



Best Practices in Innovation



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Benchmark Innovators

- We studied world class innovators to understand the best practices they use to consistently develop relevant, differentiated new innovations
 - Key question: How have you been able to consistently innovate over time?

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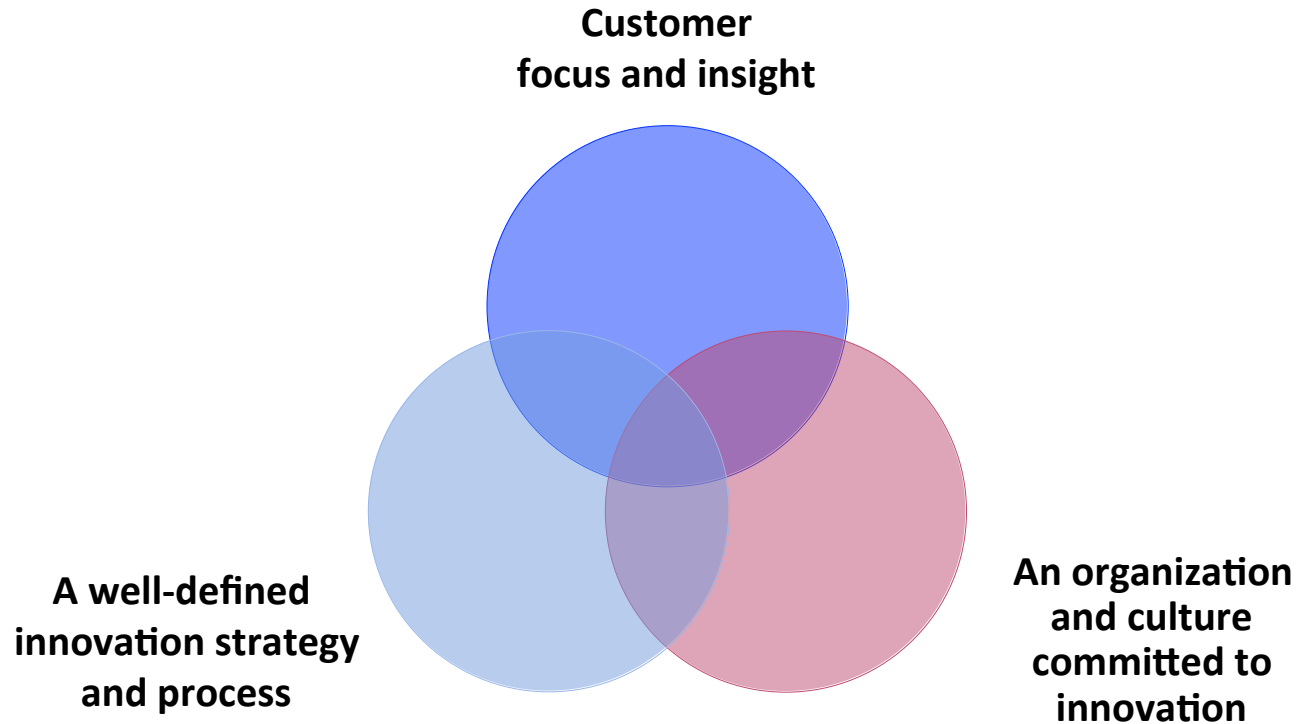
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The
WALT DISNEY
Company



Three critical success factors distinguish innovation leaders



Ten principles emerged that best practice companies employ in their innovation efforts

Customer Focus and Insight

1. Build a deep and shared understanding of the customer and the brand
2. Invest in developing proprietary customer and technology insights

