

MONITOR

TAKING ADVANTAGE of
Tumultuous Times

INNOVATION



Adapting the Course:
Principles and Guidance for
Innovating in Tumultuous Times
February 2009

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This document provides an outline of a presentation and is incomplete without the accompanying oral commentary and discussion.

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INNOVATE in these tumultuous times??

If your company is typical, in these times you will get risk averse and focus on defending your core business, aiming to **survive** the recession rather than **lead** out of it

. . . and you too could become one of 50% of all companies whose competitive position will weaken dramatically as a result of the recession

Instead **you should go on the offensive and look to innovate...just do so differently**

- **Focus efforts on the most critical projects and *shut down the rest***—make a few big bets and put the rest of the good stuff on ‘slow burn’
- **Find new ways to serve recession-minded consumers**—use different types of innovation, informed by new consumer insights
- **Take advantage of low cost innovation resources**— move quickly to get new ideas into the market
- **Share your secrets**— invite others to innovate with you to share cost and risk



Focus on the right innovations . . .



. . . And do innovation right!

What does that mean?

Focus on the right innovations . . .

- Re-think your innovation goals and strategy
- Use different metrics and criteria to prioritize projects
- Take fast (often dramatic) action to realign resources

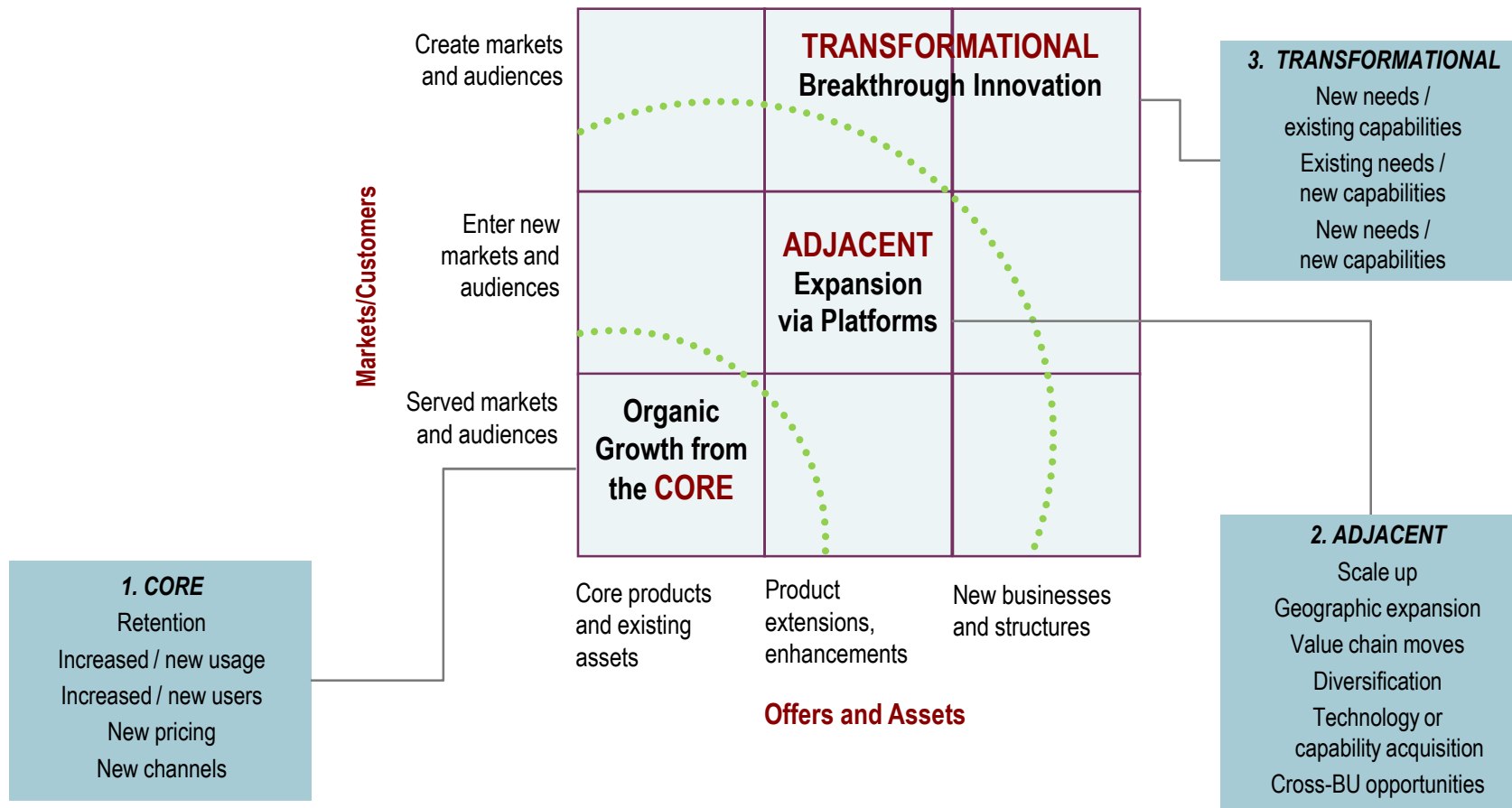
. . . And do innovation right!

