

Innovation Management Assessment

Superior Innovation Capabilities Enable Profitable Growth



Innovation is essential for tomorrow's success, in particular in economies that can no longer compete on cost. As a consequence, Western companies need to continuously anticipate customer needs, generate attractive ideas, and transfer them into successful products, processes, services and business models. This requires both a systematic management of innovation and the appropriate alignment of the internal organization. Industry leaders are demonstrating day-by-day how to achieve profitable growth by focusing on innovation. For those who have yet to develop their innovation capabilities, A. T. Kearney has developed a proven approach and tools to manage innovation with the aim to maximize effectiveness and efficiency while focusing on the generation of sustainable value.

Companies in industrial nations must focus on innovation

Only basic innovation management capabilities are no longer sufficient to compete in the globalized business environment:

- Producers from so called low-cost countries are continually enhancing their ability to create products with high quality and at faster speed. Several well-known players from these economies are becoming a dominant source for certain products and technologies, e.g. electronic components, LCD panels, or whole laptops. In parallel, national investments in their educational systems are resulting in an increasing number of well-educated engineers and scientists in those countries.
- Meanwhile, corporations in the Western World are losing ground and their innovation performance is not generating the competitive advantages that it once did. Market and technology dynamics are often underestimated and the necessary speed is lacking even while global innovation dynamics are accelerating.

As a consequence of these changes, professional innovation management is becoming an even more important key success factor in achieving higher profitability and superior growth. Companies that have begun to approach innovation management in a more systematic way have achieved significantly higher success rates in terms of transforming ideas into marketable products and realizing successful innovation commercialization. Example: An automotive supplier lacked a proper methodology to identify and prioritize search fields for focusing its innovation investment and activities. A trend analysis of automotive applications led to definition of new search fields that were then assessed in terms of market potential and potential competitive position attainable by the supplier. Search fields with a value of 150 million euro were prioritized based on this assessment and measures to address these search fields and increase success probability were identified. All measures were anchored in a long-term innovation roadmap and a substantial portion of the supplier's long-term strategic growth gap was closed.

Innovation management systematically removes the barriers to innovation success

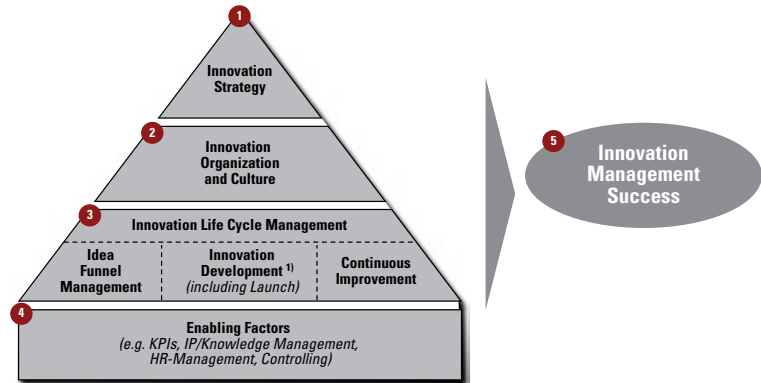
A.T. Kearney's research has shown that companies with sophisticated innovation management are twice as profitable and grow significantly faster than their competitors with no innovation management system. To be clear: Innovation does not mean just R&D. Innovation means continuously turning knowledge into "profit" by addressing future customer needs better than the competition. Innovation here can be product, process, service, and/or business model innovation, and is the responsibility of multiple functions and top management, not just the R&D function. Therefore total innovation spending is much higher than just the spending on R&D.

Similarly, innovation management does not mean just innovation development. Best practice innovation management begins with innovation strategy and continues through innovation development to management of the entire innovation life cycle. As a result, common innovation management improvement opportunities across industries span from missing innovation strategies to slow innovation development to lacking proactive complexity management in the innovation life cycle.