Innovation Strategy and Process

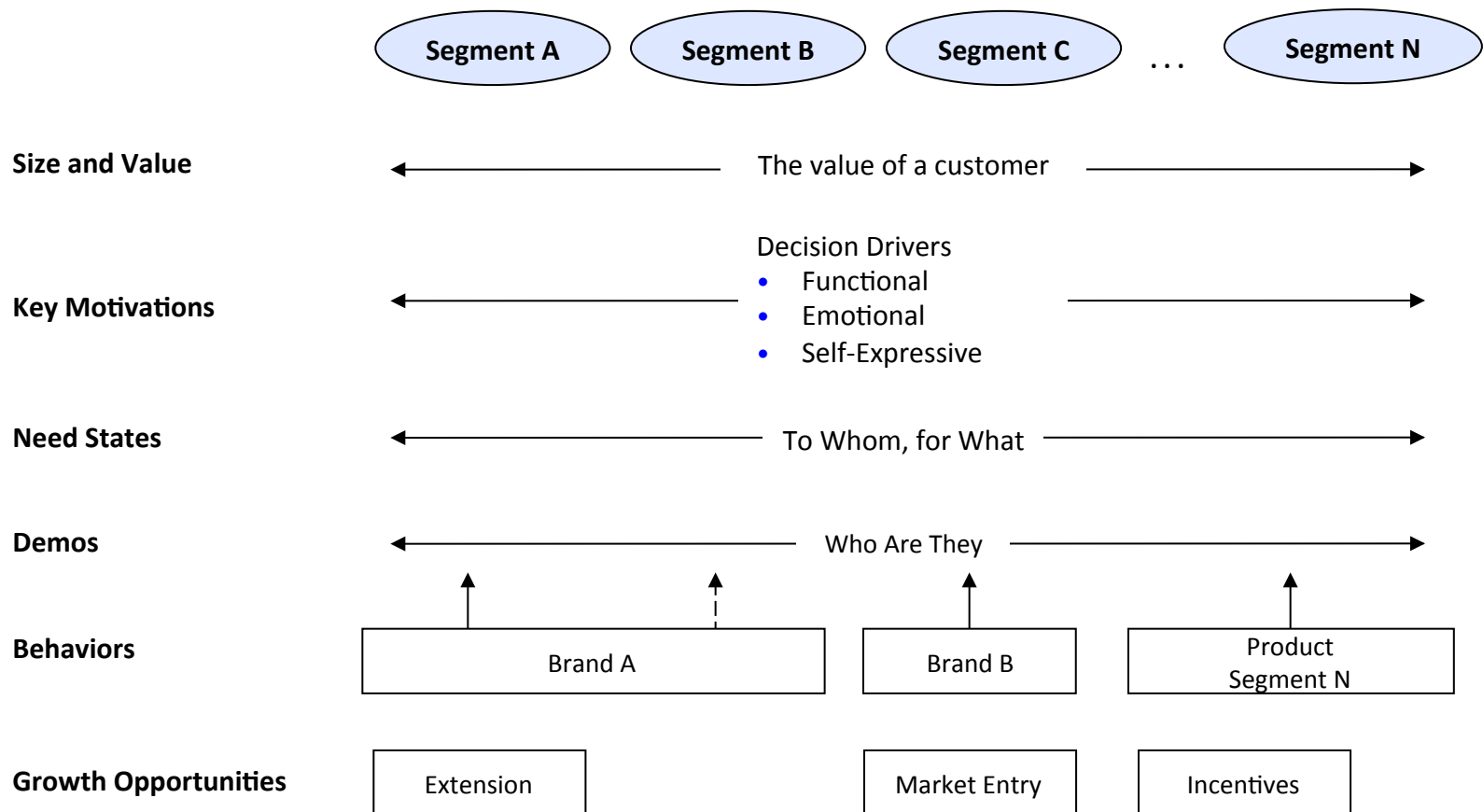
3. Focus innovation by identifying and prioritizing strategic growth opportunity areas (SGOAs)
4. Select and manage initiatives using both a portfolio and a pipeline perspective
5. Ensure problem solving isn't stifled too early by perceived business limitations
6. Generate and optimize innovation concepts using an iterative approach
7. Use a stage-gate approach for go/no go decision making

Organizational/Cultural Factors

8. Cultivate a diverse team of innovators and support them with cross-functional teams
9. Make sure organization and resource requirements are in place to support innovation
10. Commit to innovation and instill a supportive culture

1. Build a deep and shared understanding of the customer and the brand

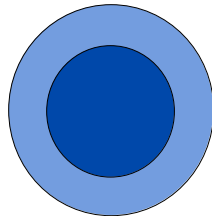
- Key question: What do we know about our important consumers that our competitors don't know?