- Uncover new insights into recession-minded customers
- Think beyond the products to create value for customers
- Speed time to market through quick and inexpensive concept testing
- Use open innovation to tap into new resources

Follow these steps and you will drive higher returns, leap-frog the competition and inspire your employees, partners and suppliers

Focusing on the “right” innovations Re-think your innovation goals and strategy

Create a revised innovation portfolio that focuses on the core business while selectively pursuing a critical few adjacent and transformational growth opportunities



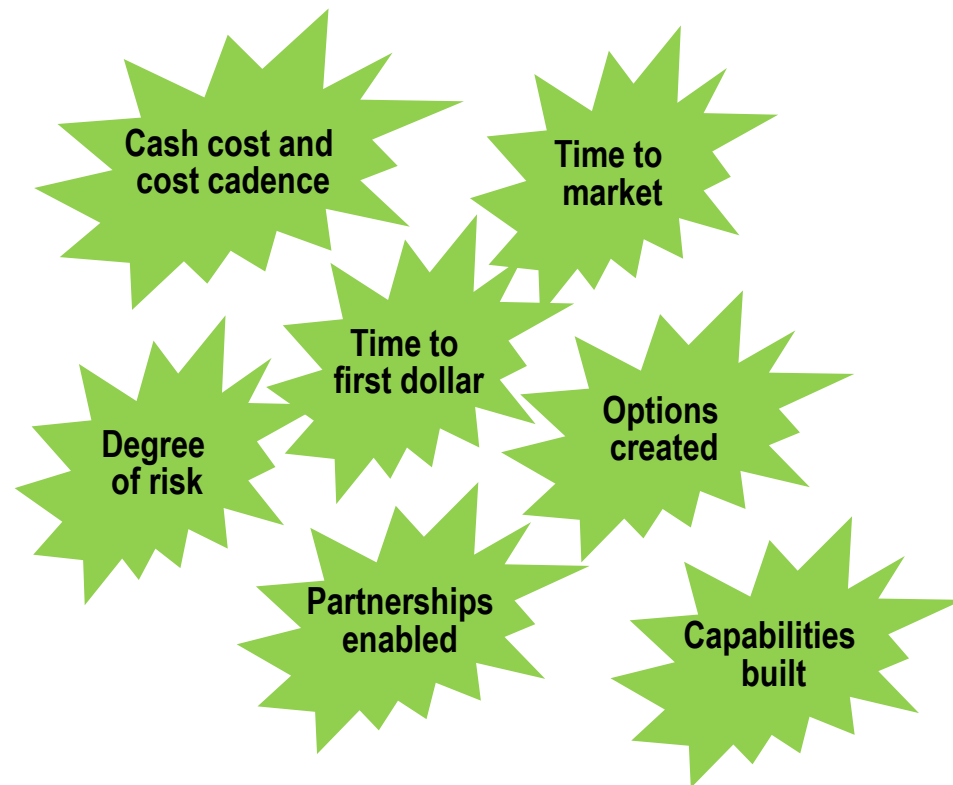
Focusing on the “right” innovations Use different project metrics and criteria

Refine existing metrics and criteria to align to the need for greater speed, lower short-term spend, and more near-term market impact...but also build capabilities and partnerships to create future options

Measure different things to drive different behaviors

Budgets are real and need to be respected . . . it's OK to go a bit slower or to defer some functionality until later; it is NOT OK to quit innovating

Establish metrics which achieve short-term goals and create options for the future...and then ruthlessly measure your projects against these objectives



“Will this help us create momentum coming out of the recession?”

