INNOVATION TO THE CORE

Peter Skarzynski
CEO

2008 North American Plant-to-Enterprise Conference
September 21-23, Orlando, FL
This Afternoon

I. Why innovation?

II. Making innovation happen

III. Sustaining innovation
Past performances were no indication of future results.
An Innovation Imperative?

Gary Hamel

“Innovation is the only way to stay ahead of the curve”
Or

Over-hyped?
“We are now in a slow growth world...over the next 20 years (we face)...a more global market...more driven by innovation...”

“A premium (will be) placed on companies that could generate their own growth”

“We have to change the company to become more innovation driven...”

Jeffrey R. Immelt
Chairman & CEO
INNOVATION USUALLY FAILS

96%
Why?
Because it Is Difficult...

I'VE ONLY WORKED HERE ONE DAY BUT I THOUGHT OF A GREAT IDEA.

THE FIRST IDEA IS ALWAYS THE TOUGHEST. THE URGE EVENTUALLY GOES AWAY.
... and Leadership & the Culture Matter

My Elbonian division won't do any work unless someone is watching them every minute.

Tell them you have hidden cameras.

Then randomly fire one Elbonian per week.

Hee-hee! Evil makes my buttocks tingle.
I. Why innovation?

II. Making innovation happen

III. Sustaining innovation
How to Win

1. **Focus on the business model**
Simply Said

“...the key to sustained success is business model innovation.”
- Harvard Business School’s Clay Christensen

Who do we serve?
What do we provide?
How do we make money?
How do we differentiate & sustain advantage?
How do we provide it?
Dare to be Radical

1. Does it have the **power** to change customer expectations?

2. Does it have the **power** to change the basis for competitive advantage?

3. Does it have the **power** to change industry economics?

Source: Professor Gay Hamel
Durable Goods
Business Model Innovation

Redefining Expectations

A Wine Cellar With Refined Taste

Your finest wines will be preserved and safe in this wine cellar. Settings for red and white wine make it easy to select the optimum temperature to maintain quality and taste. The grey-blue tinted glass door provides a full view of your collection while protecting it from harmful UV rays. With 7 slide-out wood racks and room for 54 bottles of wine, you can keep all of your favorites on hand in this modern, stylish wine cellar. This wine cellar also has a dual electronic FlexZone™, with two separately controlled temperature zones so you can store combinations of white wine, red wine, and champagne in the same cellar.
"For another competitor to say they’re going to compete with us at our level of prices and design, it’s hard if they don’t have our guests, who are on average about 20% more affluent, more highly educated, come from more sophisticated areas. Those guests aren’t in their building looking for that kind of merchandise.”

“We’ve been at this for 15 or 20 years. I’m not saying it can’t happen over time. Saying that the Yugo is going to turn into BMW in the next 18 months is pretty silly.”

Bob Ulrich, Chairman & CEO
Target Corporation


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How to Win

1. Focus on your business model

2. Widen the front end – diverge then converge
An Innovation Process

- **Diverge**
  - Building a foundation of truly novel insights

- **Converge**
  - Generating a portfolio of game-changing ideas

- **Diverge**
  - Managing a pipeline of strategic experiments

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Discovery

- How widely & deeply understood?

Opportunity

- How radical and coherent?

Innovation to the core

- How efficient in terms of risk-reward?
Beyond the Suggestion Box

“The suggestions are supposed to go in the box.”
What Are You Going to Do Next Week?

Gary Hamel

“Every company – (and therefore leader) needs to learn how to use employee imagination”
Perspectives from Different Sources...Inside Your Organization

“We are sixty thousand employees around the world in 170 countries, with efficiency and productivity unparalleled in any industry. We have thirteen high-tech manufacturing facilities and eighteen world-class technology centers with engineers designing in virtual teams from around the world...Hundreds of innovators from all levels and types of jobs, sometimes from where you might least expect them, are working to invent on behalf of the customer, enjoying and maximizing their contributions to the company.”

