed plan, and how you will monitor and manage progress.

The result of this very practical exercise is a well-defined and detailed agenda for innovation that is focused on results, clear on scope, and actionable in terms of building organizational capabilities that are right for you.

Equally important is that the senior people in your organization have participated in the dialogue, have a shared vision of success for the "why" of innovation, and are far less likely simply to invest in the latest innovation "flavor of the month."

LEARN MORE AT STRATEGOS.COM, AND FOLLOW MICHEL ON TWITTER: @MVANHOVE.

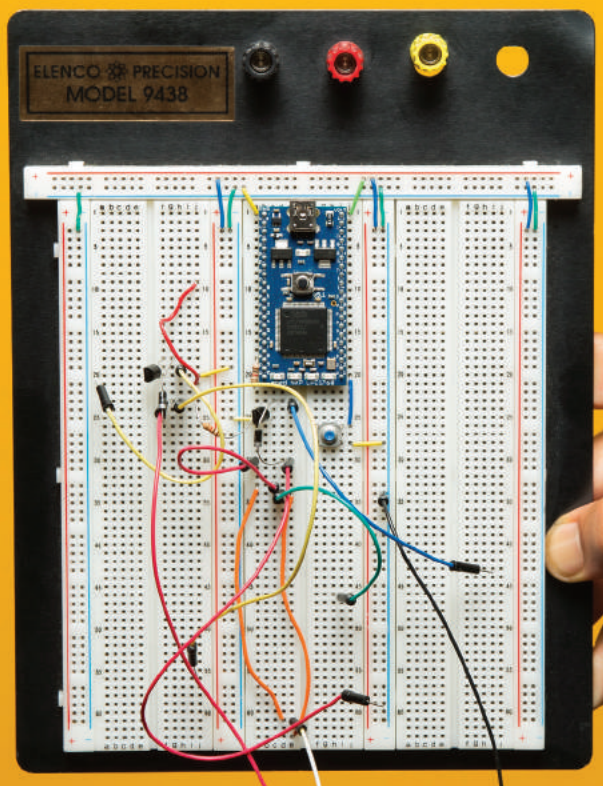
The Home Depot
Atlanta

Innovation
Leader

HOW HOME DEPOT IS ATTRACTING NEW TALENT IN ATLANTA

STORY BY STEPHEN ELLISON

PHOTOGRAPH BY TIM REDMAN



ON CAMPUS

When Home Depot opened a new innovation center next to the campus of Georgia Tech in early 2015, it had three objectives: connect with engineering students who might eventually consider joining the company; explore technologies with the potential to impact retail; and host brainstorming sessions with employees from throughout the business. ¶ "It's an innovation center outside of the shadow of our corporate office," says Anthony Gregorio, who oversees the facility. "It allows us to do quite a bit without being influenced by the rest of the organization." ¶ We spoke to Gregorio, a Senior Manager, and his boss, IT Director Martin Key, about what the $88 billion retailer is doing in the new lab, and why it chose the Tech Square area, bustling with startups as well as other large companies like AT&T, ThyssenKrupp, and Coca-Cola Enterprises. →

Brandon Kearns and Anthony Gregorio. Kearns joined Home Depot after attending a coding bootcamp; Gregorio after interning with the retailer.

The Home Depot lab is part of Atlanta's thriving Tech Square neighborhood.

CAMPUS CONNECTIONS

A big part of the lab's location and partnership strategy with the university is to tap into Georgia Tech's co-op program, where students gain work experience to complement their education. A select group of 25 students works alongside Home Depot associates at the lab, testing and developing new technologies. And while not all of the students may be interested in long-term careers with Home Depot, Key admits, the program seeks to establish a pipeline for talent.

"From my perspective, part of my role is actively going out on campus and doing recruiting, trying to integrate as much as I can with the campus, the different colleges, different majors, different professors and potentially the different student groups ... to find the right people and solve the needs we're looking to solve," explains Key.

Gregorio, himself a former Home Depot intern, has also been building relationships with Atlanta-area coding bootcamps like The Iron Yard, General Assembly, and Digital-Crafts. "We've been able to influence the curriculum, and fill them in on what technologies are important to us. There's no point in a bootcamp focusing in on technology X when we really need technology Y," Gregorio says. He attends "demo days" when graduates of the programs show off the projects they've

built; offers tours of the innovation center "to take them through our development methodology," as well as making the transition from a bootcamp to working for Home Depot; and speaks at bootcamp programs or conducts mock job interviews with bootcamp participants. (Brandon Kearns, who works with Gregorio on the innovation center crew, graduated from General Assembly's 12-week web development program.)

