The most important factor in developing an innovation strategy is recognizing that innovation is not an isolated activity, but rather the result and driver of growth and collaboration.
private and federal R&D funding and are the envy of the world. In fact, according to Shanghai Jiao Tong University’s rankings from 2007, 37 of the top 50 are from the United States. However, while only nine European universities qualify for the top 50, their students at the secondary and primary levels consistently outperform their peers in the United States. Imagine the level of innovation if one or more of these regions excelled in all areas of education.

Still, the locus of innovation is far from the exclusive province of the United States or Europe. China’s investment in R&D has almost doubled in the past seven years and the World Bank shows that while researchers in Asia have long played catch-up by importing innovation from elsewhere, they are now increasingly building upon indigenous discoveries.

Can Innovation Thrive, Even in a Hostile Environment? The current political climate in the United States is characterized by anti-immigration and anti-trade rhetoric. This style of isolationism is not a new phenomenon. In the 1920s and 1930s, the United States retreated from international political and economic life when it rejected the League of Nations, imposed the misleadingly titled Immigration Act, and passed the Smoot-Hawley Tariff Act, which was enacted despite vehement opposition by the nation’s leading economists. These policies are credited with the onset of the Great Depression and decades of lost innovation potential. In 2008, the threat of equally debilitating policies looms large.

**FIGURE 1: The new innovation era: focusing on sustainability**

Source: A.T. Kearney

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*Population forecasts are based on differing estimates.*
In the context of increasing international tension, maintaining the innovative economy requires that companies engage policy leaders about the importance of openness. Rising competition for knowledge workers means that companies must attract and support employees by encouraging their passions and expanding their contributions. Companies must also aggressively innovate to tackle sustainability, because those that do will not only improve the prospects of optimal, global environmental conditions but also gain competitive advantage for the long run.

**Innovation and Its Impact on Sustainability**

The biggest challenge of our time, which will require more creativity and innovation than any other, is that of sustainability — how do we manage to meet the legitimate needs of a growing population with limited resources and a stressed environment? A brief calculation illustrates the urgency of this issue: If per capita oil consumption in China and India were to rise to the current level of the United States, the total world demand would deplete remaining proven reserves fully in just 15 years. How do we avert the prospect of this economic, social and environmental disaster?

The answer lies partly in the behavioral changes needed and partly with innovation — from new technologies to curb consumption and yield more efficient use of resources to improved education infrastructure and new environmental regulations. Companies that understand these resource challenges and respond with innovative approaches will outperform those that don’t.

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**Breakout Session: Developing an Innovation Strategy**

Strategy is as much about what you do as what you don’t do. This tenet also applies to innovation strategies — as such strategies must be linked and aligned with the overall business strategy. Doing so requires defining which quantitative goals (profitable growth) and qualitative goals (brand reinforcement) are to be achieved through successful innovation. It also requires defining what types of innovation and what degree of innovation are needed for different market segments. Once defined, the role of innovation for the business strategy must be communicated by the words and actions of top managers. Such actions will include allocating budgets to encourage innovation and then handing out corporatewide innovation awards.

Before a firm can allocate budgets for innovation it must first establish priorities to focus on the best ways to generate ideas. A certain balance must be struck between too much focus — which may blind companies to unexpected opportunities left and right of the direction they are heading — and too little focus, which results in scattered, uncoordinated and ultimately unsuccessful innovation activities.

True innovation also requires determining the right balance between low-risk versus high-risk and short-term versus long-term projects. Because most companies are pursuing a portfolio of innovation projects at any moment in time, rather than leaving the portfolio composition to happenstance, an innovation strategy can help achieve an ideal ratio of risks and project timelines. Again, the perfect balance depends on the business strategy. For example, a business in a turnaround situation will justifiably focus on short-term, low-risk projects, while an otherwise healthy business facing long-term stagnant growth in its core markets might want to focus on higher-risk, longer-term projects.

Importantly, a good innovation strategy establishes the appropriate application and management of time. This can take several forms. For example, development projects can be planned backward from the optimal launch dates for winning in the marketplace. Leading innovators use “roadmapping” to temporarily link...
internal and external technology development with product development. Finally, one of the most effective tools in innovation management is to give your high-talent teams stretch targets with ambitious timelines. Such teams will always answer the call of innovation (see sidebar: Innovation Strategy at Henkel: A Case Study).