Nancy Snyder – Strategic Innovation
...or Through Open Innovation

The Goldcorp Inc. Challenge
- First global brainstorming

Challenge: Where to find the gold
- Half a million hits in four months
- 1400 people from 50 countries
- Accelerated the exploration program
Examples

Google

IEM | Iowa Electronic Markets

Lilly
How to Win

1. Focus on your business model
2. Widen the front end – diverge then converge
3. Teach, learn and apply new perspectives
Encourage, Teach, & Support

Out of context to business flow

Risk of bizarre overreaction

Irrelevant to us (our competences)

Not grounded in any observed customer need

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WHAT WILL YOU UNLEARN?
“Most managers are not taught to think of themselves as people whose job it is to create and invent.”
Frame Breaking New Perspective

1. Challenge industry orthodoxies
2. Harness emerging trends
3. Address unarticulated needs
4. Leverage Know How Assets

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What Orthodoxies Did These Overturn?
Simplified Map of Hospital Care

- **SURGERIES PERFORMED**
  - All types of procedures
  - All complications
  - Common Surgeries
  - Single Surgery, Different Approaches
  - Single Surgery, Same Approach
  - Domestic locations only

- **REVENUE GROWTH**
  - Increase Turnover

- **PAYMENT TYPES**
  - Bill to Patient before service
  - Bill to Patient after service
  - Bill to Insurance after service
  - 50% Random
  - 50% Scheduled

- **PATIENT SUPPLY**
  - Scheduled
  - Random (emergency)
  - 50% Random
  - 50% Scheduled

- **Traditional University Hospital**
- **Traditional Community Hospital**

www.strategos.com
Challenge the Orthodoxy

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**PATIENT SUPPLY**
- Scheduled

**REVENUE GROWTH**
- Increase Turnover
- Increase Length of Stay

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**Traditional University Hospital**
- **Traditional Community Hospital**
- **Rule-breaker!**

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Innovation in Health Care?

Innovation in Supply Chain Management?

Both!
Perspective 2: Understand Trends & Discontinuities

1. Challenge industry orthodoxies

2. Harness emerging trends

3. Address unarticulated needs

4. Leverage Know How Assets

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The Word of the Day…

Mass Collaboration
Harness emerging trends
Wikipedia – The Power of Cooperation

- 680+ Million Visitors per Year
- 75,000+ Contributors
- 10,000,000 Articles
- Over 250 Languages
- Considered as accurate as the Encyclopedia Britannica

All Created Since 2001

www.strategos.com
Other Examples…

Human Genome Project (completed in 2003)
Perspective 3: Identify Unarticulated Needs

1. Challenge industry orthodoxies
2. Harness emerging trends
3. Address unarticulated needs
4. Leverage Know How Assets
Airports
Time Consuming...Crowded...And Boring

Reasons for Delays:
- Flight Delay
- Flight Cancellations
- Plane Maintenance
- Baggage Handling
- Air Traffic
- Safety Procedures
- Staffing
- Pilot Restrictions
- Fewer Flights
- and many more

www.strategos.com
Qatar Airways created a Premium terminal at Doha airport:

- Concierge meet and greet service for passengers prior to check-in
- Dedicated e-gates to speed up immigration formalities
- Spa, jacuzzi and sauna to relax and unwind before their flight
- Massage treatment rooms
- Children’s play area and nursery
- Conference and meeting rooms
- Business centre with secretarial services
- Prayer rooms for men and women
- 24-hour medical centre
The Need: A Cleaner Bathroom

Reducing “spillage” in Amsterdam’s Schiphol Airport since 1995
Leverage Know How – Yours and Others!

1. Challenge industry orthodoxies
2. Harness emerging trends
3. Address unarticulated needs
4. Leverage Know How Assets

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Competence Leverage

Company "A"
- Core Skill
- Strategic Asset

Company "B"
- Core Skill
- Strategic Asset

Leverage Know How Assets

www.strategiesos.com
How to Win

1. Focus on your business model
2. Widen the front end – diverge then converge
3. Teach, learn and apply new perspectives
4. Ideate in context – CRASH
Opportunities Lie at the Intersection

1. Challenge industry orthodoxies
2. Harness emerging trends
3. Address unarticulated needs
4. Leverage Know How Assets
Crash in the Garage!