Proximity to other Fortune 500 companies in the Tech Square neighborhood has its benefits, too. "When you look at the type of company we are, we don't necessarily invent technology, but we invent ways to use technology that's out there," says Key. "So the more integrated we are with other businesses the better." The innovation center also hosts meetups and events that bring in entrepreneurs and software developers from outside Home Depot.

TECHNOLOGIES CHANGING THE RETAIL BUSINESS

Key says that the second focus for the center is to track emerging technologies like 3D printing, virtual and augmented reality, or wearable devices: "Part of what I have to do is figure out what's worth focusing on and what's not quite ready yet," he says.

**“We’ve been able to influence the curriculum, and fill them
There’s no point in a bootcamp focu**

ANTHONY GREGORIO (LEFT), WITH INNOVATION CENTER CREWMATE BRANDON KEARNS

in on what technologies are important to us.
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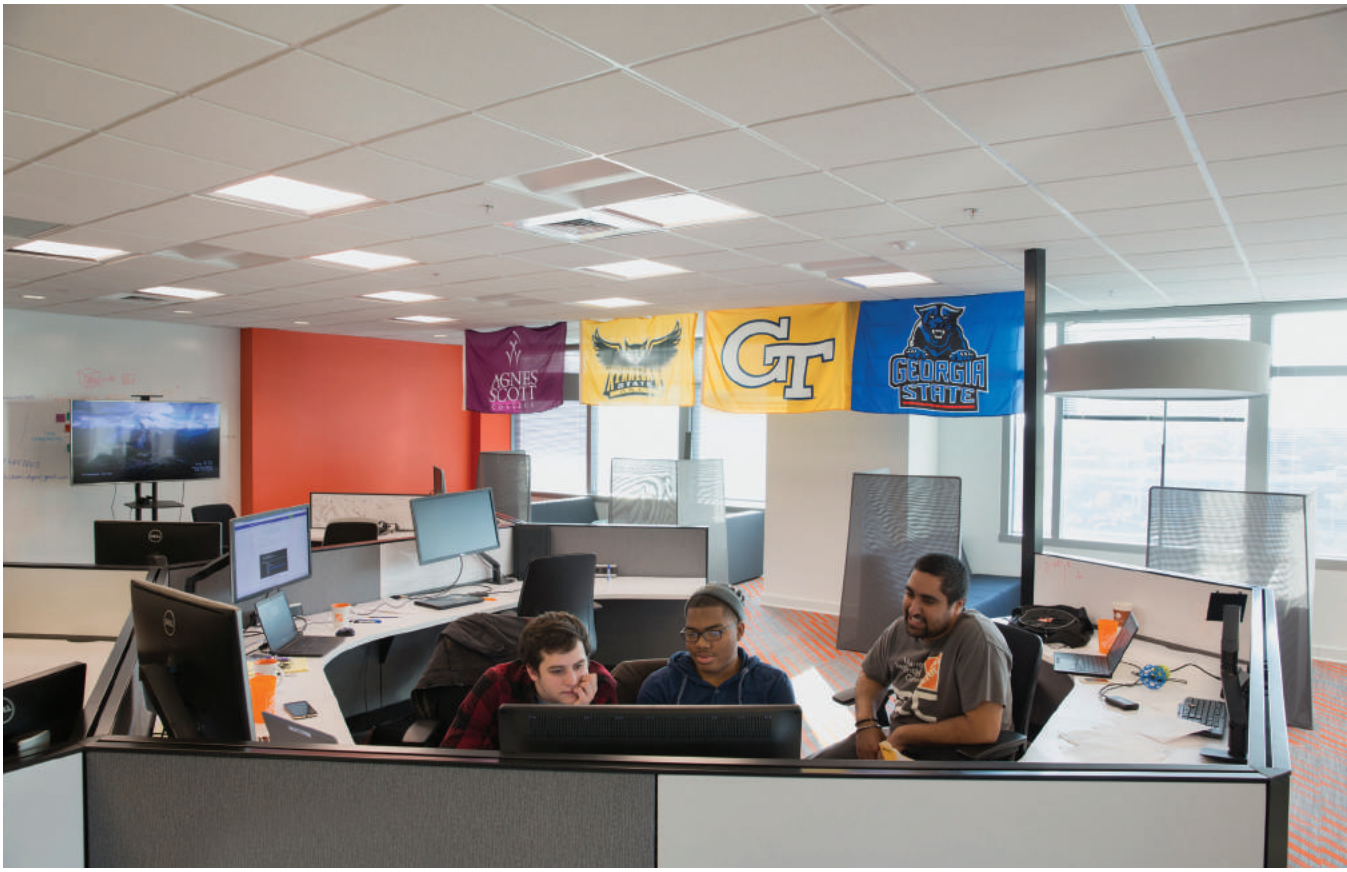

