



## Workshop

***Growth & Innovation are the TOP PRIORITIES on CEO's Minds***

### **VALUE PROPOSITION**

Provide the Strategies and Frameworks  
To Double Your Innovation Stream

**APICS/ISM/ASAP  
Silicon Valley May 2006**

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## Agenda

### **Part One**

#### ***Making the Case for Innovation***

Tools & Compelling Arguments for advocates for Innovation who are having a hard time getting the message across to others (senior, peer, or junior)

### **Part Two**

#### ***Strategic Relationships & External Innovation***

Why Alliance Partners, Strategic Suppliers, Outsourcing Companies (IT, HR, etc) can create a powerful source of innovation that opens new avenues of opportunity.

### **Part Three**

#### ***Critical Strategic Architectures of Competitive Advantage***

This is a Battle of Value Chains in a world of Hyper-Competition. Linking the Best of Breed Innovators in the Chain will determine who wins. Have a Battle Plan.

### **Part Four**

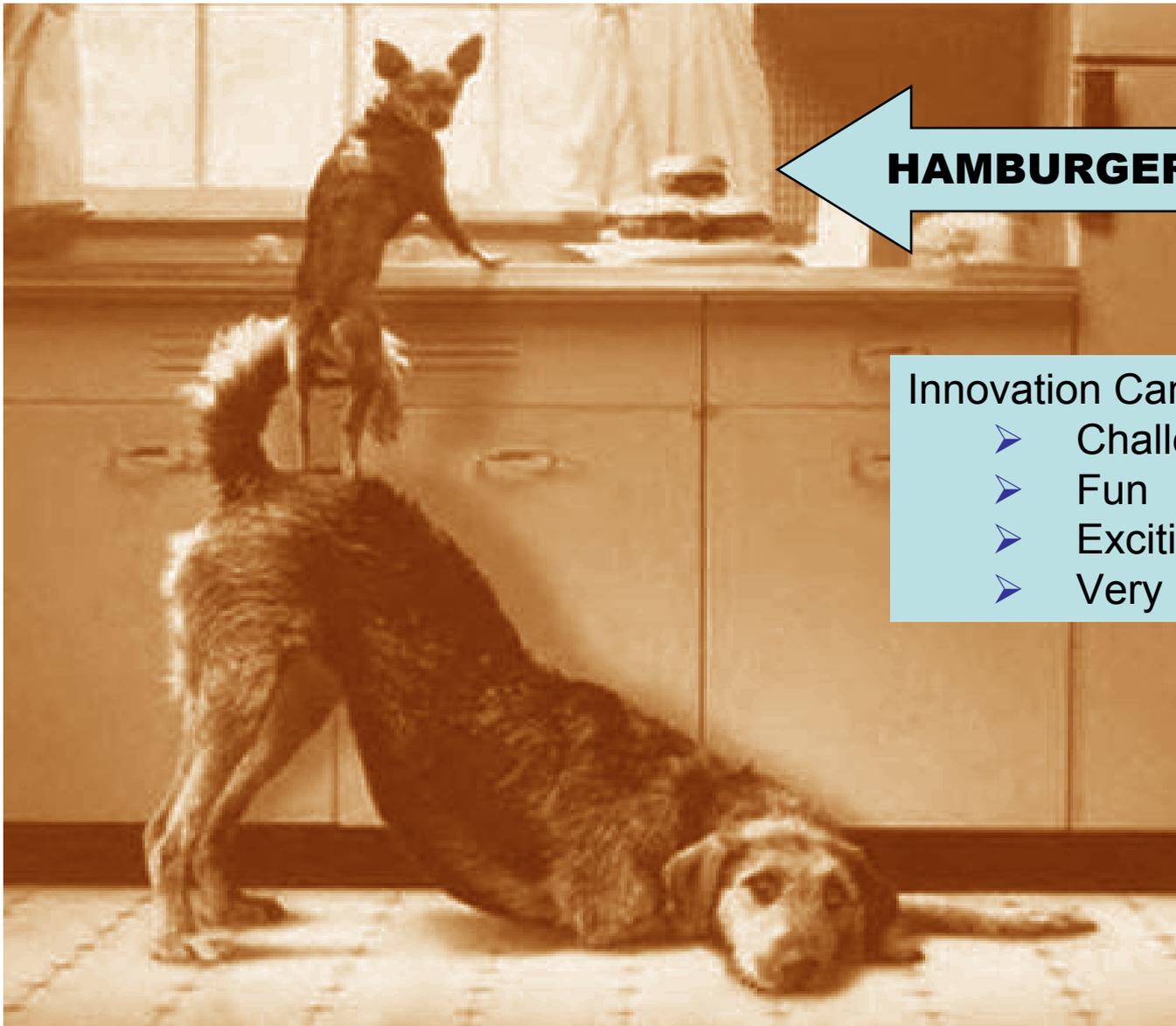
#### ***Starting the Innovation Engine***

To be successful there are six essential Best Practice frameworks that are necessary to underpin the innovation effort.

### **Part Five**

#### ***Designing the Launch***

Getting an Innovation Program started can sometimes be a daunting task. Where do I start? What is most important to do? What works best to get results fast?



**HAMBURGERS !!**

Innovation Can be:

- Challenging
- Fun
- Exciting
- Very Unexpected

## Five Things to Remember

- 1. You Cannot Cost-Cut your way to Prosperity**
- 2. In a Fast Moving World, Innovation is the most sustainable source of competitive advantage**
- 3. Innovation from Suppliers and Alliance Partners is typically the least costly, least risky, and often the fastest to market**
- 4. Strategic Alliance Partners & Suppliers are an Untapped Wellspring of Innovation, but require Collaborative Relationships to access it**
- 5. Vision without Execution is Hallucination**

(You don't have to be Perfect, Just Better than the Competition)