1. Build a deep and shared understanding of the customer and the brand (cont.)

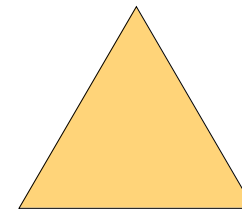
- Identify and focus on priority segments
 - Disney’s focus on the “Disneyphile”
 - Nike’s focus on the performance athlete
 - The Gap’s portfolio approach (The Gap, Old Navy, Banana Republic)
 - IBM’s focus on large, complex, systems-driven corporations
- Ensure a clear articulation and common understanding of the brand

Define the brand essence and extended associations



- Disney’s focus on Magic
- Nike’s focus on the performance athlete

Determine brand extension latitude and boundaries

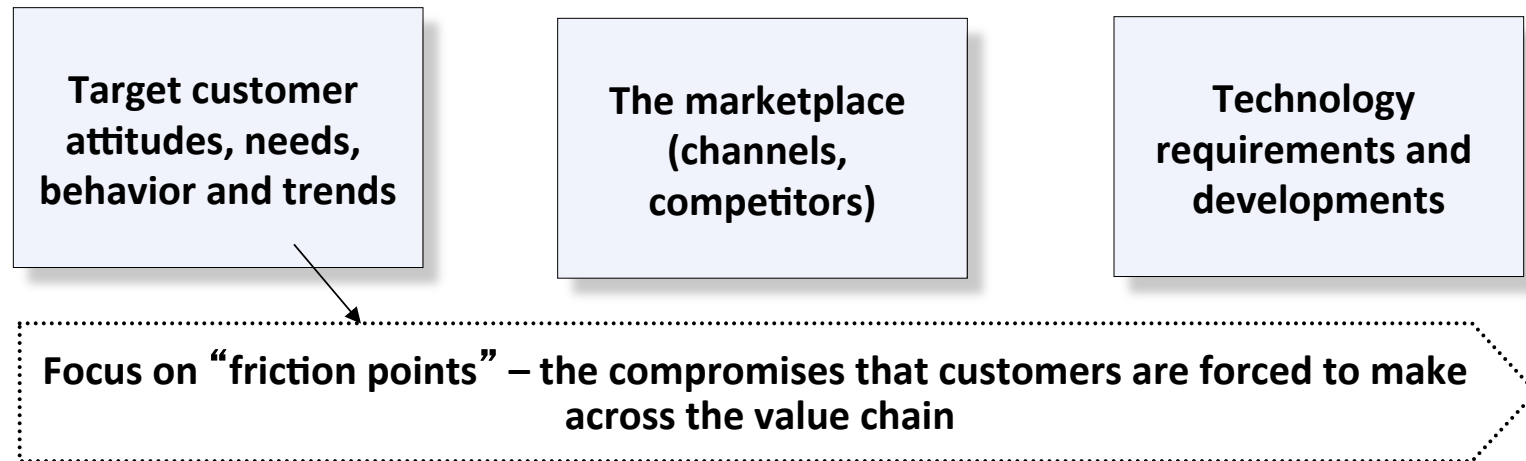


- “Where’s the magic?”
- “That’s not Nike!”



2. Invest in developing proprietary customer and technology insights

■ Three critical dimensions



■ Best practice examples for obtaining deep customer insight

- P&G’s Gillette’s use of boroscopes (camera attached to blade)
- Hidden cameras in Mickey Mouse’s ears
- Performance athletes involvement in Nike product design
- The Gap’s use of 1-on-1 interviews, intercepts and in-store video cams

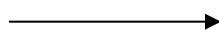
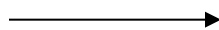
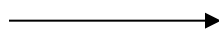
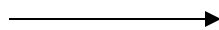
3. Focus innovation by identifying and prioritizing Strategic Growth Opportunity Areas (SGOAs)