Focusing on the “right” innovations

Take fast (often dramatic) action to realign resources

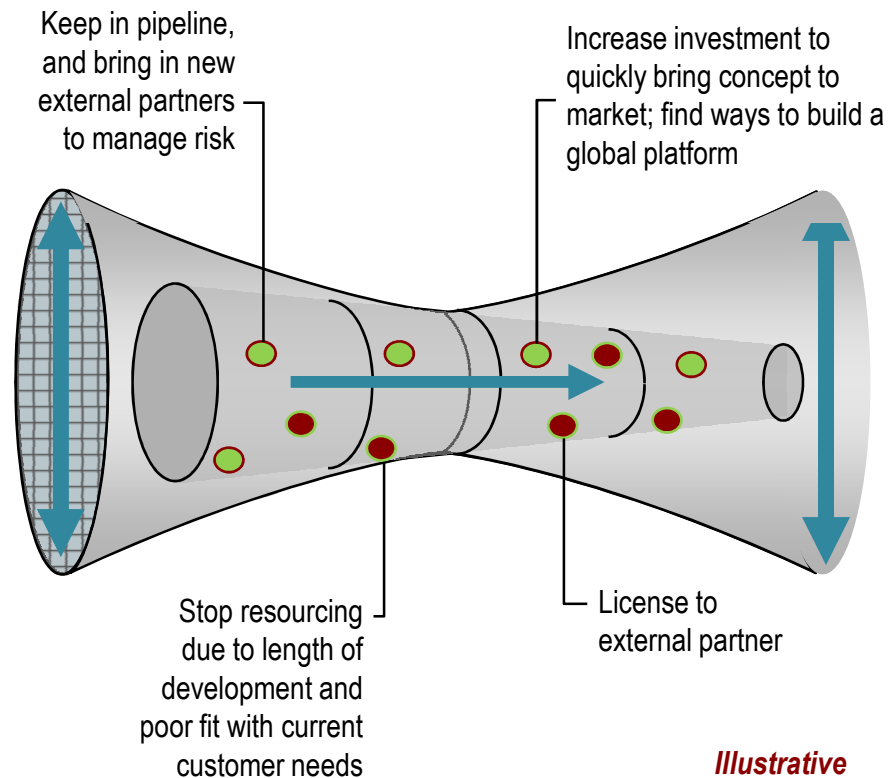
Raise the bar for performance in the pipeline by disproportionately investing in the great bets and creating options to keep the “good” bets alive . . . kill everything else

Do more with less by pruning and focusing

Too often companies cut the wrong projects because of their uncertainty, while also letting incremental but “safer” projects die a slow death

Focus resources to provide the necessary near- to mid-term impact during a recession, while keeping initiatives that will create momentum out of a recession

Innovation Pipeline



Doing innovation “right” Uncover insights into recession-minded customers

The recession has changed the customer equation—new methods are required to quickly generate the user insights that traditional market research techniques overlook

Leverage new insights to stay relevant

In a recession, needs, priorities and tradeoffs shift for customers (often moving to themes of “saving” and “value” and “more for less”), changing the equation for success

New types of insights are needed quickly to re-focus offering and business models; traditional market research misses important nuances and isn’t timely enough


Gain Insights into Broader Customer Context

Understand what consumers...

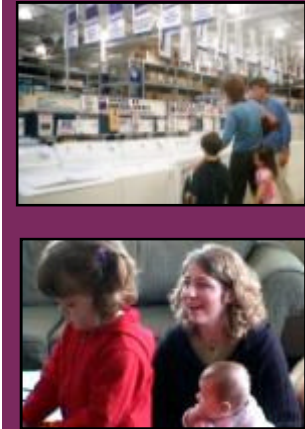
say do use

Using different techniques...


ask



observe



make



Doing innovation “right” Think beyond the product to create value for customers

Get out of long product-development cycles to drive innovation; instead explore new business models, channel partners and customer experiences to quickly deliver on those themes of “saving”, “value” and “more for less”



Cisco recently launched an hourly rental business model for its TelePresence service, creating public sites with new partners such as Taj Hotels that remove the need for high upfront costs during a recession

Hyundai, looking to remove job uncertainty as a barrier to purchase, developed a financing option that will let you return any vehicle if you lose your source of income within a year



Doing innovation “right” Speed time to market through rapid concept testing

Accelerate the leap to implementation by adopting visualization and early prototyping, helping project teams sell the concept internally, cheaply testing it with prospective customers/partners, and ramping up the implementation team