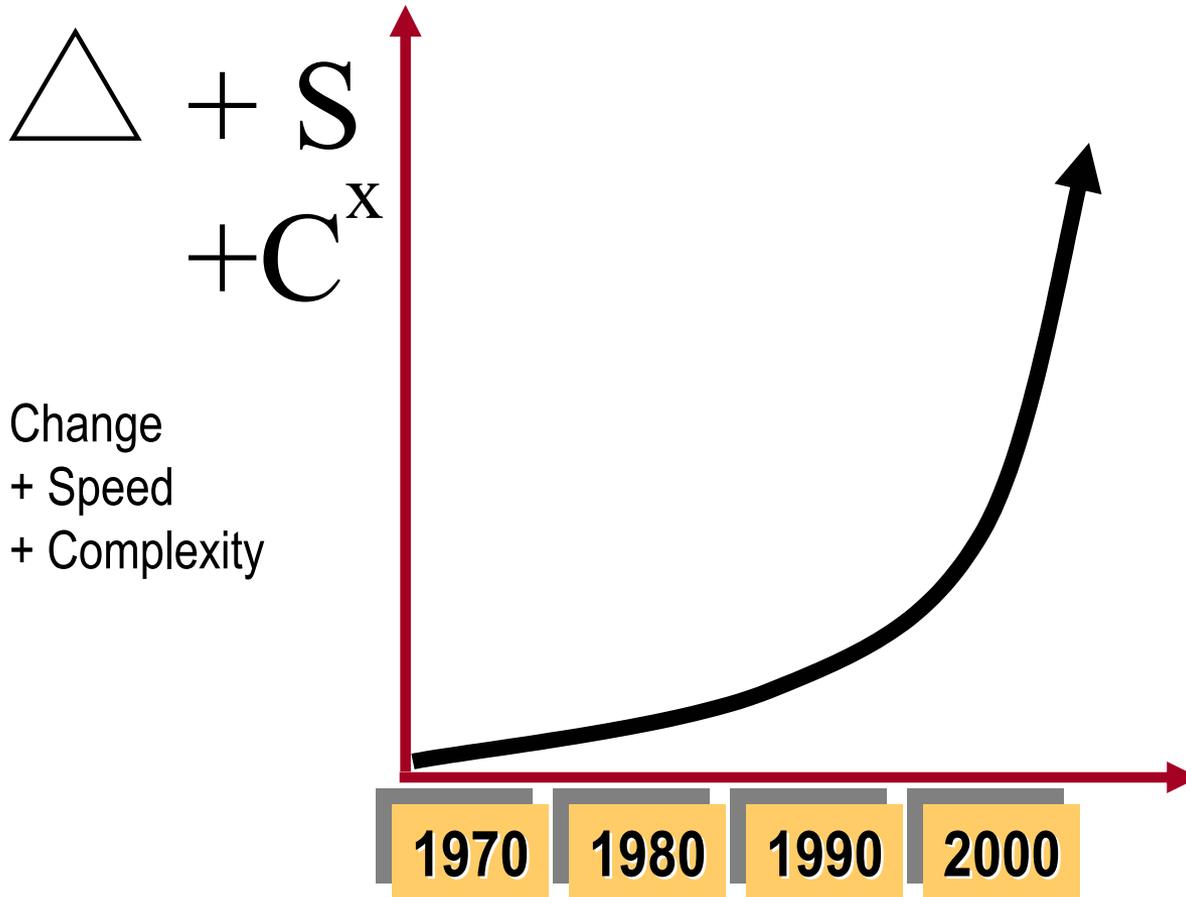
## Part One

### ***Making the Case for Innovation in Today's World***

- Rapid Change Requires Rapid Innovation
- Innovation Pays Off



## What's Happening Now?



# **Engines** *or* **Innovation**

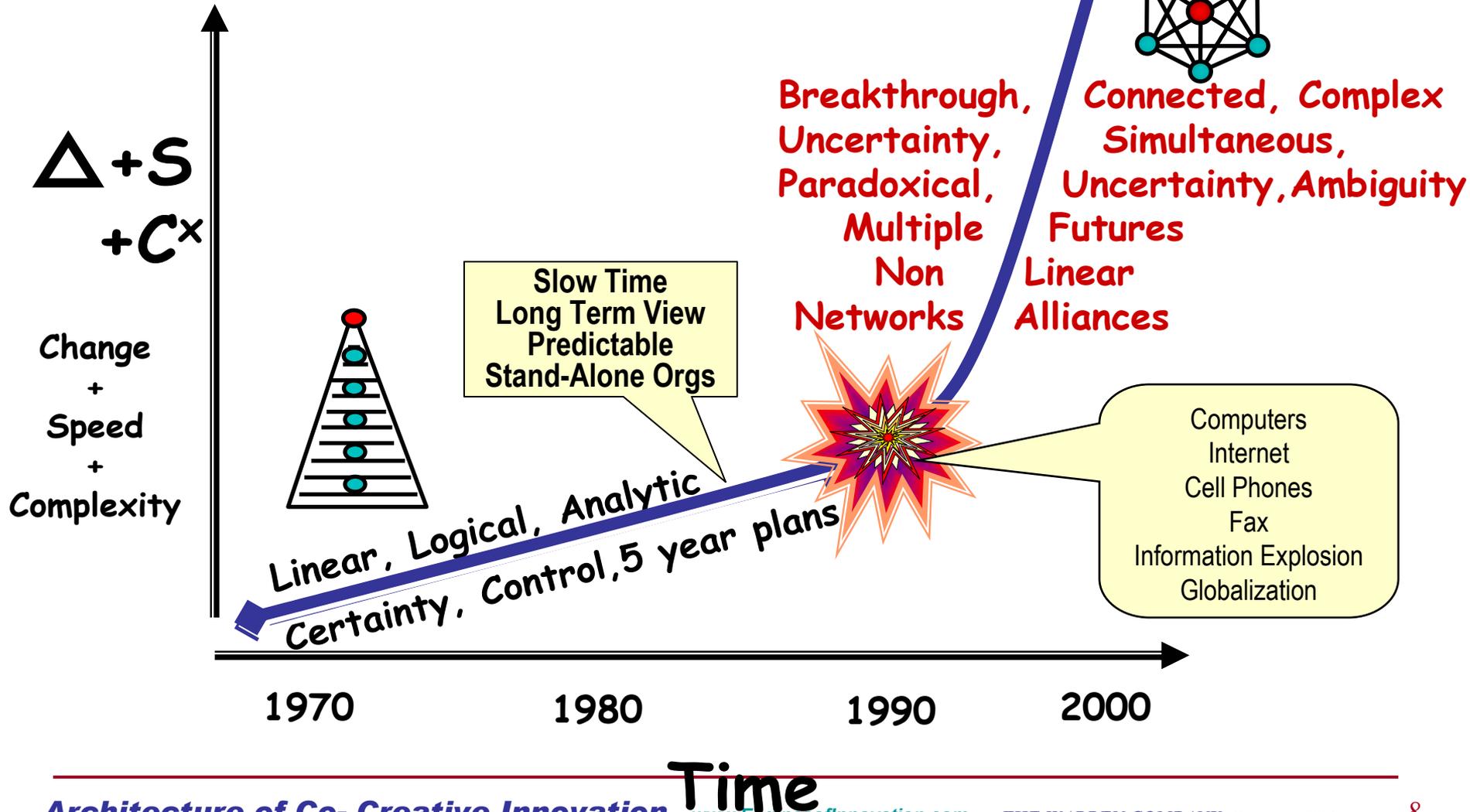
God put me on  
this earth to  
accomplish just  
so many  
things...

Right now,  
I'm so far  
behind,  
I'll never die!

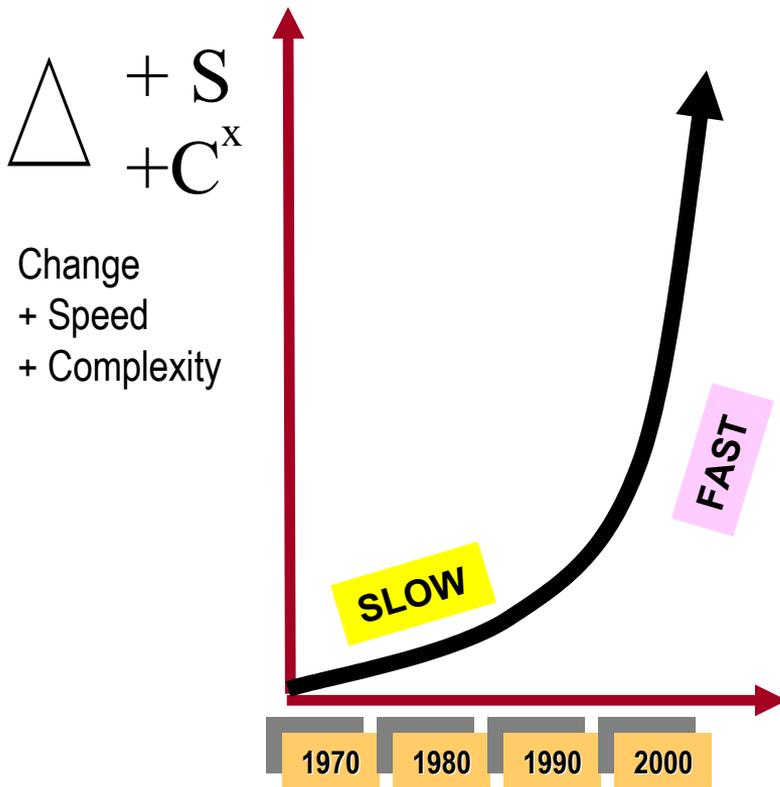


# Engines of Innovation

**New Rule: As Clock-Speed Increases, Paradigms Change**



## The World Changed!

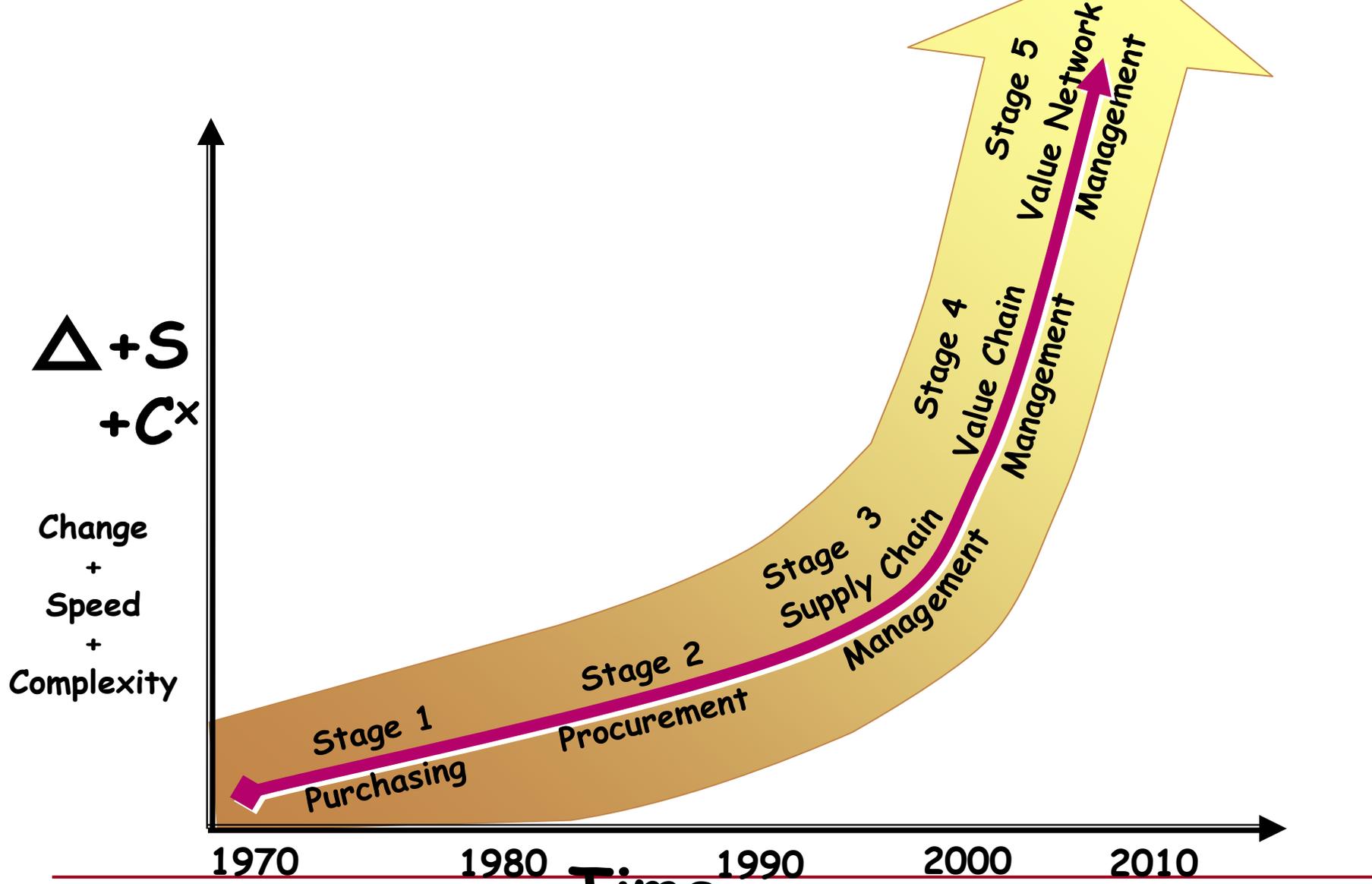


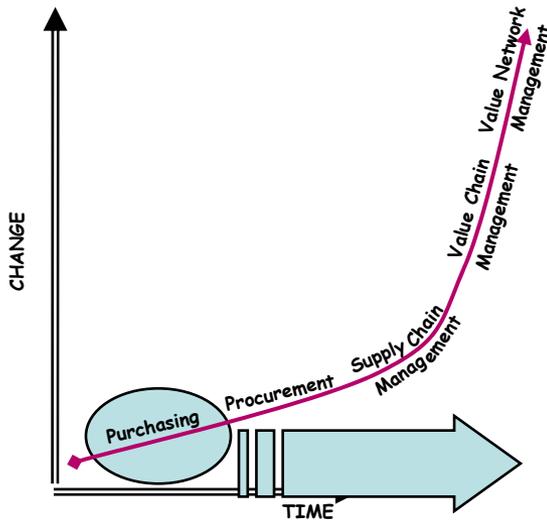
| Pace                        | Slow                               | Fast                                  |
|-----------------------------|------------------------------------|---------------------------------------|
| Key Planning Characteristic | Predictable<br>Linear<br>Logical   | Innovative<br>Simultaneous            |
| Command System              | Control                            | Coordinate                            |
| Structure                   | Hierarchical                       | Alliances & Networks                  |
| Supplier Relationships      | Competitive<br>Price & Transaction | Competitive<br>Value and Relationship |
| Organizations               | Separate                           | Integrated                            |