■ Approach innovation as a strategic, resource allocation decision (vs. “I’ve got an idea”)

- Disney performs consumer segmentation to identify portfolio gaps and SGOAs

Gaps

- Teens
- Cruisers
- Seniors
- Hobbyists



New Product Concepts

- Tower of Terror Attraction
- Disney Cruise Lines
- Golf
- Disney Institute

- Nike has aggressively pushed into soccer, recognizing the growth potential and consumer trends worldwide
- IBM is focused on “on-demand” computing to drive growth

3. Focus innovation by identifying and prioritizing Strategic Growth Opportunity Areas (SGOAs)

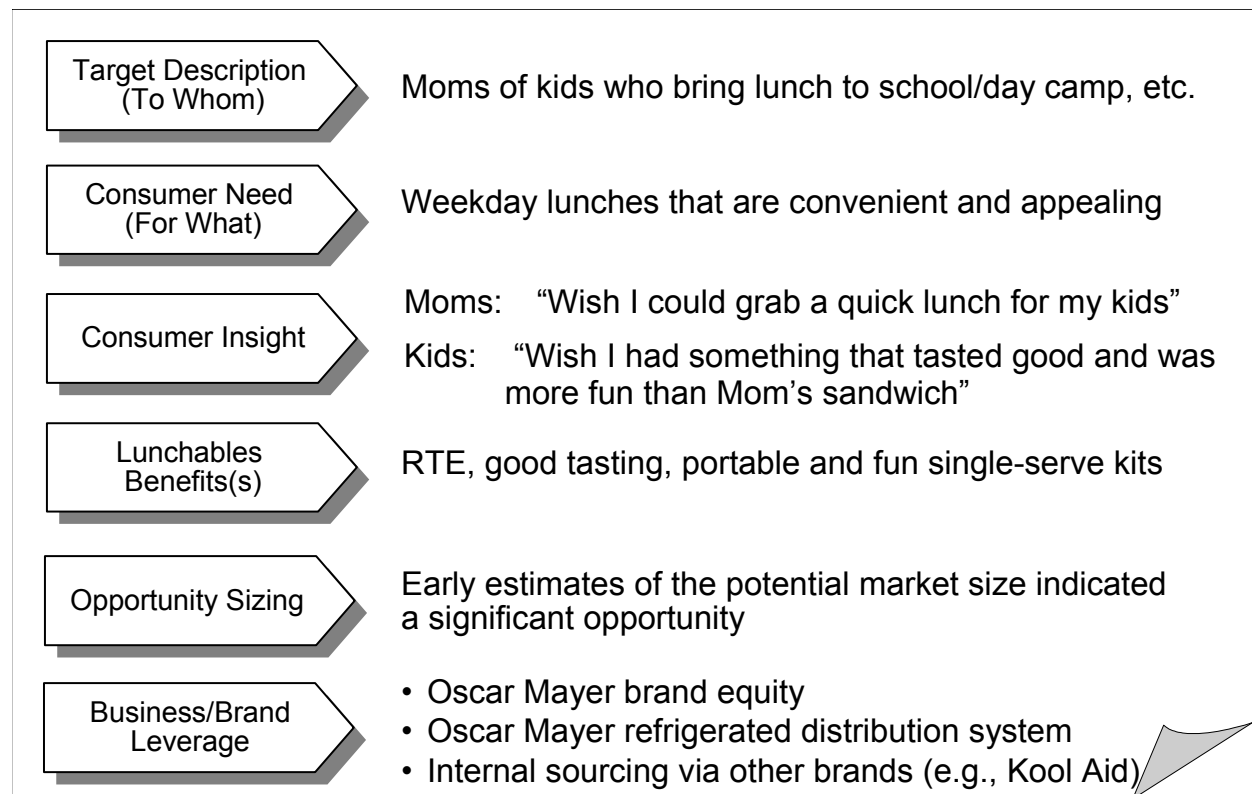
■ SGOA Case Example: Development of Oscar Mayer Lunchables

- Write them down!