Discontinuities

From: Bedroom suburbs
To: McMansions

Core Competences

Low cost high-quality, stationary electro-mechanical

Men are relegated to the garage

Appliances are sold to women

Customer Insight

Orthodoxies

Crash in the Garage!
Gladiator Solution
Sell By the Tank?
An all-in-one portable medical oxygen system

- Eliminating the need for a separate regulator, flow meter, cylinder wrench, and special valve seal
- Allowing medical personnel to easily adjust oxygen flow with the turn of a dial and verify contents at a glance
And Now...

From high purity medical gases and equipment for hospitals to specialized support services that provide the same high quality service directly to peoples' homes...

Our commitment and continuing investment into new technologies, medical research and community education helps improve the quality of peoples' lives.
Work From the Future Back

Past

Present

Future We Create

Future-based migration path

Fit

Future We Accept

Traditional extrapolation

Stretch
Start Here...

Discontinuities

From: Mom approved
To: Kid preferred

Surprising experiences which are “mine” are exciting and more attractive

Consumer Insight

Core Competences

Better life through “color chemistry”

Orthodoxies

Perfection is the only acceptable standard
“No Mess” but still fun (i.e., messy) for kids!

New

Capabilities

Existing

Markets

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1. Focus on your business model
2. Widen the front end – diverge then converge
3. Teach, learn and apply new perspectives
4. Ideate in context – CRASH
5. Experiment and learn—it is an ongoing endeavor
The Innovation Math

<table>
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<tr>
<th>Number of options</th>
<th>Ideas</th>
<th>Experiments</th>
<th>Projects</th>
<th>Winners</th>
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<td>100</td>
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Increment of risk

www.strategos.com
Learn From the Fringes?
Nope

Get out into the field

“When you believe in something, you can't just talk about it and make PowerPoint slides. You have to go out to the battlefield and show how it works.”

Air Force Lt. Col. Greg Harbin
Manage This Ratio

\[
\frac{\text{UNDERSTANDING}}{\text{INVESTMENTS}} > 1.0
\]
Experimentation Matters

UNDERSTANDING INVESTMENTS
# Learn, Fail, Scale

## Experiment #

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<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
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<tbody>
<tr>
<td>1. Do they want it?</td>
<td></td>
<td>2. Can we do it?</td>
<td></td>
<td>3. Can we make money?</td>
<td></td>
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<td>--who, what, how differentiated?</td>
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This Morning

I. Why innovation?

II. Making innovation happen

III. Sustaining innovation
The Hard Part
The Important Culture Thaang

Leadership & Organization

Processes & Tools

Innovation Effectiveness

Culture & Values

People & Skills
“My management style can be summed up quite simply by saying, when I bark, you move.”
Approach Systemically

Business Results Through Innovation Capability

- Leadership & Governance Mechanisms
- Process & Tools
- Metrics, Measures & Incentives
- Values & Communication
- Structure
- People & Skills
- Training & Curriculum
- Structure
Some Examples

$3.3 \text{ Billion in Innovation Value}

Source: Business Week; Creativity Overflowing, May 8, 2006

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Gladiator Modular garage accessories and appliances for men

Range with refrigeration capabilities

Customizable grills, coolers, warmers, taps, ovens and sound systems for tailgate parties

Double-tub sink with small dishwasher on one side

Small, bedside cooling unit for storing medicine and baby bottles

Basic refrigerator for rural areas in India, selling for less than $75

Premium-priced, high-tech, energy-efficient, front-loading washer and dryer

Fabric Freshener – a collapsible portable device which freshens clothes and reduces wrinkles

KitchenAid Double Drawer Dishwasher

Global Innovation Pipeline, 2004

Global Innovation Pipeline, 2005
"Tomorrow, if I went to the organization and said, ‘Well, we've had enough of this [innovation], let's go back to cutting costs and running the business like everyone else is running the business in the appliance area I think I'd have a revolt on my hands."

David Whitwam, Former CEO, Whirlpool
“Oh, if only it were so simple.”
“A year from now you may wish you had started today.”
-Karen Lamb
Thank You for Your Time