**How Powerful are the Paradigm Shifts???**

***The Future Isn't  
What It Used to Be!***

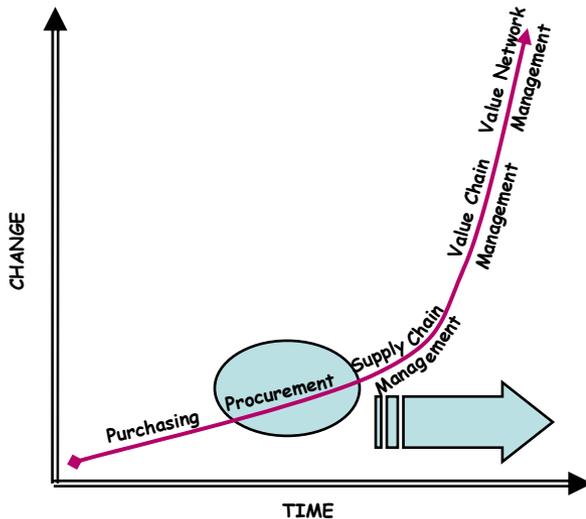
# Engines or Innovation





## Purchasing: Clerical – Tactical Buying

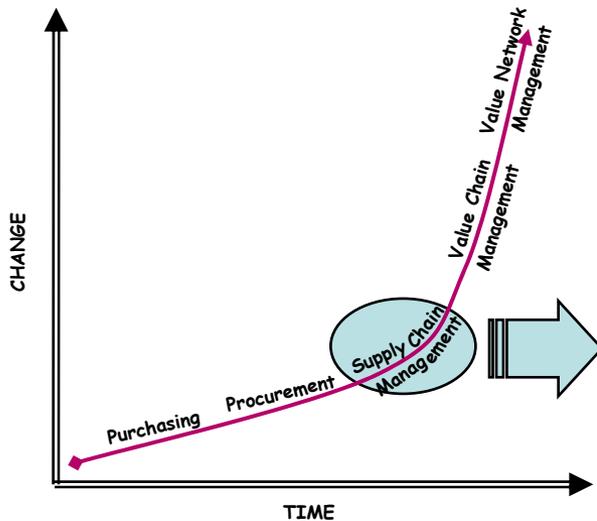
|  |  |
|--|--|
| <b>Value Driver</b>                                | <input type="checkbox"/> <i>Timely Availability, Convenience</i>   |
| <b>Financial Impact</b>                            | <input type="checkbox"/> <i>Overhead-Cost Center</i>               |
| <b>Integration Level &amp; Functional Elements</b> | <input type="checkbox"/> <i>No Internal Integration Purchasing</i> |
| <b>Basis of Competitive Advantage</b>              | <input type="checkbox"/> <i>Do the Job</i>                         |
| <b>Performance Metrics</b>                         | <input type="checkbox"/> <i>Timeliness &amp; Efficiency</i>        |
| <b>Innovation Focus</b>                            | <input type="checkbox"/> <i>Nothing</i>                            |
| <b>Time Focus</b>                                  | <input type="checkbox"/> <i>Isolated from Customer</i>             |



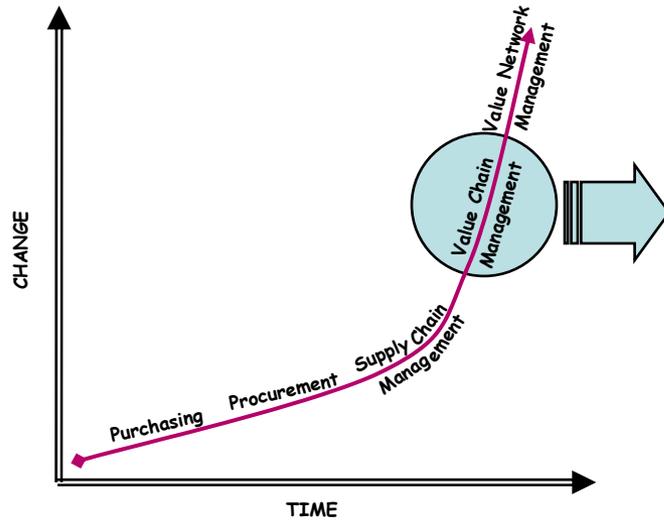
## Procurement: Tactical Bid-Based Buying

|  |   |
|--|---|
| <b>Value Driver</b>                                | <input type="checkbox"/> Purchase Price   |
| <b>Financial Impact</b>                            | <input type="checkbox"/> Improve Bottom Line<br>No Consideration of Revenue Impacts |
| <b>Integration Level &amp; Functional Elements</b> | <input type="checkbox"/> Low Internal Integration:<br>Procurement & Logistics       |
| <b>Basis of Competitive Advantage</b>              | <input type="checkbox"/> Leverage Size of Buyer                                     |
| <b>Performance Metrics</b>                         | <input type="checkbox"/> Low Component/Unit Cost,<br>On Time Delivery               |
| <b>Innovation Focus</b>                            | <input type="checkbox"/> Squeeze the Vendor   |
| <b>Time Focus</b>                                  | <input type="checkbox"/> Reactive to Customer                                       |

## Process Based: Supply Chain Mngmnt



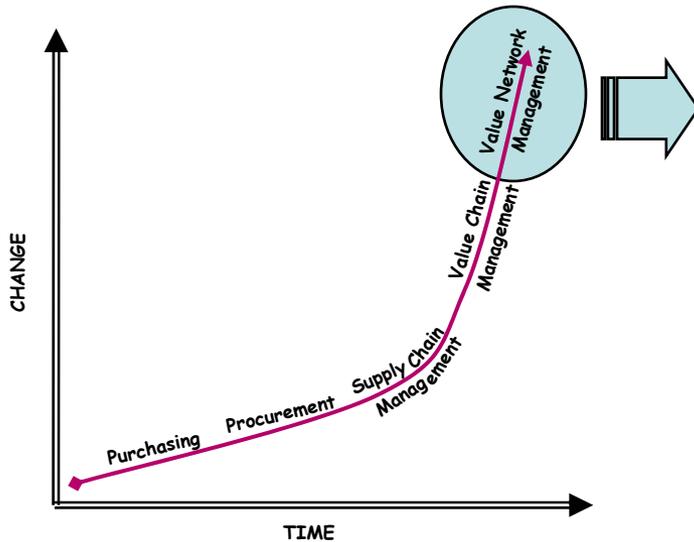
|  |  |
|--|--|
| <b>Value Driver</b>                                | <input type="checkbox"/> Quality, Just In Time,<br><input type="checkbox"/> Total Cost of Ownership  |
| <b>Financial Impact</b>                            | <input type="checkbox"/> Improve Bottom Line<br><input type="checkbox"/> Some Consideration of Revenue Impacts                                     |
| <b>Integration Level &amp; Functional Elements</b> | <input type="checkbox"/> Partial Internal Integration<br>Procurement, Logistics, Operations, Engineering   |
| <b>Basis of Competitive Advantage</b>              | <input type="checkbox"/> Through-Put<br><input type="checkbox"/> Global Impact   |
| <b>Performance Metrics</b>                         | <input type="checkbox"/> Coordination, Cost,<br><input type="checkbox"/> Develop Suppliers   |
| <b>Innovation Focus</b>                            | <input type="checkbox"/> Process Innovation,<br><input type="checkbox"/> Develop Requirements,<br><input type="checkbox"/> Near Defect Free Supply |
| <b>Time Focus</b>                                  | <input type="checkbox"/> Responsive to Customer  |



## Strategic: Value Chain Management

|  |   |
|--|---|
| <b>Value Driver</b>                                | <input type="checkbox"/> Innovation,<br><input type="checkbox"/> Top & Bottom Line,<br><input type="checkbox"/> Internal Integration,               |
| <b>Financial Impact</b>                            | <input type="checkbox"/> Revenue & Bottom Line<br><input type="checkbox"/> Increase Share Holder Value  |
| <b>Integration Level &amp; Functional Elements</b> | <input type="checkbox"/> Moderate Internal & External Integration: R&D, Supply, Logistics, Operations, Engineering, Mrktg, Customer Service         |
| <b>Basis of Competitive Advantage</b>              | <input type="checkbox"/> Coordination<br><input type="checkbox"/> Interconnectedness  |
| <b>Performance Metrics</b>                         | <input type="checkbox"/> Speed, Effectiveness,<br><input type="checkbox"/> Monitor Supply Environment   |
| <b>Innovation Focus</b>                            | <input type="checkbox"/> Speed & Integration,<br><input type="checkbox"/> Design Supply Base<br><input type="checkbox"/> Integrated Supply Strategy |
| <b>Time Focus</b>                                  | <input type="checkbox"/> Pro-Active To Customer   |

## Systemic: Value Network Management



|  |   |
|--|---|
| <b>Value Driver</b>                                | <input type="checkbox"/> Total Value Impact & Costs<br><input type="checkbox"/> Innovation<br><input type="checkbox"/> Revenues, & Speed                          |
| <b>Financial Impact</b>                            | <input type="checkbox"/> Present & Future Revenue<br><input type="checkbox"/> Bottom Line impacts<br><input type="checkbox"/> Supplier & Stakeholder Impact       |
| <b>Integration Level &amp; Functional Elements</b> | <input type="checkbox"/> Full Integration- Internal & External: Supply, Logistics, Procurement, Operations, Engineering, R&D, Sales, Marketing, Service, Customer |
| <b>Basis of Competitive Advantage</b>              | <input type="checkbox"/> Hyper-Competition<br><input type="checkbox"/> Technology Hybridization<br><input type="checkbox"/> Speed, Innovation, & Customization    |
| <b>Performance Metrics</b>                         | <input type="checkbox"/> Innovation, Synchronicity, Synergy,<br><input type="checkbox"/> Monitor Customer Environment   |
| <b>Innovation Focus</b>                            | <input type="checkbox"/> New Processes, Systems Solutions,<br><input type="checkbox"/> Leverage Supplier Technology   |
| <b>Time Focus</b>                                  | <input type="checkbox"/> Pre-Active with Customer   |