Banners from Atlanta-area colleges hang behind a group of interns.

One set of technologies Key is exploring are those that will give in-store associates more face time with customers. "Obviously, the more time they can spend with customers the better," Key says. "That, we believe, is our differentiating factor between a standard dot-com and a brick and mortar. Some of our projects that are coming closer to fruition use advanced analytics to help minimize the time associates are tasking—or optimizing the tasks they do." (Those tasks don't involve being available to customers.)

Another theme the center is exploring is virtual reality and augmented reality. The problem: How does Home Depot enable its customers, whenever or wherever they want, to get the full experience of the product they're shopping for, or the entire home renovation they're planning? Visualizing a new cabinet in a kitchen, or a fully rehabbed guest bedroom, may not involve devices like Oculus Rift virtual reality goggles or Microsoft's HoloLens, Key says. It could involve dropping a smartphone into a special viewing device, or displaying a 3D environment on a tablet. Another possibility is planning out store design itself without actually moving shelves or merchandise.

Gregorio also says that his team tracks all sorts of new software development tools, frameworks, and languages that may prove useful to programmers throughout Home Depot. They also pay attention to new devices that customers might carry into stores, or that might help associates work more efficiently. Key says, "There are multiple devices that come out every day—the new watches, and new devices within the tablet space that have new functionality—so we're kind of looking at those to determine if we can provide a better experience for our customers as well as our associates."

TIES TO THE BUSINESS

Most days, employees from the business units visit the innovation center, or its staffers drop in at the nearby headquarters (known as the Store Support Center) or the Marietta Technology Center. "We'll do ideation sessions around a problem, and work together to figure out what will add the most value while managing complexity," Gregorio says. "We deal with [user] personas to figure out what we're trying to work toward, and

A whiteboard of Post-it Notes tracks project assignments and progress.

eventually begin to decide the features for a minimum viable product."

Key explains that the center's environment has proven conducive to new kinds of discussions between technologists and business unit leaders. "Just having the right atmosphere, the right environment, the right stimuli around allows them to look at their day-to-day work in a very different way," he says.

Everything that is built at the innovation center is a proof-of-concept; the road to getting things to market runs through Home Depot's business units. They chime in on what they think can deliver the most value, or conduct tests with internal users or end customers.

The team at the innovation center also devotes time and energy to communicating the work it does broadly throughout Home Depot, with a special focus on colleagues in the IT division. "We do events, similar to TED talks, where we'll talk through emerging technologies or development tools that we see as viable and valuable," Gregorio says. They also produce video overviews of their work, and keep in touch with colleagues using a dedicated channel on Slack, an internal messaging system.

GOVERNANCE AND IMPACT

When it comes to prioritizing projects and ideas that come out of the innovation center, "that's where we use the executive steering committee within our group of IT leaders to really weigh in where one might have a high priority over another," Key explains. "Typically, I like to make sure we have a good balance across all the different business units." Key says he reports weekly to the company's Chief Information Officer, as well as his senior VPs and VPs.

When the team looks at potential projects, it tries to balance long-term projects that could pay off big in the future with small, quick-hit projects that allow the lab "to go prove our value," Key says.

But he and Gregorio acknowledge that, in Gregorio's words, "an innovation center is only successful if it's answering the needs of the business units for green field thinking, and dealing with their problems. The key here is the connection between the students, the innovation center team, the business teams, and our enterprise architecture teams. The more you bring them together, the more success you're going to have." ●

Guidance

4

Winter
2017

Joe Pine
St. Paul, Minnesota

Time Well-Spent

ARE YOU OPTIMIZING FOR SPEED, CONVENIENCE, AND EFFICIENCY—OR CREATING EXPERIENCES THAT DRAW CUSTOMERS IN?