The Critical Attributes of Innovation Leaders

Jean-Philippe Deschamps
Professor of Technology and Innovation Management, IMD Lausanne

Innovation leaders are senior “executive champions” who stimulate, support, steer and sustain innovation in their companies. They share six specific attributes that distinguish them from other types of senior corporate leaders. Such leaders combine a talent for creativity with firm process discipline. They can accept risks and failures, but also encourage their staff to learn from them. And if a project isn’t going to succeed no matter the effort, these leaders have the courage to stop it—discerning when to persist versus when to pull the plug. Innovation leaders are also able to build and steer winning teams, and have a knack for attracting and retaining innovators. They are open to external technologies and ideas, and have the urge to get their staff out to broaden their horizons. Finally, innovation leaders are driven by a passion for their mission and innovation, and an ardor for sharing that passion with their staff. The ability to balance the different demands together is the hallmark of a true innovation leader.

Innovation Leaders: Is the Perfect Balance Possible?

However, not all innovation leaders are equally talented at steering the “fuzzy front end” of innovation, where the emphasis is on applied creativity, and the “speedy back end,” which requires sound discipline regarding implementation. Perfectly balanced innovation leaders should be able to steer innovation projects from A to Z, but there are very few of them. Most leaders have a default mode of operation.

On one hand, front-end leaders tend to focus on exploration and experimentation. They encourage the search for unarticulated customer needs and promising technology ideas, and tend to authorize innovators to break rules and create a challenging environment. Back-end leaders, on the other hand, are process and execution-oriented people who have the discipline, operational knowledge and the urge to commercialize innovation. Both front- and back-end leaders share some common characteristics, notably strong personal credibility based on their innovation track record, a personal attachment to their products, services and customers and a similar level of passion, even though it may be expressed in very different ways. Innovative companies should make sure they have an adequate and balanced number of front- and back-end leaders in their top management group.

Innovation Strategy at Henkel: A Case Study

Henkel is a leading global manufacturer of laundry and home care products, cosmetics and toiletries, and adhesive products. Henkel launched a campaign in 2006 to build an innovation culture and fill its innovation pipeline. As part of this campaign, senior leaders defined an innovation strategy with five key elements.

Having deemed “innovation strategy” as a priority, some companies then struggle to define the right balance of top-down guidance from management versus bottom-up participation in the strategy process. Henkel solved this problem by creating InnoPower Teams. These teams are responsible for specific product categories and all innovation projects relating to these categories. The teams are chaired by a product category leader and include representatives from all major functions. Henkel’s senior managers made participation on these teams a requirement and part of the career path for high-potential employees. The teams were given real responsibility over the innovation strategies of their categories. The strategies were developed by the teams in consultation with senior management, approved by senior management in the annual planning process, and then implemented by the teams.

The benefits of anchoring an innovation strategy in the organization are just beginning to show. In an annual internal employee survey, innovation at Henkel went from being seen as an add-on with little importance to a top priority.
Different Types of Leaders for Different Innovation Strategies

Characterizing innovation leaders according to their generic traits and their front- or back-end orientation is not sufficient, because innovation does not come in a single flavor. There are different types of innovation strategies and each requires a different type of leader. The four dimensions of an innovation strategy are shown in figure 2:

**Objective. Why innovate?**
To reinforce a current business or to create a new one?

**Focus. Where to innovate?**
Products, services or “systems?”

**Intensity. How much to innovate?**
Radically or incrementally?

**Boundaries. With whom to innovate?**
Internally or with partners?

Answers to these questions determine four broad thrusts of innovation, with different types of leaders and leadership styles required to implement each thrust. Let’s discuss each one in turn:

**New product category or service offering.** For creating new products or services, companies need “mentors,” trusting but challenging leaders capable of setting up and steering venture teams and leading them to market. Their focus should be on sponsor—providing resources and top management support to the teams, shielding these teams from the traditional encroachment by the prevailing administration that would divert them from their objective, and coaching them through the usual ups and downs of most innovation projects.

**New business model or business system.** For steering totally new business models or system innovations, companies need “architects,” visionary but pragmatic leaders who are able to assemble internal and external providers of system elements and make them work smoothly together. Their focus should be on visioning, because innovative new

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**FIGURE 2: The dimensions of an innovation strategy**

<table>
<thead>
<tr>
<th>Focus</th>
<th>System</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Objective</strong></td>
<td><strong>Intensity</strong></td>
</tr>
<tr>
<td><strong>Why innovate?</strong></td>
<td><strong>How much to innovate?</strong></td>
</tr>
<tr>
<td>New business creation</td>
<td>Radical</td>
</tr>
<tr>
<td>• New product category</td>
<td>• New business model</td>
</tr>
<tr>
<td>• New service offering</td>
<td>• New business system</td>
</tr>
<tr>
<td>Business reinforcement</td>
<td>Incremental</td>
</tr>
<tr>
<td>• New or improved product or process</td>
<td>• New or improved customer “solution”</td>
</tr>
<tr>
<td>• New or improved service offering</td>
<td>• New or improved customer system</td>
</tr>
</tbody>
</table>

* Including with outsourced or partners’ technology
** Typically with external “complementers”

business models are generally the fruit of developing a compelling vision, master-planning to ensure all implementation steps are recognized and handled, and partnering with all external system component suppliers.