Innovation starts with customers and a deep understanding of their needs

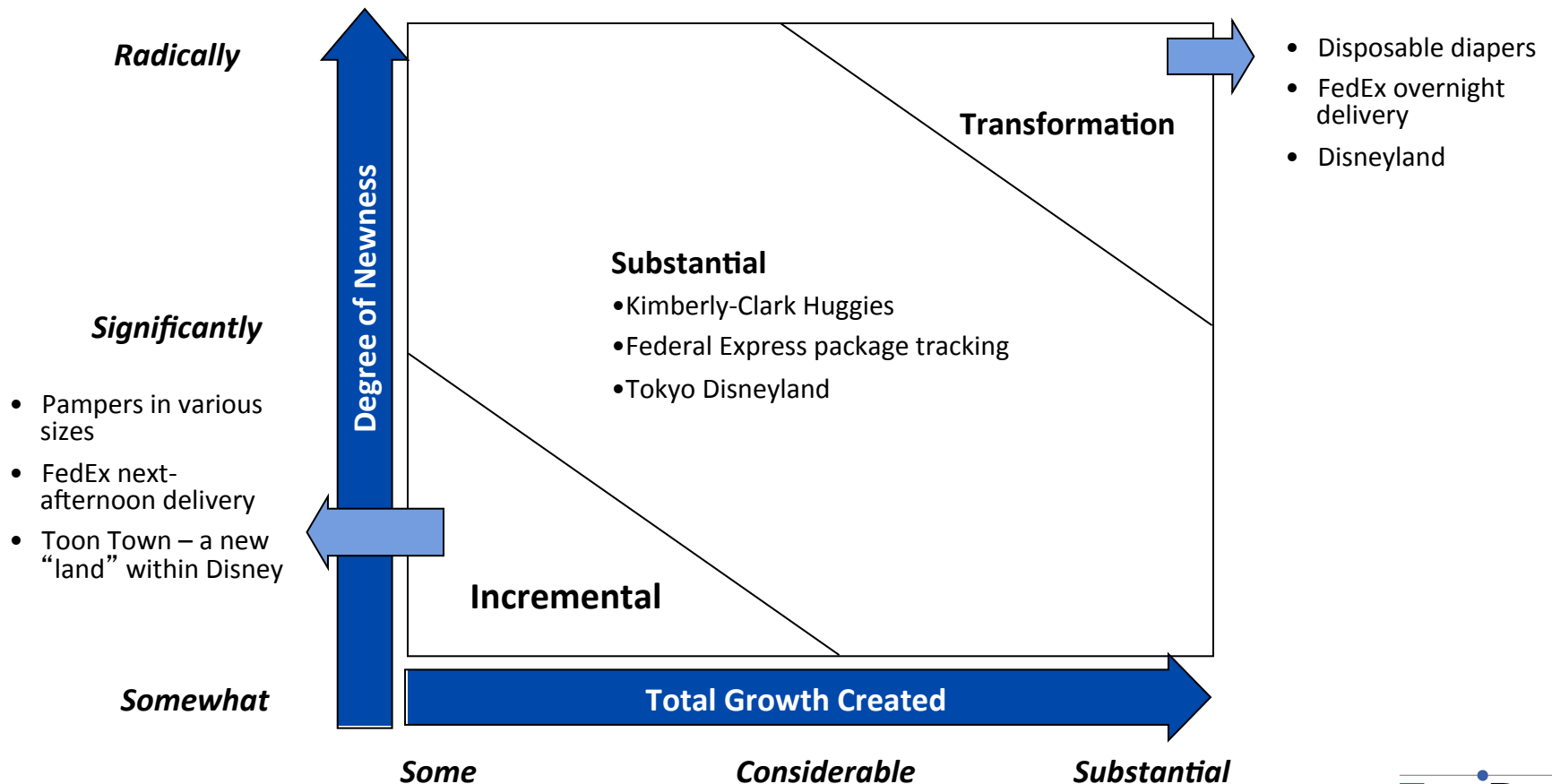
Prioritize opportunity areas based on their potential, not whether a new product idea addresses the area today

SGOAs can come from anywhere (customers, suppliers, distributors) across many fronts (co-branding, brand extension, new channels, etc.)