Early concept visualization

The process of creating concept visualizations helps refine concepts and the finished product helps communicate with teams and partners

Rapid market validation

To predict offering success, quickly test concepts to de-risk investment and uncertainty



Doing innovation “right”

Use open innovation to tap into new resources

In a world of increasingly scarce resources, design an approach to creating porous boundaries to build new leverage and share risk and cost

Build the options, flexibility, and leverage to innovate in an uncertain world

Avoid riskier go-it alone strategies in favor of partnering to co-develop more challenging capabilities

Look throughout operations of the organization to discover ways to collaborate with business partners: suppliers, contract operations, technology providers, channels, customers . . . even competitors

BENEFITS TO OPEN INNOVATION



So what should you do?

Focusing on the “right” innovations Realigning your innovation portfolio

- Map all of your innovation investments
- Construct a new strategy to innovate through a recession
- Define recession-oriented project metrics and criteria
- Strategically rebalance innovation resources



Doing innovation “right” Streamlining your execution of innovation

- Uncover insights into the recession-minded customer
- Think beyond products to quickly connect with customers
- Create quick and inexpensive concept visualizations
- Leverage “open innovation” to tap into new resources



We can help 5 ways Monitor can help

1 protect the good

Execute rapid-cycle portfolio audit and develop rank-order prioritization of initiatives that are likely to contribute cash in the short-medium term and real shareholder value in the longer term

2 free up cash

Identify and capture budget to invest in smart innovations by killing or mothballing low value initiatives

3 invent new sources of business

Develop breakthrough, big bet innovations geared to success in recessionary times

4 accelerate likelihood of success

Optimize remaining innovation initiatives for success in recessionary times by adjusting nature of the offer, time to market, cadence of spend, management of risk, and team skills

5 spread the risk to maximize return

Target highest-value areas for 'open innovation' and build partnerships to share risk and cost of whole portfolio

We can help

Our approach

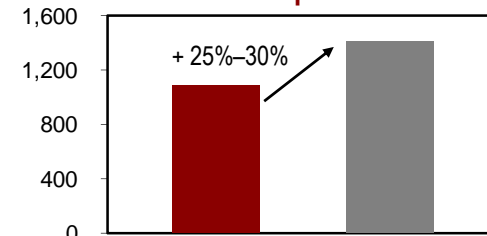
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|------------------------------------|--|--|
| 1 Protect the good | Diagnose Situation
(~ 4 weeks) | <ul style="list-style-type: none"> • Diagnose patterns of innovation in your company and industry • Map current innovation activity to identify where and how much you are investing • Define metrics to prioritize current and potential projects |
| 2 Free up cash | Define Strategy
(~ 4 weeks) | <ul style="list-style-type: none"> • Refine your innovation strategy, including critical opportunity areas and level of ambition • Prioritize a portfolio of projects aligned with that strategy |
| 3 Invent new sources of business | Develop Concepts
(~ 12 weeks) | <ul style="list-style-type: none"> • For priority projects, quickly generate new user discoveries, rooted in current economic context • Synthesize discoveries into compelling business concepts • Rapidly prototype and test using concept illustrations |
| 4 Accelerate likelihood of success | Launch and Extend
(~ 8 weeks) | <ul style="list-style-type: none"> • Define launch plans for priority concepts • Identify partners to enhance value of concept, speed time to market and share launch costs |
| 5 Spread the risk | | |

We can help Our results

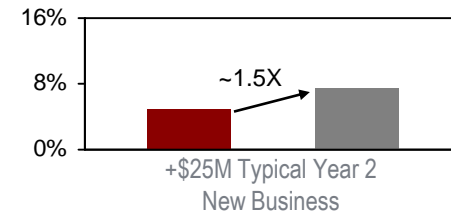
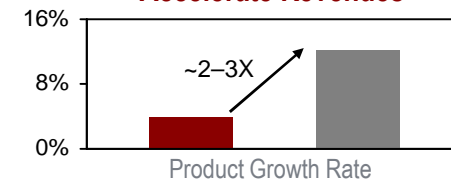
In our work with clients, we have achieved significant benefits by optimizing both innovation strategy and the innovation process

- Reduced time-to-market (40%–70%)
- Higher hit rates (from 5% to 35%-70%)
- Improved product development productivity (20%–35%)
 - More output for same headcount or same output for lower headcount
- Increased revenue
 - From earlier introduction (10%–80%)
 - From a better designed product that meets market needs (10%–30%)
- Reduced product lifecycle cost (10%–40%)
- Improved design quality and reduced design changes during early manufacturing (10%–80%)
- Other qualitative benefits, such as better executive leadership in product creation, efficient decision-making, etc.