A.T. Kearney's holistic approach addresses all relevant innovation management dimensions, as summarized by the A.T. Kearney House of Innovation:

- 1 Innovation Strategy with regards to comprehensiveness, forward focus and communication
- 2 Organization and Culture with regards to the ability to create passion for innovation and openness for new ideas
- 3 Innovation Life Cycle Management with regards to all levers which help to

The A.T. Kearney House of Innovation structures Innovation Management into four dimensions enabling success



1) Innovation here can be new products, processes, services, and/or business models

Source: A.T. Kearney

- 4 Enabling Factors for Innovation Management with regards to IP, Knowledge, HR, Controlling- and IT Management
- 5 Innovation Management Success with regards to the right key performance indicators to monitor and measure innovativeness

The success of innovation management can only be made sustainable if these dimensions are addressed at all levels of a company on a continuous basis.

For example, a company that was not fully satisfied with its innovation performance asked A.T. Kearney for an Innovation Management Assessment. The company's current innovation management performance was evaluated and compared to external benchmarks. The gaps identified pointed to the need for improvement in all dimensions of the House of Innovation. A project list was then developed consisting of all required actions, including:

- Define a comprehensive innovation strategy based on understanding of macro trends and customer needs,
- Create a separate New Business Deve-

lopment organization to focus on new technologies and new markets,

- Increase share of new ideas generated by external partners from 5% to 30%,
- Improve innovation development management to sooner stop low-potential projects,
- Create cross-functional teams responsible for both launch and post-launch life cycle management,
- Implement a new portfolio management IT system to automatically track and generate innovation performance KPIs

Four of these six measures were prioritized based on business impact and ease of implementation. The prioritized measures were then anchored in a roadmap for improving innovation management over the following 15 months.

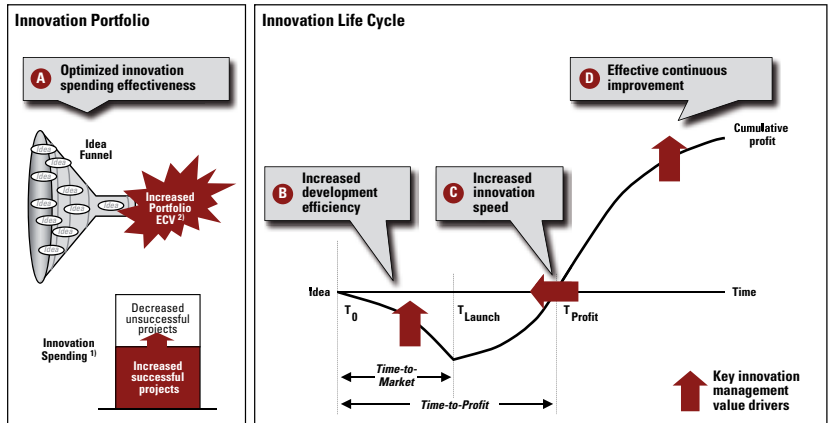
Improved innovation management generates tangible value

Achieving best practice in all areas of the House of Innovation generates tangible value for a company. This value can be identified and measured in terms of four value levers: Optimized innovation spending effectiveness, increased development efficiency, in-

creased innovation speed and more effective continuous improvement.

- A** Optimized innovation spending effectiveness: Increase the effectiveness of the innovation spending through a defined innovation strategy and by a better funnel management.
- B** Increased development efficiency: Increase the development efficiency through measures such as increasing engineering capacity utilization or innovation globalization in order to minimize unit cost while ensuring required quality levels.
- C** Increased innovation speed: Accelerate the product ramp-up to minimize time-to-profit by optimizing processes and by leveraging an innovation network.
- D** Effective continuous improvement: Achieve continuous improvement with measures such as lean design and complexity management to order to optimize product life cycle profitability.