4. Select and manage initiatives using both a portfolio and a pipeline perspective

- Given business requirements and associated risk, a balance of “big ideas” and “incremental” innovation is necessary

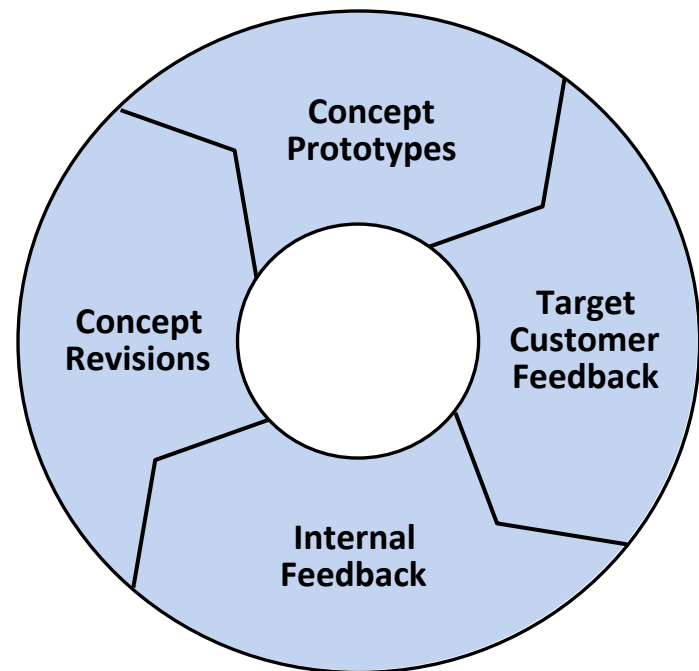


5. Ensure problem solving isn't stifled too early by perceived business limitations

- “Aim ‘em. Don’ t tame ‘em”
 - Focus innovation within the identified areas of opportunity
 - Provide enough latitude to “be creative”
- Use proven tools and techniques for unlocking creativity
 - Ideation sessions, creativity tools (Idea Hooks, Mind Maps), building on “sparks”
- Provide a stimulating, supportive environment where innovation can flourish
 - Physical environment
 - Nike’ s 74-acre “campus”, Disney’ s imagineering division
 - Psychological environment
 - “The only way to succeed creatively is to fail. A company like ours must create an atmosphere in which people feel safe to fail. There is no foolish idea here” (Disney)

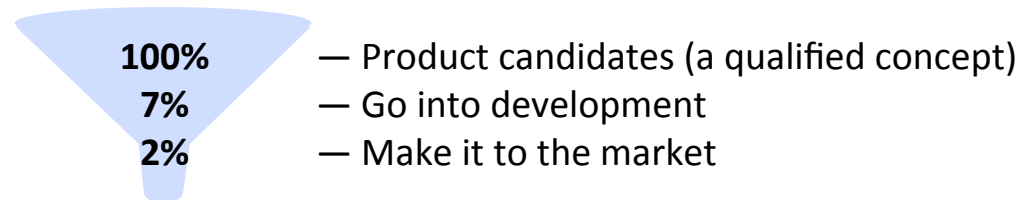
6. Generate and optimize innovation concepts using an “iterative” approach

- As early in the process as practical, use pictures, storyboards, prototypes and samples to “bring the concept to life”
 - Disney uses storyboards and 3-D models throughout concept development
 - Nike provides prototypes for use in practice and games
 - Gillette uses 3-D computer imaging, quantitative prototype evaluation and test market simulation to gauge consumer interest
- Use an “iterative” approach to refine products and draw on consumer and internal feedback
 - Use consumer and internal input to help shape the “answer”, not just validate it after the fact . . . a focus on the why’s



7. Use a stage-gate approach for go/no go decision making

- Generate more good concepts than will be needed using a funnel approach
 - Gillette uses consistent research tools to facilitate comparison of alternatives and to establish new product hit rates over time