To improve the product development process, companies need “sports coaches,” supportive but tough leaders who are able to motivate their teams day-in and day-out.

New or improved customer solution or system. For the conception and delivery of new or improved customer solutions, companies need “conductors,” diplomatic but demanding leaders who will bring the solutions to life. Their focus should be on interpreting customer or consumer insights to address and enhance their real experience, orchestrating the interplay of different actors (who provide an element of the solution) and integrating their input to make the solution truly seamless.

New or improved product, process or service offering. To improve product development performance, companies need “sports coaches,” supportive but tough leaders who are able to motivate their teams day-in and day-out to exceed their development objectives in terms of quality, time and cost. Their focus should be on challenging their teams, forcing them to keep upgrading and speeding up their process, setting stretch goals and measuring performance against these goals.

Role of Corporate Management
It is the responsibility of corporate management to ensure that the leadership style of its corporate officers is compatible with, and supportive of, its innovation strategies. Each company should make its chosen innovation thrusts clear to its entire staff, and assess whether it has the necessary cadre of leaders to lead these thrusts.

This presentation summarizes the main theme of Professor Jean-Philippe Deschamps’s new book, Innovation Leaders: How Senior Executives Stimulate, Steer and Sustain Innovation (Wiley/Jossey-Bass, 2008).

Customer Energy: Unleashing the Forces of Innovation
MARTIN FABEL
Principal, A.T. Kearney
For years, customers have been involved in corporate value chains to get their products or services for lower prices. They pump their own gasoline to save on the cost of involving an attendant. They do without bags at the grocery store if it means lower prices and a cleaner environment. They shop at do-it-yourself (DIY) stores and furniture stores such as IKEA, picking up their orders from the warehouse and assembling the furniture themselves. People expect to be compensated monetarily for their efforts; products must be cheaper than those offered by full-service competitors. Companies that were able to adapt to these developments profited from a win-win situation as they integrated customers into the last links of their value chains.

Today, customers are using the power of technology (from the Internet to Web 2.0 and beyond) to take their participation in value chains to altogether higher levels. In doing so, they expect more than cost savings. They expect better value as well. The much deeper interactions that are enabled by today’s technologies mean customers are direct participants in more stages of the value chain, not just the last few stages. Customers are intimately involved in the design and configuration of products, and—this is the really interesting part—technologies such as Web 2.0 allow customers to unleash their collective strength. Customers not only take over or contribute to parts of a company’s value chain but also do the job better than the company.

Collective customer strength allows customers to put their interests first rather than the company’s. For example, someone who has questions about a camera before purchasing it can post inquiries on a photographers’ forum and get answers from people who have the same camera. The answers arrive faster and are easier to obtain than thumbing through the manufacturer’s FAQ page or calling the customer service department.
As more customers and customer groups are invited inside corporate value chains, the line between customer and company blurs. The need—and the challenge—is for companies to harness this Customer Energy and turn it into profits.

The Collective Customer
Customer Energy is not only about getting more for less, it also represents real value and an opportunity for businesses to capitalize on (or appropriate) this value up and down the value chain (see figure 3).

For the most part, companies are addressing this new reality and actively chasing the benefits inherent in the collective customer. Nike and Reebok have set up online runners’ communities and monitor these chat rooms to “listen” for new ideas. Netflix asks customers to review films online and then uses these reviews to recommend films to other Netflix customers, particularly those interested in the same genre. Customer Energy is also an essential part of the LEGO company. For years now, a select group of LEGO enthusiasts has been an integral part of product development, particularly of LEGO’s MINDSTORMS NXT programmable LEGO components. Customers go to the LEGO Factory website to design, share and buy their own customized models and to the LEGO Gallery to show them off to other customers.

Global Customer Energy Survey
To gain a better understanding of the phenomenon of Customer Energy and how companies are using it, A.T. Kearney recently conducted a global survey, querying both business people and consumers. Our findings confirmed what we suspected, that customers could be segmented into three categories: creators, contributors and viewers.

Creators are typically a small group of high-energy customers who provide the majority of the input and create the majority of content. This energy can take many forms, from providing specific input for new product developments to creating new online content in a wiki or blog. Contributors are a larger group of customers who contribute occasionally. Viewers typically represent the largest group of customers, and they benefit from the work of creators and contributors but are not active participants themselves. In many cases, creators account for about 1 to 5 percent of the user base, but contribute a large part or even all of the content.

Clearly, high-energy customers, especially creators, represent an

**FIGURE 3:** Customer energy can be triggered across the entire value chain (examples)
enormous potential for companies that can reach them. These customers are willing to invest significant time and energy into products that are meaningful for them.

