

The Innovation Imperative

by **Darrel Rhea**, CEO, Cheskin

Attempts by America's major corporations to innovate new products almost always fail. *Business Week's* estimates of single-digit innovation success rates confirm what innovation practitioners have known for years: What makes the cultures of our largest corporations so successful at squeezing profit from manufacturing and marketing products often makes them inept at inventing them.

This creates a painful dilemma for executives. On the one hand, they know that the market rewards organic growth obtained from internal innovation over growth generated through acquisitions. But because of a poor track record of corporate innovation initiatives, they also observe that resources spent on these activities usually offer management a very poor return on investment.

At the same time, it's clear that the traditional option of "buying earnings" through acquisitions has become increasingly difficult because the investor community has bid up prices for those smaller companies that already have innovative products and services. It isn't difficult to discern that corporate management is being pushed by the market to develop their innovation chops.

Finding Balance

"Buying earnings only works up to a point," notes Jim Craig, CEO of Church & Dwight. He ought to know — his company is a \$1.4 billion dollar consumer products company with established brands like Arm & Hammer, Brillo, Arrid and Trojan, that has been making smart acquisitions that have helped generate stock performance, surpassing bigger competitors such as P&G and Lever.

"We have been able to drive financial performance with acquisitions because of our size," says Jim. "Our targets can be modest in size and are easily integrated.

But when these corporate giants get to be \$20 billion or more in revenue, getting a continuous 4-to-5 percent growth rate depends on making huge acquisitions and absorbing them successfully. Turning them into profits becomes ever more challenging." That this strategy has become tougher and tougher for "the big dogs" to pull off successfully is forcing the corporate giants to look for organic growth — and that requires continuous, sustained success at innovation.

There is another downside to corporate America's reliance on acquisitions, and

Why is design innovation being trumpeted as the next big thing?

unfortunately it can even inhibit management from learning how to innovate internally. Says Jim: "At some point, you need to concentrate on leveraging those investments by growing their operations. This puts your focus on the internal operational issues to refine and commercialize those products to extract the maximum value."

And that means more effort and management focus gets placed on activities that don't include real market innovation. Jim Craig's answer to this is to attempt to create more balance between external and internal sources of growth at Church & Dwight. To do so, he knows that he must transform his company's internal capabilities to develop new products and is aggressively setting out to achieve this.

New Tricks

This desire for more balance seems to be a trend. In addition to seeking to buy innovation, many senior executives are now finding themselves forced to teach "new tricks" internally so that their own

management and employees create competitive new products and services. In fact, their very survival may depend on their ability to learn how to innovate.

Out of desperation, many CEOs are turning to consulting firms to outsource innovation. The few consulting firms in this class have the talent to produce both the insights that drive innovation and the creative ability to turn them into powerful product concepts. However, what is really needed most isn't so much a product "hit" as it is the need to change the corporation's culture from top to bottom.

Even when companies hire the leading-edge consultants, management often puts constraints on them that inhibit them from delivering their best. "Organizations have antibodies that resist serious innovations," says Tony Goldsby-Smith, president of consulting firm Second Road. His perspective has been shaped by decades facilitating Boards of Directors to plan their innovation needs and initiatives.

"Unless there is alignment and commitment throughout the senior management team," he says, "the culture will undermine innovation. Being successful at innovation requires a transformation of culture, and without this, hiring the best consultants won't guarantee anything." This means starting at the top of the organization and helping them master what innovation really requires — which Tony understates as "a significant leadership challenge."

Rules of Engagement

The question that lies quivering on the table is: How does a company begin to master this change process? The answer is simple. It starts with an explicit recognition from leadership that corporate-level business strategy should drive innovation initiatives, and is set in motion by strategic conversations among the top executives of the firm.

This process will create a shared vision for all teams and gain critical commitments to the desired outcomes. With-

out this essential first step in creating alignment, the organization will naturally resist change and kill any opportunity for successful implementation of innovation.

“That’s why most fail,” says Tony. “Lower-level teams, if assigned the process at the outset, might create cool products or services that customers want, but that doesn’t mean they will solve a relevant business problem,” he says. This bears repeating: *Consensus at senior levels on how innovation should support the growth strategy of the company is absolutely necessary for breakthrough business innovation.*

Management teams don’t normally think and create together as a group. It’s unusual for senior-level executives to meet for structured conversations about future possibilities, and that is precisely the kind of dialogue needed to solve senior-level business problems. Most managers are busy fighting fires independently, guiding department-level strategies or even responding to tactical suggestions, overlooking the importance of their position on the leadership team.

Creating change requires a more structured approach at the top. And while shared intentions can come from unfacilitated conversations, to be effective these must be specifically directed to create consensus on an appropriate innovation portfolio, which in turn creates arguments for action. Thinking and creating in concert will produce change. ■

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Teaching Big Dogs New Tricks

Savvy senior teams realize that real innovation requires a significant shift in a company’s culture to overcome the natural resistance that every organization has to change. By getting alignment up front, these teams are making room for both “big ideas” that can transform the market, and lower-risk incremental products that pay their monthly bills.

After getting a clear census from senior management as to how they want to innovate, **Church and Dwight** CEO Jim Craige has reorganized the entire company to facilitate innovation, and put a senior executive, Steve Cugine, in charge of driving it. In doing so, Church and Dwight has separated advanced development (or what is often called “the fuzzy front end”) from incremental product extensions. As a result, the company’s team is better aligned to effectively deliver new, big ideas into the Church and Dwight pipeline.

One of the world’s leading textile manufacturers and a respected supplier to automotive industry, **Milliken** changed its status from a mere supplier of seat fabrics and carpet textiles to a driver of value-added features for car customers. It wasn’t a fluke or simply lab R&D that brought about the offering, but a studied corporate process for innovation.

A clear roadmap, based on a vision and strategy, was developed. This roadmap was focused on producing differentiated products based on a proprietary technology. This gave management the confidence to build a team whose focus is on the needs of end consumers and not just on auto manufacturing customers.

The result is the planned introduction of the “Yes Essentials” line of materials to all Dodge, Chrysler, and Jeep car interiors. These miracle fabrics provide the kind of value that consumers want, and promise to be highly disruptive in the market when they are introduced next year. The resulting ROI proves even high-risk ventures — carefully laid out — can be worthwhile.

Working on innovation strategy can help all kinds of organizations — even governments like the **Commonwealth of Australia**. In 2000, the Australian Tax Office (The ATO) launched an ambitious project with the objective of making the design of Australia’s tax system more user-friendly.

Their starting point was getting clarity on the strategy for driving innovation and the redesign process necessary to support it. Workshops helped the huge organization align itself behind the need for changes in the laws that governed the system, the system’s internal processes, and the products and services that taxpayers used to interface with them. Some five years later, the ATO has a clear set of user-based design principles to drive innovation and has developed a “Simulation Center” for product and service design and testing (We hope the IRS is watching their progress!). Slowly but surely, taxpayers are experiencing improvements in the way they are treated, and compliance is improving too.