INTERVIEW BY SCOTT KIRSNER

PHOTOGRAPH BY MILAN VERMEULEN

At a moment when many companies are focusing on streamlining their websites, reducing the length of lines with self-checkout, and cutting the number of clicks required to get their app to do something, Joe Pine has a counter-intuitive idea: Maybe you can win by getting customers to spend more time with you, rather than less. Pine is the co-author of the 1999 book *The Experience Economy*, which posited that people want to be engaged in memorable experiences, rather than just buying goods and services. ¶ "If you look at convenience, convenience means spending less time with a customer," Pine said on a recent conference call with *Innovation Leader* members. "What I'm talking about is spending more time with a customer, where customers actually value the time they spend with you. Instead of time well-saved—a commoditized service—they view it as time well-spent." →

In 2016, what is your definition of the experience economy?
It actually hasn't changed since I first discovered the experience economy over 20 years ago now. Basically, what's happened is that we've moved from an agrarian economy based off commodities, to an industrial economy based off goods, to a service economy.

Today, we're in an experience economy, meaning that goods and services are everywhere becoming commoditized, and what people want are experiences—memorable events that engage each person in an inherently personal way.

SOCIAL MEDIA AS MEMORABILIA

Has the way you think about experiences changed? I first became aware of your work I think around 1999, when the *Experience Economy* book came out. In the sixteen or so years since then, digital and social media and mobile have become such a big part of our lives. Does that change anything?
It certainly has changed a lot. What we talked about back in 1999 was a very fundamental change in the very fabric of the economy...

What you see is that [with] everything that is coming out, technology is being embraced into the experience economy and used to create better experiences, and/or used to commoditize goods and services so people can spend their hard-earned money and their harder-earned time on the experiences that they enjoy.

Certainly, the rise of social media has had a big impact. I was just having a very big discussion with someone about how experience stagers really need to take into account social media, as a form of intangible memorabilia.

Whenever we go to experiences, we want to take back memorabilia with us, but now increasingly that memorabilia is in fact in digital form on our phones, shared on Instagram, and Twitter, and Facebook, and whatever, and that's a huge difference.

Also, the rise of virtual reality and augmented reality is allowing us today to create experiences that fuse the real and the virtual.

SUCCESSFUL AND FAILED EXPERIENCES

Let's talk about some of your favorite experiences, or failed attempts at creating experiences today.
One of my favorite experiences [that] I love to talk about is the Library Hotel in New York City. It's a boutique hotel that only has 60 rooms. It's got 10 floors, six rooms on every floor.

But the theme of it—every great experience needs a theme, it's simply the organizing principle for the experience—is the Dewey Decimal System. Every floor is a different classification in the Dewey Decimal System. There's a social sciences floor, a language floor, math and science, the arts, and so forth.

When you go to your room it's filled with books and art objects that are inspired by that particular classification. One of the things I love about it is 10 floors, six rooms on every floor—how many times do you have to go to experience it all?

What about failures? I always feel like sometimes people think they're creating an experience when really they're just creating a giant flagship store that carries every product that they make, but it's not particularly fun.
In terms of actual failures, one of the industries that really comes to mind is theme restaurants. The Planet Hollywoods of the world and others that really didn't make it. Hard Rock Café is still around 45 years later.

But there aren't very many that have done well. The reason is that they didn't realize experiences are built on top of services, which are built on top of goods. If you have poor service and lousy food, you're not going to have a great experience no matter what you do to the environment. You've got to bring it all together.

I don't necessarily think of them as failures, but as lost opportunities if they don't do enough. You mentioned the flagship stores like the Niketowns of the world. I can still remember the first Niketown...It was such an amazing experience that there was actually a queue outside waiting to get in...

You could actually play basketball on a basketball court inside a Niketown. ...It took them about three, four, five years before they wiped away the basketball court. They put down merchandise on it. It became just another outlet for merchandising. I think that was a key lost opportunity for a company that's focused on "Just do it"—well, provide experiences for us to do.