# Engines or Innovation

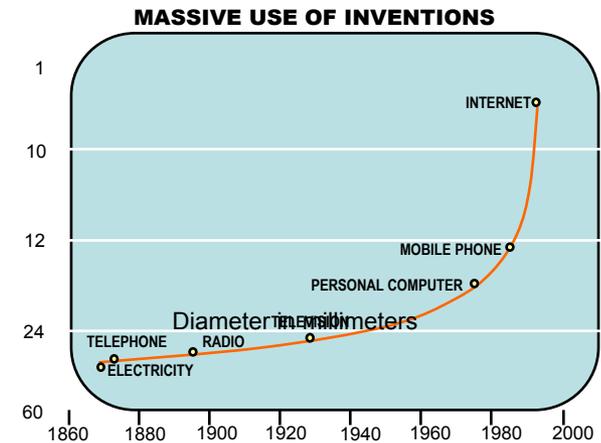
## Building to World Class

|  | 1. Clerical<br>Tactical Buying                              | 2. Transactional<br>Bid-Based Buying   | 3. Process Based<br>Supply Chain Mgmt  | 4. Strategic<br>Value Chain Mgmt  | 5. Systemic<br>Value Network Mgmt  |
|--|---|--|--|---|--|
| <b>VARIABLE</b>                                    |   |  |  |   | <input type="checkbox"/> Total Value Impact<br><input type="checkbox"/> Innovation,<br><input type="checkbox"/> Costs,<br><input type="checkbox"/> Revenue<br><input type="checkbox"/> Speed |
| <b>Value Driver</b>                                | <input type="checkbox"/> Timely Availability, Convenience   | <input type="checkbox"/> Purchase Price  | <input type="checkbox"/> Quality,<br><input type="checkbox"/> Just In Time<br><input type="checkbox"/> Total Cost of Ownership                     | <input type="checkbox"/> Innovation<br><input type="checkbox"/> Top & Bottom Line<br><input type="checkbox"/> Internal Integration                          | <input type="checkbox"/> Present & Future Revenue<br><input type="checkbox"/> Bottom Line impacts,<br><input type="checkbox"/> Supplier & Stakeholder Impact                                 |
| <b>Financial Impact</b>                            | <input type="checkbox"/> Overhead-Cost Center               | <input type="checkbox"/> Improve Bottom Line<br><input type="checkbox"/> No Consideration of Revenue Impacts | <input type="checkbox"/> Improve Bottom Line<br><input type="checkbox"/> Some Consideration of Revenue Impacts                                     | <input type="checkbox"/> Revenue & Bottom Line Impacts, Increase Share Holder Value   | <input type="checkbox"/> Full Internal & External Integration: Supply, Procurement, Logistics, Operations, Engineering, R&D, Sales, Marketing, Service, Customer's Strategy                  |
| <b>Integration Level &amp; Functional Elements</b> | <input type="checkbox"/> No Internal Integration Purchasing | <input type="checkbox"/> Low Internal Integration Procurement & Logistics                                    | <input type="checkbox"/> Partial Internal Integration: Procurement, Logistics, Operations, Engineering   | <input type="checkbox"/> Moderate Integration Internal & External Integration: Supply, R&D, Logistics, Operations, Engineering, Marketing, Customer Service | <input type="checkbox"/> Hyper-Competition<br><input type="checkbox"/> Technology Hybridization<br><input type="checkbox"/> Speed, Innovation, & Customization                               |
| <b>Basis of Competitive Advantage</b>              | <input type="checkbox"/> Do the Job                         | <input type="checkbox"/> Leverage Size of Buyer  | <input type="checkbox"/> Through-Put<br><input type="checkbox"/> Global Impact   | <input type="checkbox"/> Coordination<br><input type="checkbox"/> Interconnectedness  | <input type="checkbox"/> Innovation,<br><input type="checkbox"/> Synchronicity, Synergy,<br><input type="checkbox"/> Monitor Customer Environment  |
| <b>Performance Metrics</b>                         | <input type="checkbox"/> Timeliness & Efficiency            | <input type="checkbox"/> Low Component/Unit Cost, On Time Delivery   | <input type="checkbox"/> Coordination & Cost, Develop Suppliers  | <input type="checkbox"/> Speed, Effectiveness, Monitor Supply Environment   | <input type="checkbox"/> New Processes, Systems Solutions,<br><input type="checkbox"/> Leverage Supplier Technology  |
| <b>Innovation Focus</b>                            | <input type="checkbox"/> Nothing                            | <input type="checkbox"/> Squeeze the Vendor  | <input type="checkbox"/> Process Innovation,<br><input type="checkbox"/> Develop Requirements,<br><input type="checkbox"/> Near Defect Free Supply | <input type="checkbox"/> Speed & Integration,<br><input type="checkbox"/> Design Supply Base<br><input type="checkbox"/> Integrated Supply Strategy         |  |
| <b>Time Focus</b>                                  | <input type="checkbox"/> Isolated from Customer             | <input type="checkbox"/> Reactive to Customer  | <input type="checkbox"/> Responsive to Customer  | <input type="checkbox"/> Pro-Active To Customer   | <input type="checkbox"/> Pre-Active with Customer  |
| <b>Rating</b>                                      | 1.0    1.5  | 2.0    2.5   | 3.0    3.5   | 4.0    4.5  | 5.0 World Class  |

***In a Fast Moving,  
Rapidly Changing World,  
The Most Sustainable Source  
of Competitive Advantage is  
INNOVATION***

## Organizational Evolution is Too Slow

**Organizations Not Changing at the same Rate of Environment**



(See Appendix for more)



**What is the ONLY Institution that DOESN'T  
Need Innovation?**

## Innovation Definition

### ***Simple Definition***

***Process that generates  
New Sources of Value & Growth  
for an Organization***



**What Senior Executive Want to Hear.....**

***Does Innovation Pay Off? (Reward)  
Is it Safe? (Risk)***

***The Verdict is In....***

## According to Business Week

- **Of the 25 Most Innovative Companies in the world:**
  - More than half of the Top 25 with histories as public companies scored big, with better profit margins and higher stock prices over the past decade.
- **How big?**
  - The innovators achieved median profit margin growth of 3.4% a year since 1995,
    - compared with 0.4% for the median Standard & Poor's (MHP ) Global 1200 company.

• **8 ½ Times LARGER GROWTH than the Median**

- That's a huge achievement, thanks in large part to innovation.
  - The group's median annual stock return of 14.3% was a full three points better than the S&P 1200 median over the decade, according to a study done for Business Week
    - Source: Business Week – April 15, 2006

## Does Innovation Really Create Value?



EXECUTIVE SUITE  
Talking Business with Ron Insana

Monday, February 06, 2006  
Page 8-B



# P&G

### Focus on strategies, core business helps P&G progress

"Innovation has been an engine of growth for us," Procter & Gamble's A.G. Lafley says.

You might think of Procter & Gamble (PG) as a proud, old-line 169-year old consumer products company. But its stock performance has been on a five-year tear, rising nearly two-thirds in value and setting new highs while the Standard & Poor's 500 index is essentially flat for the same period. It reported net income up 29% to \$2.55 billion, topping analysts' expectations again and leaving many to wonder if this juggernaut will ever end.



**Ron Insana: How do you continue to drive growth, even as you get bigger by the year?**

**A.G. Lafley:** I'd say three things.

1. We're building market shares on two-thirds to 70% of our businesses around the world.
2. **We continue to Lead in Innovation.** In many regions and countries, **Innovation has been an Engine of Growth for us.**
3. **Focus, particularly on Delivering a Great Innovation.**

# The Innovation Payoff

These innovators have racked up steadily higher profit margins



Data: Boston Consulting Group, Standard & Poor's Compustat \*FISCAL YEAR EARNINGS BEFORE INTEREST AND TAXES AS PERCENT OF REVENUES



***How Do I Turn my  
Suppliers and Alliances into our Company's most  
Valuable Competitive Weapon?***

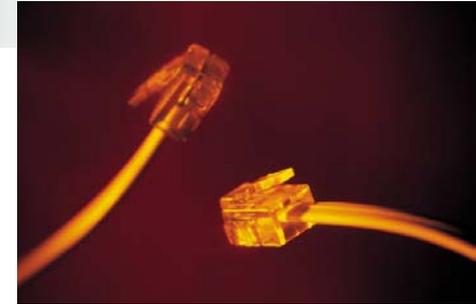
**Part Two**

***Strategic Relationships of External Innovation***

1. Why to Expand the Boundaries
2. Why You Will Need to Double, Triple, or Quadruple Your Innovation Output



# ***Engines of Innovation***



**Need to Double, Triple, and then Quadruple  
Innovation Output in the Next 10 years**

***Where will My Company  
Get the Innovation It Needs  
to Thrive in a  
Rapidly Changing World?***

# ***Differentials in Thinking are the Principle Source of Innovative Thinking***



***Alliances generate new paradigms through  
the synergy of compatible differences***

***Locked inside the alliance lies the hidden  
potential for co-creative breakthroughs***



***With Best Process & Best Practice,  
Success Rates More than Double,  
thus:***

- ***Risks are Substantially Reduced***
- ***Returns are Greatly Increased***

## Future Breakthroughs in Technology ...

**Will not be primarily from within industries  
& fields of thought,  
but between the fields of thought.**

(Sometimes called Convergence or Technology Hybridization)

*Computers and Biotech = Genomics*

*Data Systems and Biotech = Bioinformatics*

*Chemicals and Biotech = Chemogenomics*

*Telecomm and Computing = Internet*

*Automobiles and Defense Electronics = GPS*

*Other Examples*

*Internet and Home Construction*

*Teaching and Computing*

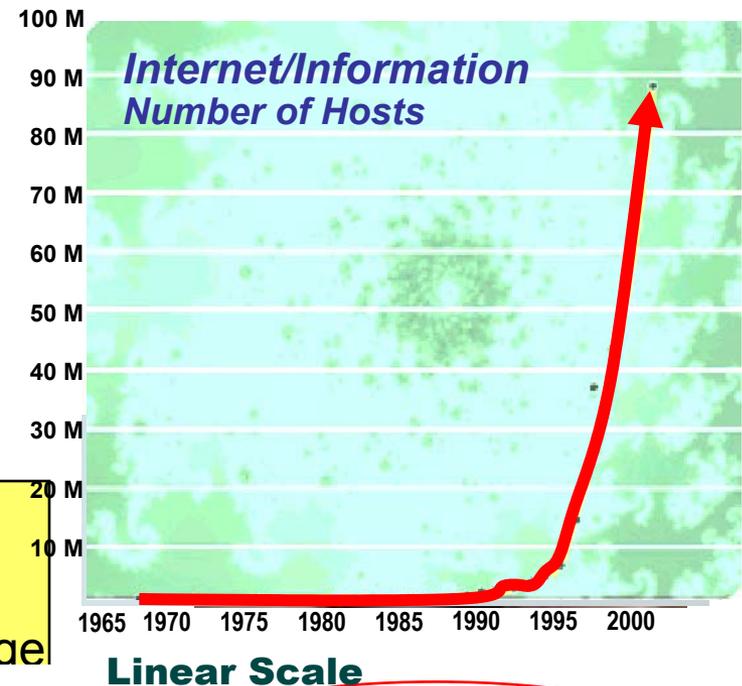
## Hybridized Combinations More Threatening than Disruptive Technologies