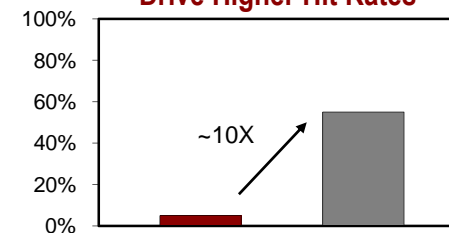
Increase Pipeline Value



Accelerate Revenues



Drive Higher Hit Rates



Background: the case for commitment

- **Innovation is no longer an option...**
After countless drives for operational efficiency and cost cutting, innovation is one of the strongest remaining drivers of shareholder value
- **Innovation rewards those who fight their base instincts...**
In a strong economy, a commitment to innovation—including financial investment, executive support, and organizational alignment—can exist as a matter of course. As the market softens, uncertainty and slashed budgets make small, short-term wins feel more gratifying and bigger bets more daunting. Suddenly, an innovation agenda seems much riskier...
- **Innovation cannot be suspended and rehabilitated at will...**
Proper innovation is a competence to be nurtured in your organization. Stopping any team working on hard future challenges often means it will disband and you will lose top innovators; this will be extremely hard to reverse when growth returns

Here, we outline three principles to help you stay the course on innovation

Principle 1: Recessions are an ideal time to go on OFFENSE

A universal instinctive reaction to tough times is to circle the wagons, spend as little as possible, and protect the core . . . If you consciously choose to go the opposite way you can take advantage of your competitors' weaknesses during these periods

- Savvy companies maintain innovation investments during a downturn, even selectively increase spending, to maximize opportunities to come out of any recession with boldness and drama that build growth momentum
- Recessions are short-term by definition, making cutbacks risky and short-sighted in the face of a broader corporate strategy
- Pulling long-term strategic investments for short-term cash flow will ultimately destroy shareholder value

A British study of 1,000 businesses examined over 30 years found that companies spending more on innovation during economic downturns saw their returns on capital increase 23.8% during the recovery, vs. 0.6% for those who decreased spending.

Source: AdAge, "Innovate in a Recession? Yes It Can Be Done." February 25, 2008.

"A difficult economic environment argues for the need to innovate more, not to pull back."



– Ken Chenault, CEO
American Express
Source: Fortune, March 3, 2008

Principle 2: Innovation is also one of the best forms of DEFENSE

Even a few bold innovations can send a powerful signal that the vital signs of your firm are healthy while your competitors appear catatonic

- A down cycle may be a time to weed out efforts that aren't working, but good innovators always channel a bit of those savings to invest in bold innovation efforts or longer-term bets
- Opportunistic innovation can make a considerable competitive difference in the face of other companies' cuts and amid failing players that were supposed to be small and nimble
- The corollary is true too: blanket cuts will give competitors the room they need to leapfrog ahead of you — forcing you to play defense and catch up when the market turns

Recession has been opportune for many companies that kept the course through weak times

A few innovations spawned during down markets:

Walmart
Save money. Live better.
Discount Retail Model

COSTCO
WHOLESALE
Warehouse approach



iPod / iTunes suite
and retail stores

P&G's AG Lafley says that P&G is not cutting spending on innovation in 2008, and some businesses will increase their spending. "It's part of our long-term strategy."

Source: *Business Week Online*

Principle 3: Staying committed to innovation epitomizes leadership...

One of the principal reasons to innovate at all is because it is inspiring to employees, partners, and suppliers

- To maintain unambiguous commitment and fight the natural tendency to waver when times get tough is itself a sign of extraordinary leadership
- Innovation cannot be suspended and rehabilitated at will — failure to keep expectations high and failure to constantly demand innovation no matter what conditions prevail signals that you're really not that committed to innovation in the first place, undermining your declared faith in your team and its competence
- Even one or two bold innovation initiatives, launched at the time of a market turnaround, can do a lot to help internal audiences feel like winners... this helps offset the negative effects of any earlier head count losses or reduced compensation
- When you do succeed with innovation, the internal pride that comes with a strong rebound will power your forward momentum, thereby attracting new talent and partners