UBER AND 'MARKETING EXPERIENCES'

Let's talk about Uber. I would say they're a company that is more about delivering a simple, easy, reliable customer experience most of the time. But then every once in awhile, it's almost like they decide to stage an experience for marketing reasons. You can request an

ice cream truck to show up at your office, or I think they do Uber puppies sometimes, where they partner with the Humane Society and if you want to meet some puppies that you might adopt, you can use Uber for that.

Is that an example of somebody deciding every once in awhile to be in the experience economy?
Yes. First of all, when Uber first came out, I do think for most people it rose to the level of an experience because it was so different. But then you get used to it and so it becomes less and less [of one] over time.

The things you're talking about, it's like what Hilton is doing [by offering] Lamborghini [test drives at some locations.] It's not actually changing the hotel experience. They're giving you something else there. Same with Uber, giving you ice cream and so forth.

That's what I call a marketing experience. It's an experience that does the job of marketing by generating demand for offerings. That's one of the key places where we see so much being done in experiences.

A recent one that just came out this month in New York City is the Kellogg's NYC experience, which is in Times Square, where you can go in and actually eat cereal, I think it's like 24 hours a day. What they're doing is they're creating a place where they can expose you to their brand, and expose you to their product as a manufacturer.

I think a lot of the most interesting experiences today are by manufacturers creating marketing experiences, because they're so far removed from that consumer that they need to get out there, create that direct relationship, and create an experience that really showcases their offering. That applies to [business-to-business companies] as well.

"When you want to provide an experience, recognize that nice is nice, but it's not memorable. If you don't create a memory, then you didn't stage a distinctive experience."

CAN B2B COMPANIES DELIVER EXPERIENCES?

I was just going to ask you about B2B. Are there some people that are so infrastructure- or back end-oriented that they don't need to bother with the experience economy?
I have said that not everybody needs to shift to the experience economy, but I don't know anyone who couldn't benefit from it. I think that's true with B2B as well...

For example, Whirlpool—although of course they sell appliances to consumers—they've got their retail partners that they sell through. They wanted to create an experience for them.

What they did is, they gutted their trade show budget, and instead put their money into creating the World of Whirlpool in Chicago, where now instead of getting 10 or 15 minutes of a retail partner's time at a trade show, now they can get them for hours or even a couple of days to expose them to the product, and get them to experience them directly with cooking demonstrations. You can actually bring a load of dirty laundry into it, and so forth. There's many B2B companies that are doing such marketing experiences.

DISNEY'S MAGICBAND WEARABLE DEVICE

One of our listener questions is about Disney, so let's take that one first. What are your thoughts on Disney's MagicBand? Is that a wearable technology that enhances the experience they deliver?
Yes, very much so. I had the opportunity to test it out on a visit to Walt Disney World a while ago. One, it starts to focus you on the experience weeks in advance. You get the Disney's MagicBand at your home, and you start to build that excitement...

Then, the fact that it makes things so easy there in terms of being able to use it as your check-in, as your room key, to pay for meals, you get your credit cards tied to it. It smooths away some of the irritations that you might [have had] at the Disney theme park.

But what it also does now is allow Disney to begin customizing the experience to you. Disney is very much a mass-produced experience. But now I know who you are. If you visit one set of characters in the park, and they know who you are because of the RFID with the MagicBand, and have a conversation, they can now make a record of that, so that the next character you visit with can build on that, and then begin customizing things about what ride you should do and at what times.

MEASURING THE IMPACT OF EXPERIENCES

This is a good question: "We are a very metrics-oriented company. What metrics do you recommend, in addition to sales

and customers coming in the door, if you're creating an experience rather than just a retail store?"
It is said that Walt Disney used to measure his experience at the end of a day at Disneyland, when everybody else was leaving the park. He would walk from the front gates back down Main Street, and he would measure the experience by the percentage of people that had big smiles on their faces.

To a degree, that is a great thing. It's how engaged are they. Actually with facial recognition technology, we'll be able to do that in the very near future.

The actual key measure, which is one that few [companies] actually use, is in fact time. As I mentioned before, time is the key distinction between a service and an experience. Within the experience, customers want to spend more time with you rather than less.

If you're creating an experience, the question is how much more time are people spending with you? And recognize that the more time they spend with you, then the more money they're going to spend as well.

Related to revenue, one of the things we increasingly see is that when it's a real experience, people are often willing to actually pay for the time that they spend with you. They'll pay an admission fee, for example.