### Disruptive Technologies: Secondary Threat

### Greatest Threat: Hybridized Combinations of Existing Technology

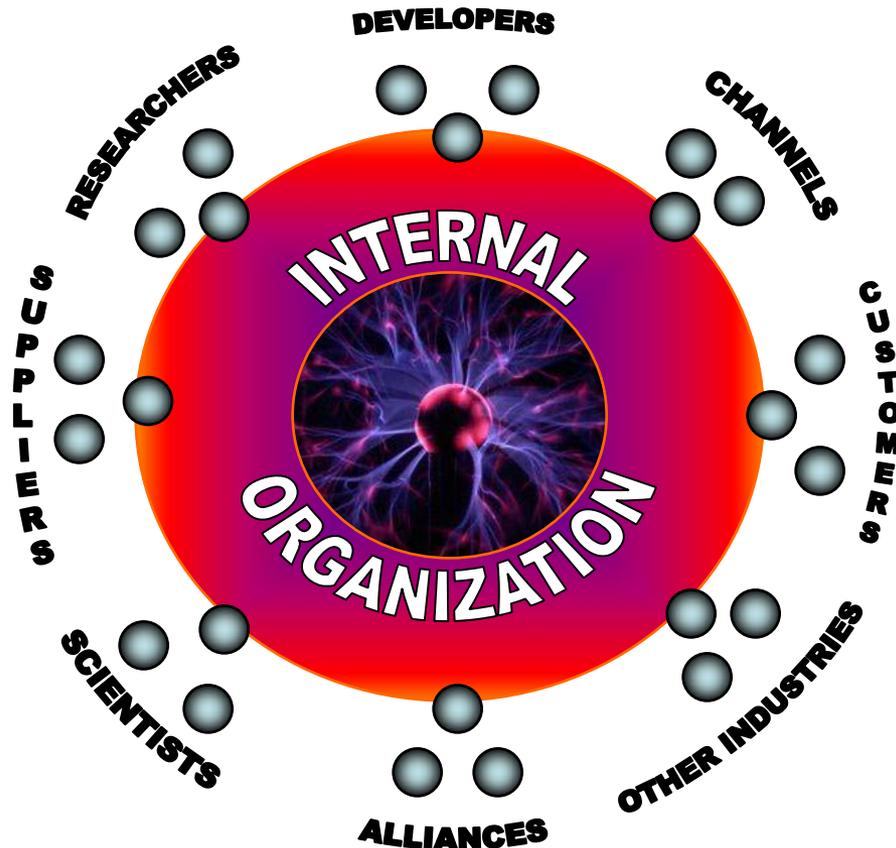
- Examples:
  - Internet (Infrastructure: ARPANET, modems, routers, computers, software – invent a few missing links)
  - Autos – Drive Trains, GPS, Engine Controls, OnStar
  - Cell Phone Cameras

- **Integrated Alliances Required:**
  - New Capability to Connect Across Both Industries & Specialized Fields of Knowledge

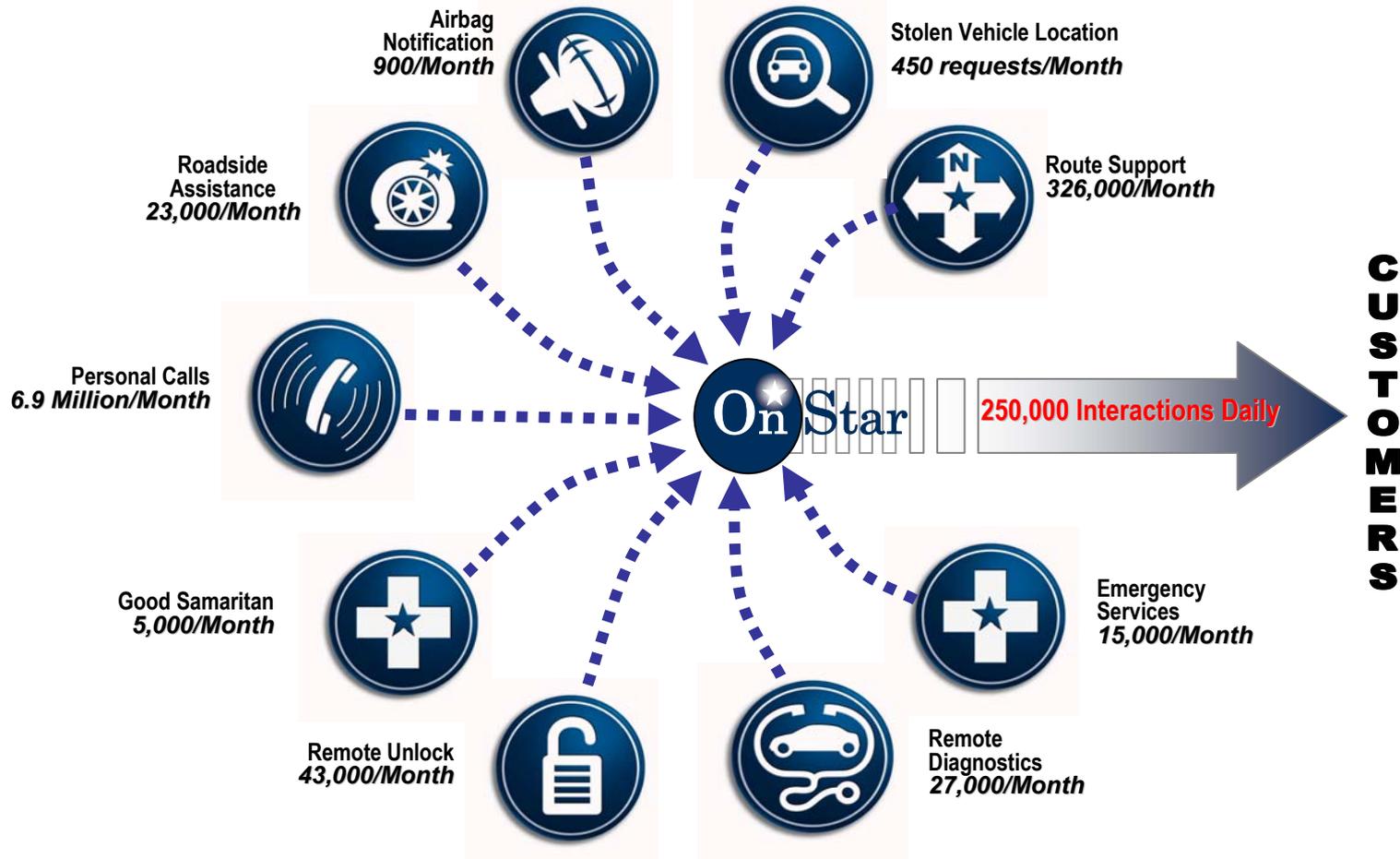


*Doubling Time: 12 months*

## Innovation Occurs on Edges of Eco-Spheres & Interfaces of Dissimilar Structures



## Example: On Star Constellation



## Example: Procter & Gamble

- ***Two Moments of Truth***
  - When the Consumer:
    - SELECTS the Product
    - USES the Product
- ***Connect & Develop***
  - Alliances for Massive Innovation



## Part Three

# ***Critical Architectures of Competitive Advantage***

- 1. Definition of Innovation***
- 2. Types of Innovation***
- 3. Battle of Value Chains***
- 4. Power of Innovation Networks***



## How the Six Kinds of Innovation are Used

### 6. Market Extension

- Develop New Products, Services to:
  - Support Existing Customers/Market Bases who buy our current products
  - facilitate Product/Technological Adoption and create value from usage
  - Introduce new services & value streams

### 5. New Business Models

- Reconfigure the Nature of How Business is Framed to Serve the Customer:
  - Make it Easier to do Business
  - Create More Integrated Products and Services
  - Devise better ways to be profitable
  - Use Resources in a New Way

### 4. Process Improvement

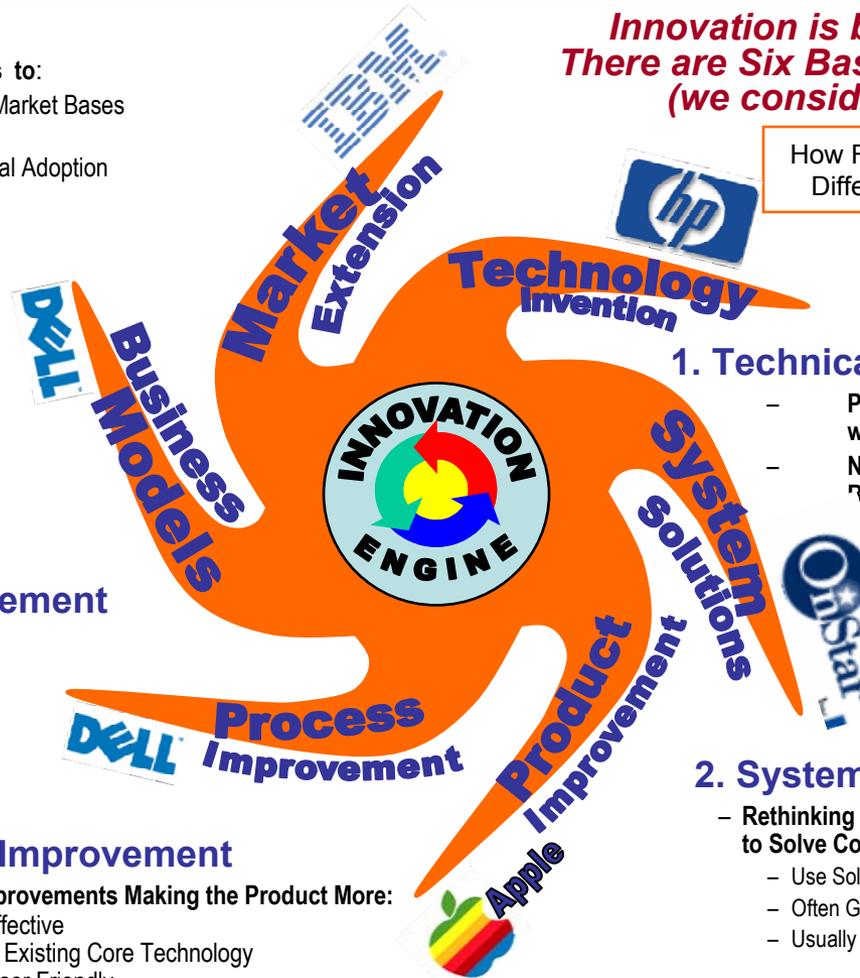
- Make Processes:
  - Simpler
  - Faster
  - More accurate
  - More Reliable
  - Less Expensive
  - More Integrated

### 3. Product Improvement

- Continuous Improvements Making the Product More:
  - Efficient, Effective
  - Leveraging Existing Core Technology
  - Useful or User Friendly
  - Integrated with other products, technologies, or systems
  - Valuable to users