Value impact of Innovation Management



1) Innovation Spending: spending in R&D, Marketing/Sales, Production, Procurement, etc. on innovation
 2) Expected Commercial Value (i.e. risk adjusted Net Present Value of portfolio)

Source: A.T. Kearney

By systematically achieving best practice in all elements of the House of Innovation and therefore addressing all four innovation management value levers, a company can

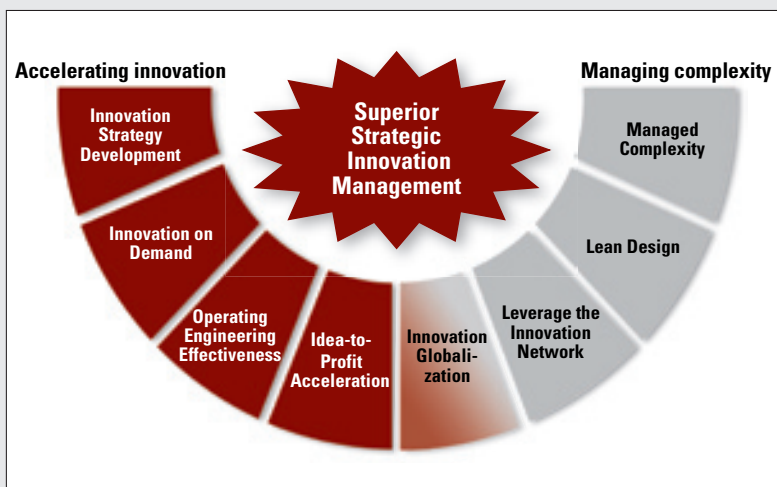
– even in Western Europe – increase its competitive advantage and profitably grow in spite of pressure from new competitors from emerging markets.

Superior Strategic Innovation Management

Professional Innovation Management is key to achieving higher profitability and superior growth. A.T. Kearney supports companies in creating competitive advantage with has a proven, comprehensive set of

service offerings to improve the Innovation Management capabilities of companies by answering a range of questions from how to accelerate innovation to how to better manage complexity:

- **Innovation Strategy Development:** Which needs to address by when?
- **Innovation on Demand:** What are the potential product and/ or process solutions to fulfill customer needs?
- **Operating Engineering Effectiveness:** How to develop most efficiently?
- **Idea-to-Profit Acceleration:** How to minimize time-to-profit?
- **Innovation Globalization:** How to structure Innovation in a globalized context?
- **Leverage the Innovation Network:** What are the right capabilities to be sourced and where to get them?
- **Lean Design:** How to minimize lifecycle cost of existing and/or new products or services?
- **Managed Complexity:** How to manage complexity best?



The A.T. Kearney Innovation Management Assessment – A Workshop to make innovation management performance transparent

This Innovation Management workshop gives companies first insights into the following questions:

- What is our current innovation management performance?
- What are the key levers to further improve our innovativeness and ability to grow?
- What are pragmatic ways to enhance our innovation management performance?

Accordingly, during a one-day workshop, A.T. Kearney

- provides its clients with a broad view on the benefits to be gained through further professionalized Innovation Management,
- provides an overview of current best practices,
- and together with company management develops a high level action plan to improve their own innovation management capabilities.

Results will be achieved in a very interactive atmosphere involving all workshop participants in several ways:

Discussion of trends and “best practice” examples

Based on the specific industry background of each client, examples and best practices from leading companies are shown. An overview of results from A.T. Kearney’s Best Innovator contest and key success factors for innovation management are presented and discussed.

Assessment of the company’s strengths and weaknesses

The second part of the workshop is based on our proven “Innovation Management Assessment” tool. Current innovation management performance is captured along the dimensions of the House of Innovation both quantitatively as well as qualitatively.

Development of an action plan to improve current performance

Based on the results of the Innovation Management Assessment in terms of the client’s current Stage of Excellence, the workshop team will jointly define and prioritize measures and related timing to improve current innovation management performance.

The participants of the workshop should ideally represent key functions involved in the generation, organization and management of innovation in the company. This can include managers at all levels from different departments such as Marketing & Sales, Operations, Customer Service, Innovation Management, Research & Development or Controlling. Based on the results of this first workshop, A.T. Kearney supports companies in a second step by developing a roadmap and a pragmatic and results-oriented implementation of the defined measures to enhance the innovation management performance.

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A.T. Kearney is one of the leading global management consulting firms. We have a broad range of capabilities and expertise in all major industries – and we offer services across the spectrum from strategy through implementation. We pursue a clear objective: to deliver maximum contribution to success for all business units and to sustainably enhance company value. A.T. Kearney is a consultancy with 2,500 employees in more than 30 countries around the world.

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