You wouldn't imagine going to a theme park, or a sporting event, a concert, a play, a movie without paying an admission fee, because you know that this is an experience.

Think about what would you do differently if we charged admission? How could we do that? You'll find places like REI, Recreational Equipment Incorporated, charging $15 to be able to climb the mountain in the store, $5 if you're a member of the REI Co-Op. Or American Girl Stores, where you pay an admission fee for a lunch, or tea, or dinner, a hospital, a hair salon, a photo shoot...

CONSUMERS DON'T WANT 'THE FAKE FROM SOME PHONY'

What do you think the line is between an engaging experience, versus something that appears as if the company is trying too hard?
Consumers increasingly want the real from the genuine, not the fake from some phony.

There is a line there. You need to make sure that you stand on the right side. Often, that relates to who you are as a company, and where you're trying too hard is where you basically go back on things that define you.

You become not true to yourself. That's when you're trying too hard. We see that with people. They try too hard to be friendlier, whatever, and they go beyond what is truly them as individuals. Companies can do the same thing as well.

I want to take the latest question that came in: "We're in financial services, and we've been observing the Capital One cafés. Do you think some of the business case for that has been built around marketing and brand-building?"
Absolutely. The Capital One Café was originally the ING Direct Café, before ING sold them to Capital One. They were my favorite marketing experience examples, because they got people to come into this place and expose them to their financial products.

The first café they opened up in New York City resulted in over $200 million in new accounts for ING with a single, very small café. Every time they open up another one, they get $200 million in its first year. They're great demand generators, but [customers pay for the coffee, and] they actually break even as a café.... That's the way to do it—make money on the marketing experience itself.

I think your point earlier, about getting people to slow down, and actually drink a latté and talk to somebody about home equity loan—it's a challenge, because people have always thought about banks as a place where you want to get in and out quick.
I think no industry has more commoditized itself than banking, because they came to view spending time with customers as costing them money.

Let me just see if I can squeeze in this one last quick question here. Are there any best practices you see, in terms of reinvigorating and constantly looking to refresh and implement new ideas?
[Look at] what other companies are doing. We do this at [our annual] thinkAbout [conference], but you can go on your own experience expedition. Go out into the city where you live and seek out the best experience-stagers.

What you want to do then is not best practices, which is copy what they're doing. What you want to do is what I call best principles. You want to understand the principle which they're applying to their business and their situation, and then extract out that principle and apply it to your situation, and say, "What would be a great experience for us?"

I think then you can develop a whole set of ideas for how to innovate in experiences. ●

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Programs Connecting Corporates

BY STEVEN MELENDEZ

Several Innovation Leader members have inquired recently about programs that serve as an interface between large companies and the startup ecosystem—facilitating introductions, creating mechanisms for investment, or organizing events that bring the two worlds together.

Our comparison chart is below. Their offerings and pricing can vary widely. If there are other organizations you think should be added, drop us an e-mail, at editor@innovationleader.com.

NAME	HQ	PARTICIPANTS	PRICING	DESCRIPTION
D-Raft	Warsaw, Poland	Mastercard Ghelamco ING Orbis Cushman & Wakefield Bank Polski Microsoft	Corporate Club annual membership at €15,000 Scouting projects starting at €25,000	Hosts Corporate Club, which gives members access to corporate roundtable discussions, startup demo days, and updates on the startup ecosystem; offers startup searches to identify the best startups for collaboration, and assists with trials and pilots.
Founders Intelligence	London	Silver Lake L'Oreal Visa Tesco DMGT Endemol Shine Group	Dependent on particular client circumstances	Offers training and consulting for corporations looking to develop innovation and startup collaboration programs; connects corporations with relevant startups; manages internal innovation initiatives and partnerships with startups.
MassChallenge	Boston	Jamestown Fidelity Investments Boeing Microsoft John Hancock PepsiCo. CVS Health PTC Pfizer IBM	Annual sponsorships typically ranging from $100,000 to $500,000	Organizes roundtables with corporations and startups; connects corporations with curated startups for potential mentorship, supply chain partnerships, or investment relationships; lets corporate sponsors participate in judging, awards ceremonies, and other aspects of an accelerator program that takes place in the U.S., U.K., Israel, Mexico, and other countries.
Plug and Play Tech Center	Sunnyvale, Calif.	Daimler Panasonic Bosch Johnson & Johnson Deitsche Bank Mars Munich Re JetBlue	Annual memberships starting at $100,000	Connects corporations with startups for demo and pitch sessions; organizes accelerator program with corporate partners and startups they help select; conducts corporate networking sessions to share best practices.