**Innovation is broader than Invention. There are Six Basic Kinds of Innovation: (we consider these of equal value)**

How Five Different Companies Choose Different Approaches To Innovation



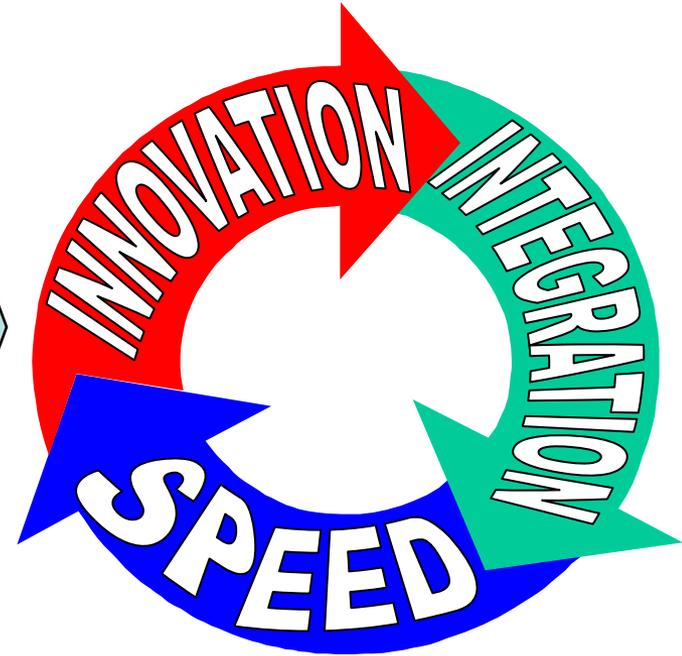
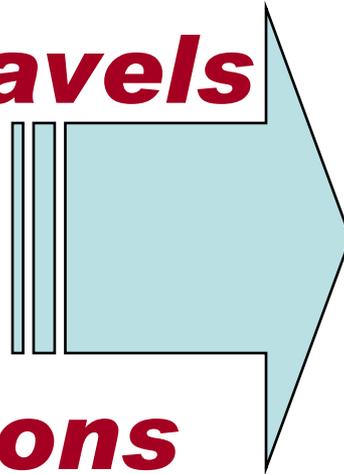
### 1. Technical Invention

- Product Creation/Development with a new Core Technology
- Next/New Generation, Breakthrough/Discontinuous Technology

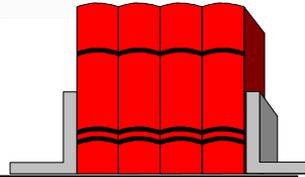
### 2. Systems Solutions

- Rethinking & Integrating Existing Systems to Solve Complex Customer Problems
  - Use Solution Alliances to Integrate Complexities
  - Often Generates New Solutions to Existing Problems
  - Usually Closely Linked to Customer

***Innovation Travels  
with  
Two Companions***



## Alliance Definition



### **Functional Definition**

✓ **Synergistic (1+1>3)**

- Powerful Value Proposition
- Mutually Aligned Goals

✓ **Strategic**

- Affects Long Term Destiny
- Alters Expectations of the Future

✓ **Championed**

- Top Rank Support & Operational Unit Sponsorship
- Alliance Champion

✓ **Integrated**

- Tight Operating Linkages
- Governance Structure
- Interaction at Multiple Levels

✓ **Collaborative**

- Win-Win
- Compatible Business Models

✓ **Reciprocal Relationships**

- Shared Assets
- Sharing Strengths & Information
- Shared Risk & Reward

✓ **Regenerative**

- Renewing contract
- Adapting Strategy to Competitive Environment
- Innovation Essential



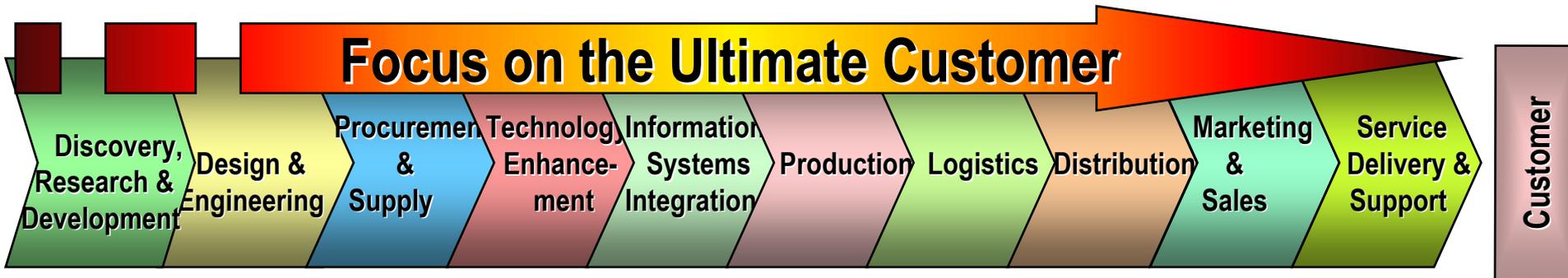
## Battle of Value Chains

### *From Value Chains to Value Networks*



## Strategy

Ultimately, Competitive Advantage is a Battle of Value Chains



**Network of Companies Composing the Best Value Chain WINS!**



**The Race will go to the Thoroughbreds  
Swiftest + Most Innovative = Best of Breed  
(Best of Breed is not Price!)**



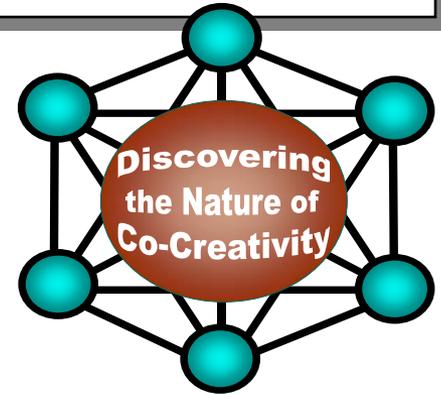
## Part Four

# ***Starting the Innovation Engine Essential Frameworks for Success***



## Components for an **ENGINE of INNOVATION** **Best Practice Frameworks for Success**

- 1. Strategic Focus**
- 2. Leadership & Relationships**
- 3. Legal & Contractual**
- 4. Organizational Frameworks**
- 5. Performance Processes**
- 6. Econometrics**



### Think about:

- What's Missing
- What's Possible
- What Shifts in Thinking
- What We Need to Change



# ***Engines of Innovation***

## **1. STRATEGIC FOCUS**

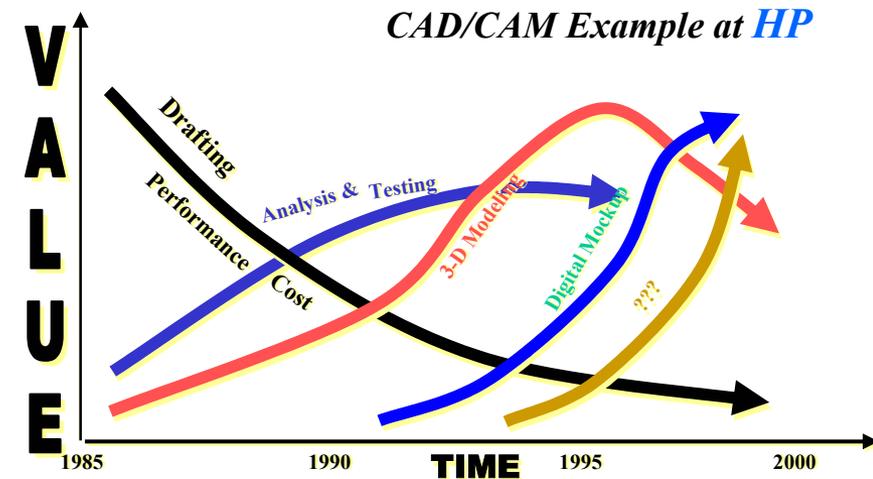
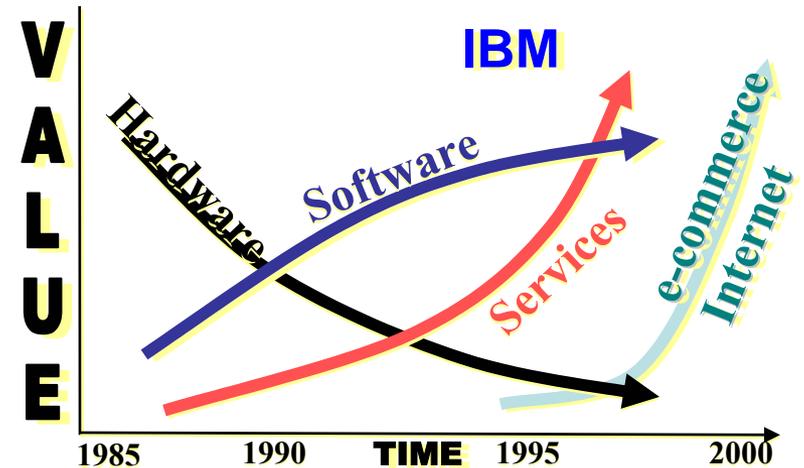
*Leadership Issues*  
*Legal & Contractual*  
*Organizational Frameworks*  
*Performance Process*  
*Econometrics*



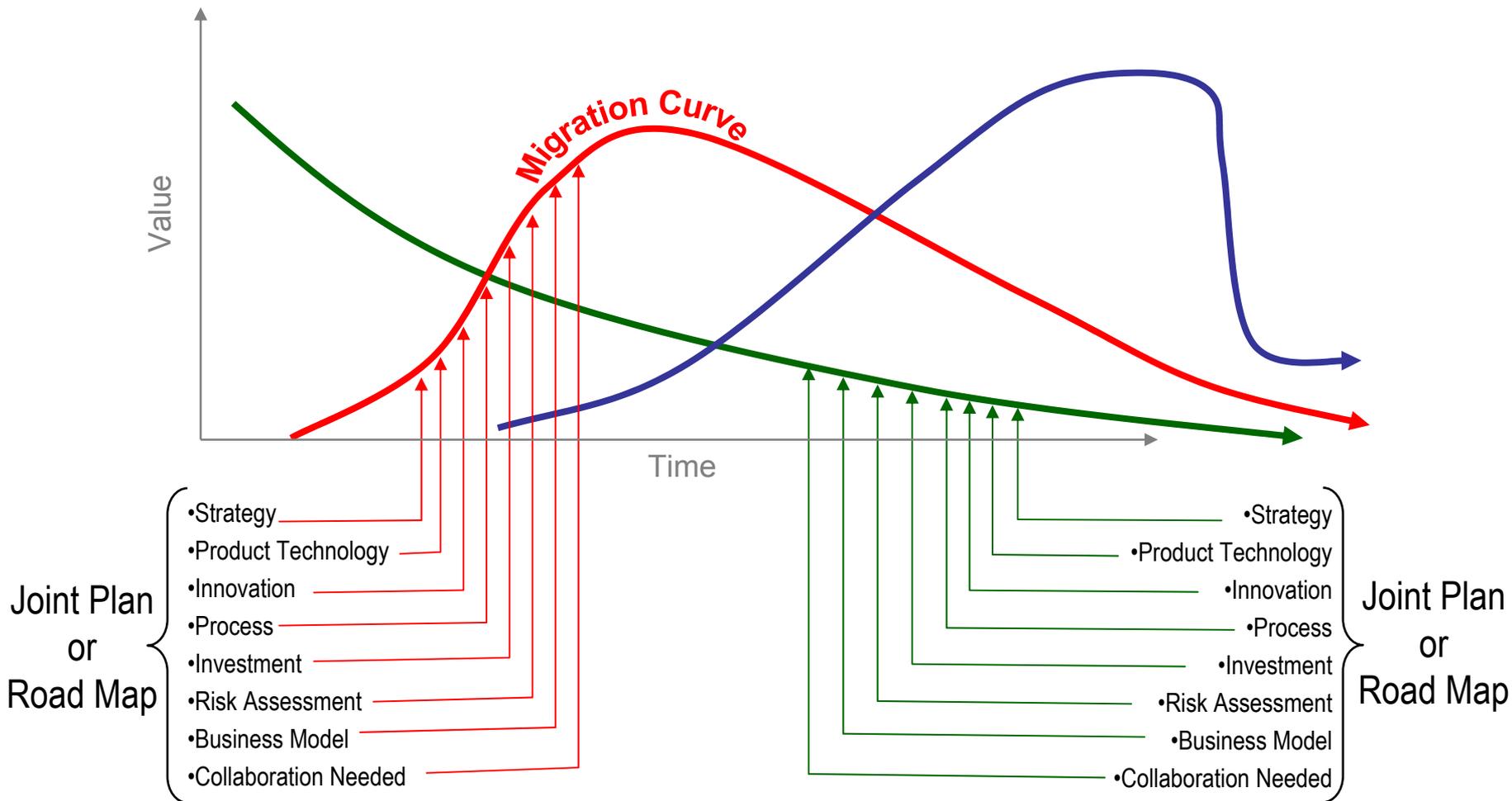
## Using Value Migration to Stimulate Innovation

