



Innovation: The '2012 Tsunami' is on its way

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significant opportunity?

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Overview

The economic power of Asian industries is growing. Fierce levels of competition already faced by European industry will continue to increase in a global market, especially in the two key areas of **price** and **innovation**.

The waves of new products coming from Asia and flooding European markets are now spreading into sectors including the automotive industry and, in the near future, they will spread further still into aerospace. As their momentum grows, they will form 'tiger waves' building into the so-called '2012 Tsunami'.

To counter these new waves of competition, European industries have historically focused on three key areas: cost reduction, increased speed of development and differentiation through innovation.

Already, given the extremely low production costs that Asia can sustain, cost reduction has been given up as a lost cause. Speed of development and innovation now remain as the two flags beneath which companies must gather, as they seek to increase the efficiency of their Marketing and R&D teams in pursuit of sustainable competitive advantage.

But how is this advantage to be pursued effectively? The answer, as this paper explains, is to focus on effective execution of innovation strategy.

China: from low cost manufacturers to world class innovators

Consider some provocative facts. A recent respected survey confirms through detailed measurement that China has been moving towards world technological leadership for the last fifteen years. Georgia Tech's 'technological standing index' for China in 2007 was 82.6 – compared with Germany at 66.8, Japan at 66.0 and the United States at 76.1. The index factors in key attributes such as 'national orientation towards technological competitiveness' as well as productive capacity.

“We may not even know they are coming...”

Technology products are reaching the global marketplace from emerging economies, having completely bypassed the West – not just in terms of manufacture but innovation too. “We won't have had any involvement with them and may not even know they are coming” says one analyst.¹

Nobody told China, and the other emerging players, that they were only supposed to manufacture cheap facsimiles of existing products, products based on other developers' innovations.

OECD (Organisation for Economic Co-operation and Development) countries have previously provided over 80% of global R&D expenditure. Now, emerging economies are catching up at a remarkable speed. China is the second largest investor in R&D and is aiming for an R&D commitment of 2.5% of GDP in 2025.²

For the older manufacturing nations, success – survival even - will be a question of focus on ever-reducing time to market and ever-increasing innovation.

As a 'global target' the EU has proposed 3.2% of total public sector budgets to be committed to R&D. But that target will not be reached any time soon. To face and overcome the new innovation-based competition, major players in established economies have to learn to innovate more effectively than ever before.

Causes of innovation failure

Global pressures have led to global expansion, with established players pursuing critical mass and competitive advantage through merger and acquisition. But the received wisdom that bigger is better – which has worked in manufacturing and distribution – has very often failed to produce results in the innovation function.

¹ Nils Newman, Georgia Institute of Technology

² Angel Gurría, Secretary-General OECD

Several industries have experienced cross-border ‘mega mergers’ with the objective of cutting costs and improving weak product pipelines. Paradoxically, the impact can be the opposite of what was planned for. Post merger and acquisition, theoretical synergies turn into actual problems – from larger numbers of researchers working on the ‘wrong’ project to lack of shared focus across geographically disparate sites.

For many companies, the focus on ‘ideation’ obscures the need to get the ideas they already have to their market, on time, in alignment with the voice of their customer and at a profit. The resulting disappointment is reflected in our own research.³

Top management of companies surveyed by Celerant within the last two years confirm that European innovation suffers from the following disadvantages:

- Development lead times that are too long
- Lack of co-ordination between innovation teams
- Limited vision of what customers want
- Difficulty in selecting from the initial pool of good ideas
- Limited metrics to confirm actual innovation performance
- Knowledge ‘leakage’ through key personnel attrition
- Lack of effective contribution to innovation from key suppliers

Every day that this situation continues, time and money are wasted – disastrous in an environment of global competition, where time to market and competitive price are of the essence.

So what can you do to make your innovation more efficient and to protect a vital source of competitive advantage?

Effective innovation isn’t just about having new ideas – the volume of patents filed globally each year proves there is no shortage of new ideas.

The real issue is getting as many of your great ideas as possible from the drawing board through production to the customer, profitably. But there are practical insights you need in order to get to market fast with the right product.

Keep it simple. Innovation is a lot like any other core area of a company’s operations. It needs to be understood, configured and carried out in ways that provide clear and simple lines of sight, all the way from the initial voice of the customer (the greatest stimulus to effective innovation) to the finished new product.

To achieve and sustain a more productive environment for innovation, you need to start with accurate measurement of your current:

- Time to market
- Planning process, and its predictability
- Finished product costs
- Product quality
- Level of commitment and morale of key personnel

Measurement in these areas has already revealed that European R&D is indeed becoming less efficient as complexity increases. Companies are taking longer and spending more money producing what their markets may no longer want.

Start by fully understanding – and managing – your existing idea portfolio

Once you understand your existing situation, to get from drawing board to market fast, you have to control your portfolio. In a fast-moving market there is no point developing a heavy portfolio with the wrong prioritisation.