and Startups

NAME	HQ	PARTICIPANTS	PRICING	DESCRIPTION
RocketSpace	San Francisco	JetBlue Technology Ventures Michelin Pfizer Schneider Electric Tata Communications	Hourly consulting agreements starting at $50,000; typically in $100,000+ range depending on needs and duration	Consults with corporate teams to analyze needs and how startups can fill them; locates small set of relevant startups and arranges demo day sessions to expose them to corporate leaders.
Singularity University	Mountain View, Calif.	BBVA Deloitte Latham Watkins Li & Fung Royal Bank of Scotland Telefonica Walmart NBC	Dependent on particular client circumstances	Offers workshops for corporate leaders to study the future of various industries while engaging in ideation, prototyping, and open innovation; provides tech strategy consulting to explore startups and innovation in corporation's area of focus; conducts themed accelerators where corporate teams work alongside startups working in areas of interest.
TechSquare Labs	Atlanta	N/A	Annual memberships start at $30,000, with additional services available	Connects corporations with startups for collaboration and partnerships; consults with corporations to develop innovation strategies, open innovation challenges and innovation centers.
TechStars	Boulder, Colo.	Barclays Cox Enterprise Group Target Metro Group Nike Disney	Dependent on particular circumstances	Works with corporations to sponsor and provide space for startup accelerators. Corporations mentor participants, make investments, and build long-term relationships and collaboration opportunities with startups.

SOURCE: THE ORGANIZATIONS THEMSELVES

Collective Disruption: Co-creating New Businesses with Startups

BY **MICHAEL DOCHERTY**, CEO, VENTURE2; AUTHOR, *COLLECTIVE DISRUPTION*

The old definition of innovation is dead. The process that companies used to follow of innovating a new product or a new iteration on an existing brand is just what it takes to stay alive these days. In this highly connected world, new ideas are coming from everywhere, with emerging competitors disrupting established companies every day. Companies need to increasingly focus on new business creation for step-change growth. This is scary because transformative innovation is not what most big companies are good at.

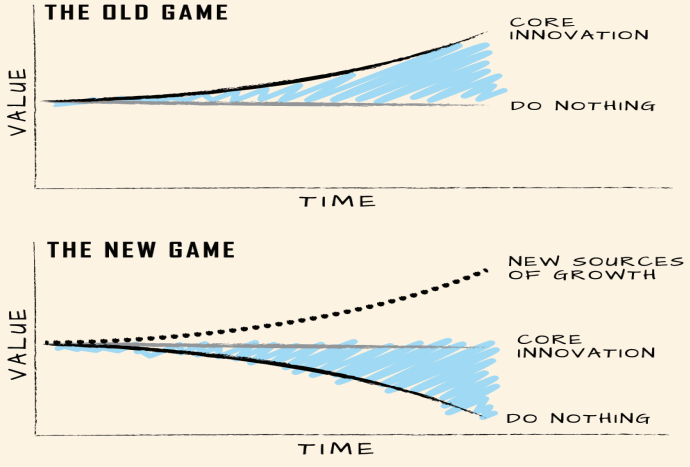
Established companies must learn to play the disruption game and use it to continually reinvent themselves. The time has come to challenge the paradigm that the startups are always the ones that disrupt large, established companies. Here's the good news: some pioneering companies are demonstrating how you can engage and leverage the entrepreneurial ecosystem to co-create new market-disrupting businesses.

Embracing Collective Disruption

Most well-established companies today do an excellent job of developing new products and services to support their core business. But when new business creation becomes a more central part of the growth strategy, many companies stumble. All the systems, rewards, skills and processes that enable large companies to optimize today's business are the same things that make them (generally) terrible at transformative innovation. It's nearly impossible for these companies to innovate entire new businesses and ventures where risks and unknowns are much higher—unless they're willing to partner with those outside the company who specialize in just that way of operating.

Collective disruption is about applying the power of collaboration to transformative innovation and new business creation. It's about building and nurturing a network of entrepreneurs, technology startups and other creative minds that work in concert with your internal resources in a networked approach to rapidly envision, incubate and commercialize a pipeline of transformative new products, services and business models.