### Why Value Migrates

- Technology Changes
  - Unmet Needs
  - New Entrants with New Solutions
  - External Environment Changes
  - Companies with New Rules of the Game
  - Cultural Differences
  - Integrated Solutions
  - Speed
- **Innovation is Essential to Keep on the Value Migration Power Curve**



## Strategic Value Evolution Planning





*Strategic Focus*

## **2. LEADERSHIP & RELATIONSHIPS**

*Legal & Contractual  
Organizational Frameworks  
Performance Process  
Econometrics*



## Senior Exec's Responsibility

**Make INNOVATION A TOP PRIORITY  
& TOP PROGRAM**

**Any Company without  
a World Class Innovation Engine,  
IS AT RISK of DEMINISHMENT**

**This means NEW THINKING & NEW ARCHITECTURE**

**Vision without Execution is  
Hallucination!**



## The Basic Law of Innovation Implementation

- ***Innovation Creates Change***
- ***Change is Disruptive***
- ***Disruptions Cause Conflict***
- ***Conflict Triggers Control Reactions***
- ***Champions are Essential to Implement Innovation***



## Synergy Requires Champions

**Team Builders**  
**Strong Values**  
**Innovative**  
**Visionary**  
**Explorers**  
**Persistent**  
**Committed**  
**Passionate**  
**Out of the Box**  
**Default to Action**



**Always Trying  
to Change  
Things**  
**More  
Questions  
than  
Answers**  
**Perpetual  
State of  
Enlightened  
Dissatisfaction**



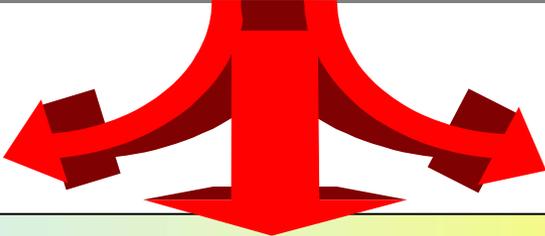
*Strategic Focus*  
*Leadership & Relationships*

## **3. LEGAL & CONTRACTUAL**

*Organizational Frameworks*  
*Performance Process*  
*Econometrics*



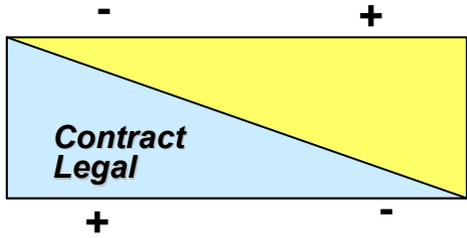
## Ways to Manage a Contract



- Driven by Strict Financial Costing
- Very Legalistic
- Rigid Interpretation
- Clearly Defined Contract
- Managed at Junior Levels
- Penalties for Non-Performance

Works best with:

- ✓ Vendors
- ✓ Short Term Contracts
- ✓ Commodities & Procurement Situations
- ✓ Stable Conditions
- ✓ Low Levels of Integration
- ✓ Power Lies Primarily with the Contractor
- ✓ Multiple Options for Shifting Suppliers (Win-Lose results will not jeopardize the Contractor's Future)



Beware the Contract that becomes the dumping ground for everything: legal, risk shedding, exculpation, management, strategic, operational, etc. It's dead, a garbage pit can of undifferentiated junk that no one wants to read or be held responsible for.

- Dynamic Strategic Conditions
- Win-Win Based
- Shared Objectives & Values
- Driven by Innovation, Operating Principles, & TCO
- Committed in Absence of Well Defined Contract
- Managed at Senior Levels

Works best with:

- ✓ Strategic Suppliers & Mission Critical Providers
- ✓ Long Term Arrangements
- ✓ Conditions of Uncertainty
- ✓ High Levels of Integration & Collaboration
- ✓ Power is Balanced or on the Side of the Supplier
- ✓ Limited Options for Shifting Suppliers



## The Crown Jewels

*Two Different Schools of Thought  
Intellectual Property*



- **Protective  
Existing School of Thought**

- PRIORITY:  
**PROTECT CURRENT GENERATION**  
My intellectual Property is MINE  
(But someone might cannibalize our IP)
- I will protect the property with Legal Means, Penalties, and Litigation
- You pay me Royalties and a Licensing Fee
- Horde, Defend, & Protect
- Patent Protection, Non-Compete, Exclusivity
- Legal Doctrine
  - Owner enforces
  - Clear ownership
  - Rights to market, sell, etc
  - High Chance of Litigation

- ***This works in a Slow Moving world where the technology has longer lifetimes***

- **Generative  
New School of Thought**

- PRIORITY:  
**Co-CREATION of NEXT GENERATION**  
(We will opt to Cannibalize or License our old IP)
- **Regeneration/OPEN** Systems
- Optimize Value
- Collaboration Extension
- Speed to Market is Critical to Economic Success
- Share & Proliferate
- Joint Patents, Joint Development Agreements, Tech Transfer, Joint Ownership
- Fairness Doctrine
  - Deepest Interest Enforces
  - Change terms to keep Win-Win
  - No Chance of Litigation

- ***This works in a Fast Moving world where the technology has shorter lifetimes***

## Master Intellectual Property Agreements

- **Set Legal Ground Rules in Advance of any Discovery**
- **Fairness Principle**
- **Reasonable Assurance of Mutual Reward**
- **No Chance of Litigation**

- Step 1: Outline the Possible Situations/Circumstances
- Step 2: Clarify the Mutual Objectives
- Step 3: Define what constitutes a Win-Win
- Step 4: Stipulate the Guiding Principles
- Step 5: Determine Signing Authority

| 1)<br>SITUATION<br>Or DEVELOPMENT STAGE                        | 2)<br>OBJECTIVES | 3)<br>WIN-WIN<br>Company   Supplier |  | 4)<br>GUIDING<br>PRINCIPLES | 5)<br>SIGNING<br>AUTHORITY |
|--|------------------|-------------------------------------|--|-----------------------------|----------------------------|
| Supplier creates innovation solely                             |                  |                                     |  |                             |                            |
| Supplier combines their innovation with Company Innovation     |                  |                                     |  |                             |                            |
| Supplier Shoulders Most of Risk Burden                         |                  |                                     |  |                             |                            |
| Company Shoulders most of Risk Burden                          |                  |                                     |  |                             |                            |
| Idea Comes from One Party,<br>Development Comes from the Other |                  |                                     |  |                             |                            |

EXAMPLE



*Strategic Focus*  
*Leadership & Relationships*  
*Legal & Contractual*

## **4. ORGANIZATIONAL FRAMEWORKS**

*Performance Processes*  
*Econometrics*



## Organizational Frameworks

### **STRUCTURE & INTEGRATION**

#### ***Shifting the Organization to Handle a Fast Moving Innovative World***

- ***Managing Ambiguity & Uncertainty***

#### ***Internal Organizational Connectivity***

- ***Cross Functional Teams***
- ***Linking R&D to Procurement & Strategy***
- ***Cross Business Unit Integration***
- ***Managing Innovation at Every Point in the Value Chain***

#### ***External Organizational Connectivity***

- ***Alliances Relationships***
- ***Business Process Outsourcing Relationships*** (IT, HR, Manufacturing)
- ***Linking Solutions Providers or Systems Integrators or Compatible Suppliers***
- ***Build network nodes where talents & ideas are aggregated***

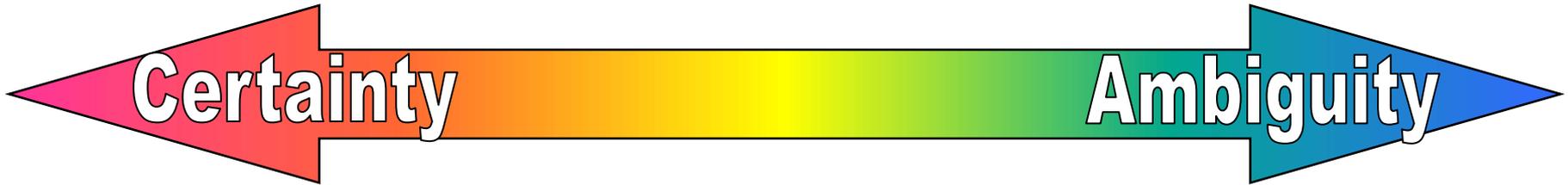


### **ATTITUDES & BELIEFS**

#### ***Culture of Collaborative Innovation***

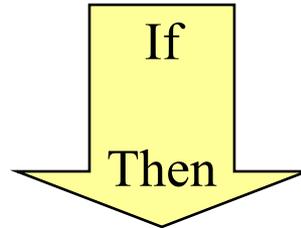
- ***Values – Interpersonal & Discovery***
- ***Behaviors & Rewards***
- ***Prevention of non-synergistic Actions***
- ***Managing Knowledge & Learning***

**Shifting the Organization to Handle a Fast Moving Innovative World**  
 Ambiguity-Certainty Continuum

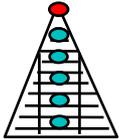


Stability and Predictability  
 Routines Required  
 Anticipated Problems  
 Developments Within Organiz. Control  
 Info Clear & Adequate

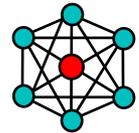
**CONDITIONS**



Dynamic change  
 Innovation Required  
 Unanticipated Problems  
 Developments Outside Organiz. Control  
 Info Unclear or Inadequate