- Manage the development and final selection via a stage gate approach — use “Go”/“No Go” decision making at exact points along the development process
 - Validate the products against the brand, operational and financial constraints and consumer knowledge/feedback

Principles # 8 - 10 encompass “organizational enablers” that are required throughout the process

- Organizational and cultural issues are often dismissed or overlooked as “soft stuff” that doesn’t really matter
 - However, these aspects most clearly differentiate world-class innovators from others
 - You can feel the difference in the way the best innovators behave, in what is valued and in what is rewarded
- Culture is critical to innovation because innovation requires skills and attitudes not routinely used in the day-to-day business management
- Successfully improving “innovativeness” of an organization is a significant challenge
 - Senior management must buy in and lead the change
 - Changing the mindset of the organization is key (vs. changing the structure)
 - Nothing succeeds like success — start small and demonstrate impact

8. Cultivate a diverse team of innovators and support them with cross-functional teams

- Stimulating individual innovation is hard enough — turning the entire company into a perpetual innovation machine is far more complex

Talent

+

Teamwork

Develop, recruit and stock the talent pool with three distinct skills

1. Strategic talent to provide superior direction
2. Creative talent and proven “idea PEOPLE” with the ability to think out of the box and break paradigms



Q: How many Disney imagineers does it take to screw in a light bulb?

3. Project leader talent with ability to effectively manage cross-functional development teams

Instill effective teamwork, characterized by:

- Clearly defined roles and responsibilities
- Balanced left-and right-brain thinkers
- Collaborative environment – an open forum for exchanging ideas
- Cross-pollination of people and ideas

9. Ensure that organization and resource requirements are in place to support innovation

- Best practice companies devote substantial time and attention to innovation — fighting the day-to-day battle isn't all they do

Organize for innovation

- Nike, Disney, and Gillette all have carefully designed organizational structures to ensure innovation doesn't lose out to short term pressures
 - Disney's Imagineering
 - Nike's matrix structure and APE
 - Gillette's New Products Group, Brand Group and Technology Group

Invest in innovation

- Resources must be in place to support exploration and development efforts
 - Gillette views R&D as a capital investment, not a cost
 - Disney's hiring of four technology pioneers: "Even if their projects are fruitless, they will nevertheless inspire imagineering"

10. Commit to innovation and instill a supportive culture

- The best process in the world won't make a difference if the commitment and the leadership aren't there to drive it
 - Commitment to innovation starts with passionate senior management
 - Starts at the top, and is publicly and consistently communicated
 - “It starts with Phil Knight: Create the best products for athletes to perform better”
 - Instill a demand-creation, market-driven culture
 - Demonstrate passion for the brand, the consumer and the product
 - Celebrate and recognize innovation and creativity
 - “Product innovation is part of the Gillette culture”
 - “Disney's principle asset is creativity. Everything we do is dependent on a steady stream of ideas that we can successfully transform into innovative, delightful products”
 - Embrace change and risk-taking
 - “Here, if you have an idea, it's ‘Just do it’. The attitude is, ‘Let's try it’ versus ‘Prove it to me’ ” (Nike)

The best practice principles translate to an overall process for achieving innovation

Best Practice Innovation Principles	Innovation Foundation	Strategic Direction Setting	Concept Generation	Concept Optimization
1. Build a deep and shared understanding of the customer and the brand	✓			
2. Invest in developing proprietary customer and technology insights	✓	✓	✓	
3. Focus innovation by identifying and prioritizing strategic growth opportunity areas (SGOAs)		✓	✓	
4. Select and manage initiatives using both a portfolio and a pipeline perspective		✓		
5. Ensure that problem solving isn't stifled too early by perceived business limitations		✓	✓	
6. Generate and optimize innovation concepts using an iterative approach			✓	✓
7. Use a stage-gate approach for go/no go decision making				✓
8. Cultivate a diverse team of innovators, support them with cross-functional teams, and ensure that organization and resource requirements are in place to support innovation				

Organization Enabler Principle Required throughout the Innovation Process

The innovation process is comprised of four major steps