- Establish clear criteria for selecting a reduced number of market-aligned projects for fast track development
- You need to balance consolidation of existing offers with the drive for truly new product that will reflect the voice of the customer

Recognise and reward true innovation: reduce the knowledge ‘leak’ – turn off the attrition tap

Research indicates that in many industries, innovators feel the task of creating and developing ideas and their individual roles are neither well recognised nor well rewarded.⁴ To be successful at the human level innovation must be stimulated, rewarded and protected effectively. Personnel attrition is then reduced because people have a rewarding work environment. This in turn reduces knowledge ‘leakage’.

Getting in shape to ride the wave

Established players can resist the combination of emerging markets' growing capacity to innovate and their proven ability to manufacture cheaply. But they have to get in shape. And that is about making sure a series of success factors are embedded in the innovation culture. These factors include:

- Full alignment between all innovation activity and the voice of the customer
- Clear understanding of the voice of technology (to avoid immediate obsolescence)
- Clear understanding of the voice of the business (to avoid overspend and under-delivery)
- Portfolio management and project prioritisation rules that are clearly understood and shared by everyone
- A transparent planning process supported by relevant IT tools and linked by Stage Gates
- Stringent project management against shared key performance indicators
- Consistent management systems between departments and locations
- Full commitment of all innovators to achieving shared objectives
- Full alignment of innovation managers at all levels with the objectives

If that's what getting in shape looks like, then how do you do it?

Experience with innovators confirms that getting in shape is about improving processes, consolidating management systems and clearly defining roles and responsibilities.

The insight is simply this: valued and respected people with clear and supportive leadership produce more ideas and better ideas. Then, and crucially, those ideas move to execution faster, with less expense and with a much higher chance of giving the market what it wants. And at all times, execution is all.

Conclusion good people + good process = good innovation

If you want a real renaissance for your innovation, it's not just ideas you need to focus on. It's the operational environment, where those ideas are developed and taken to market as finished product. By embedding the success factors identified above, it is possible to transform the innovation environment, along with the morale and productivity of the people who work in it. When the innovation environment is transformed, those involved in it directly, as well as the wider organisation, will experience the positive transitions summarised below:

Innovation: current issues and key steps to improvement

Organisational complexity

- Mergers and acquisitions
- The 'Matrix' organisation
- Globalisation

- Shared objectives
- Defined roles
- Prepared for tomorrow's challenges

Performance

- KPIs global? project-specific?
- Unrealistic timelines
- Commercial appeal versus risk

- 'Joined-up' KPIs
- Single, definitive planning process
- Validation by voice of customer

Prioritisation of projects and resources

- How to prioritise multiple projects
- Innovation resource - cost? Or resource?
- Asian cost base. Attractive?

- Know when to 'kill' projects
- Shared criteria for prioritisation
- Planning ahead

Project Managers and appeal of R&D/Technical career

- Project Manager - 'endangered species'?
- Multi-site matrix approach
- Technical/R&D career patch - under-rewarded

- Job role with top management support
- Integrated technical/managerial roles
- Career path with recognition and reward

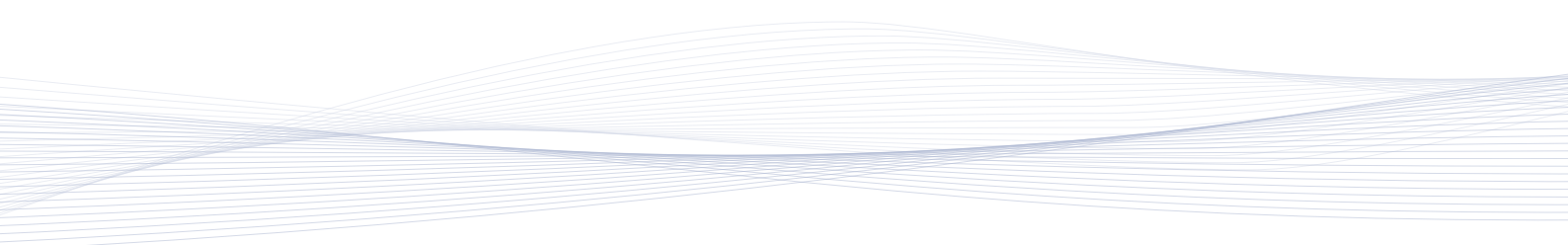
Source: Celerant Consulting



About the Author

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Dominique Montjean is a Vice-President in Celerant Consulting where he leads Celerant's innovation capability in Europe, as well as overseeing a number of client engagements. During his 30 years of professional career, Dominique has undertaken a wide range of assignments in Oil & Gas and Electrical/Electronics Industries in Europe and in Asia, specialising in Project Managements, R&D/ Marketing and Post-Mergers processes in high-tech companies.



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