However, the survey results indicate that more than 50 percent of companies do not know their highly energetic customers and therefore cannot approach them. Furthermore, about 80 percent of customers say they question whether companies understand their energy level, and 60 percent say they have lots of ideas to share but do not know which channels to use to share them. These large gaps between high-energy customers and their favorite brands represent a potential competitive advantage for companies that are quickest to close these gaps—and a severe disadvantage for companies that do nothing.

Harnessing Customer Energy

For years, largely closed value chains have given companies considerable space in which to rest on their laurels. This space has become narrower as the tentacles of digitization spread through every part of business and industry. Already, sales of staple goods—products as simple as margarine or toothpaste—are being influenced by personal opinions shared in Internet communities rather than by classic TV advertising. Are companies prepared for this paradigm shift? Some are—but others are not as prepared. There are 100 million websites populated and created by customers who leave “tracks” that can be recorded, evaluated and used to harness Customer Energy—and not just by companies operating in the digital economy.

Is Breakthrough Innovation Possible on Demand?

In the past, some companies have attempted to achieve breakthrough innovation through TRIZ, a theoretical approach to inventive problem solving. Mainly linked to technical inventions, some TRIZ tools were designed to help predict future trends and solutions. But in practice, the results were sometimes disappointing. However, the difficulties with TRIZ may have less to do with the theory and more with resistance to change or a lack of business perspective.

With this in mind, A.T. Kearney has helped clients achieve breakthrough innovations by combining the theory of TRIZ with change management, business perspective, external competencies, and an accelerated and systematic evaluation of new “out of the box” ideas.

As an example, we were enlisted to help an electronics hardware manufacturer overcome a patent threat from a competitor. The competitor cleverly foresaw a trend and protected rather obvious combinations of existing technologies. It was a trivial yet effective way of covering every aspect of the idea. At stake: more than $6 billion in sales, 21 critical patents, and two years trying unsuccessfully to find a solution.

Based on a thorough analysis of 23 independent and several dependent patent claims, we helped the manufacturer develop new technology solutions. Following extensive discussions with R&D, marketing, product management and strategy, the solutions were refined for use in patent applications.

While a few of these solutions served as quick fixes to reduce the company’s legal exposure, the main concepts provided new breakthrough technologies central to the company’s product. The first could be implemented immediately and at the same time improve customer value, while the other technologies outlined concepts relevant for the long-term development of the industry over the next 10 years.
to a consensus that for an innovation to be defined as “breakthrough” it must offer something new or unique and have a significant, game-changing impact in one or more of the following areas: perceived value, production and service performance, or cost (although not necessarily technology-based).

The greatest challenge associated with developing and commercializing breakthrough innovations appears to be its competing nature in relation to normal business—for example, the threat of cannibalization that it exerts on the existing business model. Issues therefore arise in terms of leadership and support (or lack of), risk acceptance and challenges to the status quo. We must also consider differences in skills, cultures and resilience, as breakthroughs typically require time to overcome failures (see sidebar: Is Breakthrough Innovation Possible on Demand?). Due to the magnitude and complexity of the challenges, achieving breakthrough innovation is more about creating the right conditions rather than planning a breakthrough using a specific tailored process. Five points appear particularly important: leadership, flexibility, people, openness and monitoring.

Leadership in the form of top-down support and budget allocations was identified as a necessary precondition and key success factor. Flexibility for changes and alternative solutions—for instance, trial and error—is necessary to address the high levels of uncertainty associated with breakthrough innovations. Passionate people with the right (and complementary) skills and motivation are vital to success. It was also agreed that breakthroughs often require an open approach, integrating external idea sources and partners to “operationalize” and implement the radical new technology. Finally, monitoring progress, to a larger extent based on nonfinancial rather than traditional financial parameters, was mentioned as a success factor.

In summary, and although there is no obvious silver bullet approach, the discussions at this year’s Best Innovator Club show that some general key success factors can be identified. We therefore concluded that breakthrough innovation does not have to remain an elusive dream, but can be turned into reality for those companies willing to follow the appeal of Mark Twain: “Twenty years from now you will be more disappointed by the things that you didn’t do than by the ones you did do. So throw off the bowlines. Sail away from the safe harbor. Catch the trade winds in your sails. Explore. Dream. Discover.”

About the European Best Innovator Club
The mission of the European Best Innovator Club is to build a unique and dynamic group of European thought leaders in the field of innovation management. The Club is open to former winners of A.T. Kearney’s European Best Innovator competition, and includes senior executives involved in innovation management, technology management and research and development from industries and organizations across Europe. Members meet once or twice yearly in retreats designed to encourage networking and the exchange of experiences and ideas. Participants reflect on today’s important issues and explore the latest trends and best practices in innovation management.

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