The collective disruption framework captures emerging practices of companies that are leading the way in co-creating with startups. The framework is made up of four iterative and collaborative phases:



1. **Discover (Engage the Ecosystem)** In this phase, you engage the innovation ecosystem to identify new business opportunities and assess them in support of your goals. What makes discovery unique in our context is the focus on providing practical ways that you and your teams can actually engage with partners in identifying and exploring breakthrough growth opportunities.

EXAMPLE: Mondelēz International (previously Kraft's snack business), found a new way to partner with emerging digital technology startups. Through the Mobile Fu-

tures3 program, Mondelēz publicized a series innovation challenges, selected promising startups and then paired them with their brand teams to pilot solutions within 90 days.

2. Define (Opportunities and Business Models) This phase brings a business model mindset to turn ideas into new business concepts. Engaging business partners in business modeling can be challenging, but also powerful. Venture capital models for opportunity screening and funding are valuable here, to help guide the decision-making process and determine whether that new idea is an investable business.

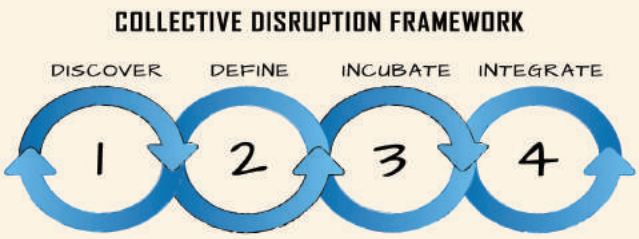
EXAMPLE: When Stan Lech (VP of Innovation) and his team at GSK Consumer Healthcare identified a breakthrough technology for the first truly anti-viral flu mask (including H1N1), no consumer market existed and that the institutional market was unpredictable. By partnering with their pharmaceutical division and several entrepreneurial suppliers, GSK built a viable business model that entailed selling to governments for epidemic stockpiling and establishing beachhead retail distribution, to be ready if the retail market tipped in the future.

3. Incubate (Evolve and Accelerate) This is the application of a modified version of lean startup methods, adapted for corporate/startup collaboration. Collaborative incubation allows teams to rapidly prove-out and evolve the opportunity with the best of corporate and startup approaches.

EXAMPLE: Alphabet's X, led by Astro Teller, demonstrates Alphabet's commitment to creating future businesses with its partners and teams. Waymo, its new self-driving car business, would never have been possible without being nurtured within X.

4. Integrate (Transition and Scale) A critical task is designing these new teams and structures as both separate and connected—islands with a bridge to the mainland. They need enough separation to allow them to operate outside of the tight financial controls of the current business. At the same time, they need enough engagement with the main business to ensure they're being designed for eventual integration. In this phase, the new business is parallel scaled and ultimately integrated into the business.

EXAMPLE: This is how Jarden Corporation handled the creation of its Margaritaville Frozen Concoction Maker business. At first, the team was set up as a separate business, independent from the core business priorities, structures and reporting lines. As the initial products were launched and succeeded in the market, Jarden began to integrate the product line, first from a market-facing standpoint and then finally reintegrating the entire business.



The Virtual Enterprise

Working in these new ways will challenge how we define our organizations. The emerging "virtual enterprise" is one that's connected in a web of relationships with customers, suppliers, and a curated group of entrepreneurs, and startups who make up an extended collaborative enterprise.

And it's happening already. Take ieCrowd, led by Amro Albana, which is building a completely crowdsourced business, accessing world-changing healthcare technologies from university labs, then accelerating them via crowdfunding and virtual teams. Their first commercialized business, Kite Shield, brings to market a technology that can block CO_2 receptors and effectively mask the human body from mosquitos.

As more companies attempt innovative models for collective disruption, there will be setbacks. The dismantling of Coca-Cola's Founders Program to "refocus on the core" is just the latest of many pendulum swings as corporates attempt to build new capabilities. Large companies are built for optimization, not disruption. And that's the paradox. We need to learn that transformative and core innovation are not an "either/or" proposition, but two sides of the same coin. Managing core and transformative innovation as an interdependent system, in concert with entrepreneurial partners, is how we'll win.

LEARN MORE ABOUT VENTURE2 AT VENTURE2.COM, AND FOLLOW MICHAEL ON TWITTER: @MEDOCHERTY

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