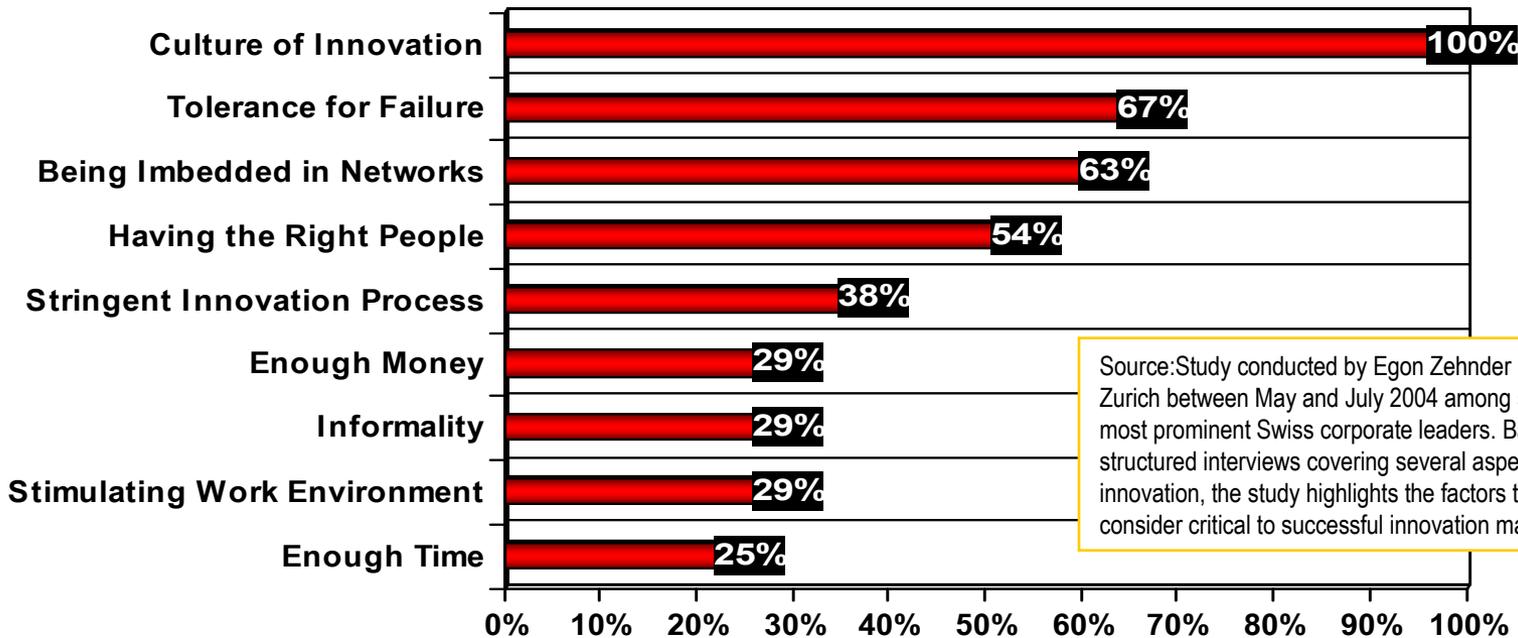
**MANAGEMENT FUNCTIONS**



Hierarchical Task Mgmt Style  
 Decision Making @ Higher Levels  
 Mature Personnel Needed at Higher Levels  
 Tighter Structures Needed  
 Decision Dominance over Lower Levels  
 Predominant Vertical Info Flow

Collaborative Mgmt Styles  
 Decision Making @ Lower Levels  
 Mature Personnel Needed @ All Levels  
 Looser Structures Needed  
 Shared Decision Making  
 Predominant Lateral Info Flow

## Success Factors for Innovation



Source: Study conducted by Egon Zehnder International Zurich between May and July 2004 among some of the most prominent Swiss corporate leaders. Based on structured interviews covering several aspects of innovation, the study highlights the factors top executives consider critical to successful innovation management.

### CEO Comments:

*“A culture of innovation has been established when change is perceived as an everyday occurrence.”*

*“You only get the ten percent of innovations that succeed if you are ready to accept the ninety percent that fail,”*

*“If you never failed, you never dared.”*

*“Relieve failures of their negative aura by calling them ‘lessons learned’ or ‘learning opportunities.’”*

*“It’s a mistake to punish innovative people for failures, particularly in industries with very short product cycles, where decision-making is invariably faster and often based on incomplete knowledge.”*

## Leadership and Relationships Build Trust

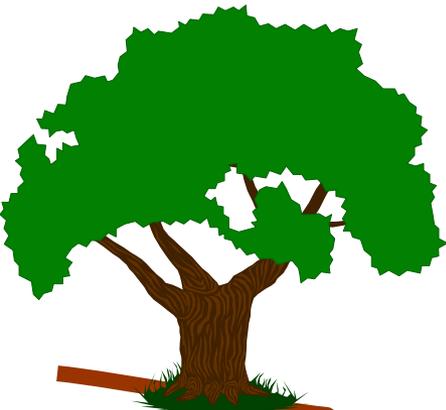


## Question

***WHY WERE THE DARK AGES***

***“DARK”***

## Innovation Culture



### What We're Committed to

- Cause
- Responsibility
- Stand, Promises
- Choice
- Win-Win

### High Ground

#### What Could Be – Breakthroughs

- Opportunity
- Invention
- Possibility
- Design
- Plan



### Solid Ground

### Fertile Ground

#### What's So – Observation

- Data
- Description
- Evidence
- Fact

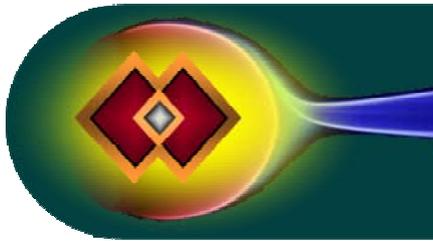


### Swamp

### Swamp Talk

#### What's Wrong – Opinion

- Judgment, Gossip
- Criticism, Attacks
- Defensiveness
- Negative
- Complaints
- Blame, Excuses
- Whining, Gripping
- Wallowing in the Past



# ***Engines of Innovation***

*Strategic Focus*  
*Leadership & Relationships*  
*Legal & Contractual*  
*Organizational Frameworks*

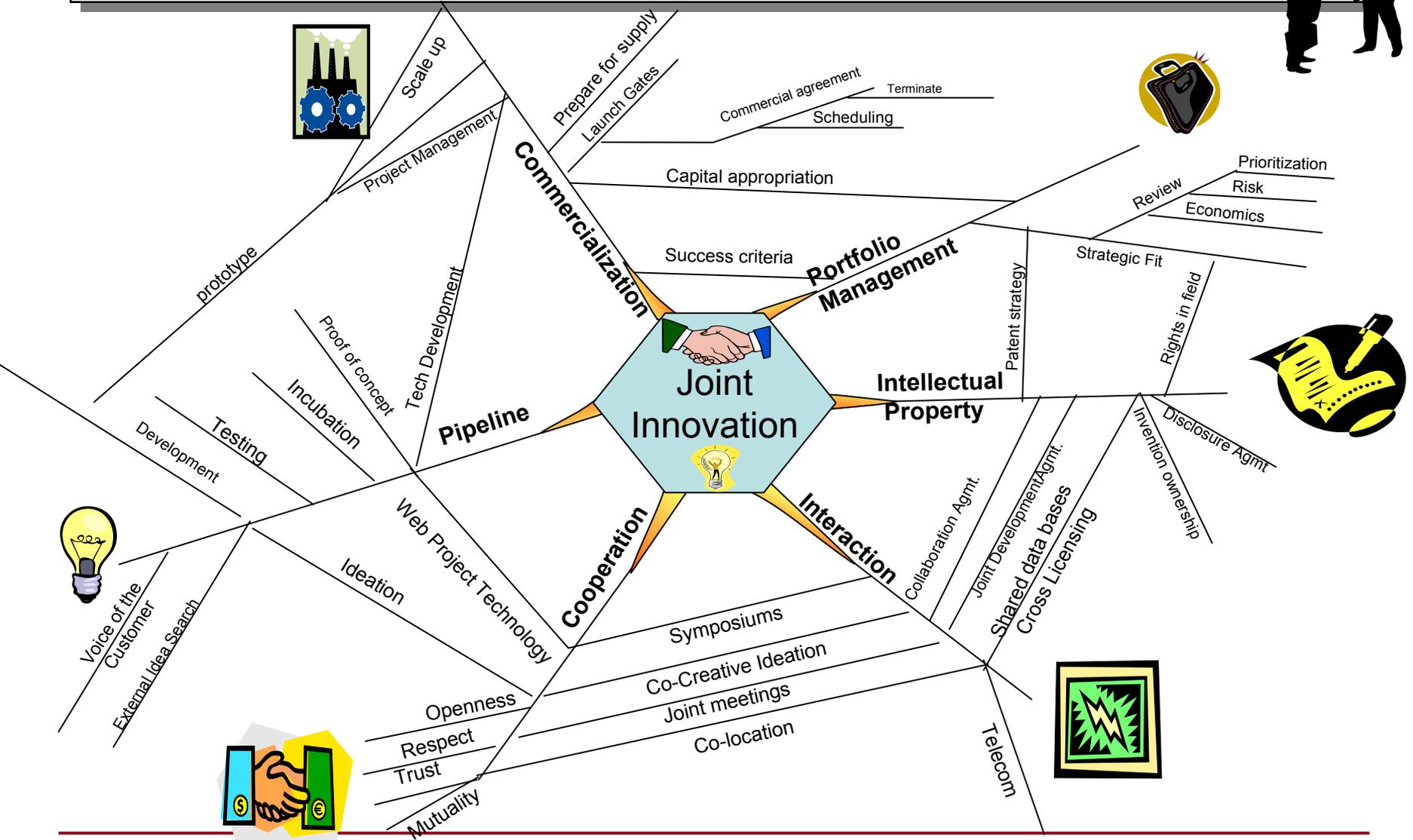
## **5. PERFORMANCE PROCESSES**

*Econometrics*

# Engines of Innovation

## Innovation Across Boundaries Six joint process sets:

Pipeline, Portfolio, Intellectual Property, Cooperation, Interactions, Commercialization



## Process Implementation

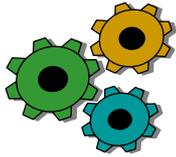
# 10

***Ten Critical Strategic  
Sourcing Solution Sets  
(the skills disciplines)***

## 10 Solution-Set Tool-Kit



### 1) **Supplier Relationship Building**



- Triage the Supply Base
- Strategic Alignment
- Win-Win & Trust
- Shared Risks & Rewards
- Operating Linkages
- Flexible Agreements

### 2) **Value Mapping**



- Identify where Value is Created, Lost, Destroyed, or Opportunities are Overlooked
- Value Chain Flow Analysis
- Core Process Analysis
- Strategic Analysis
- Leverage & Control Points

### 3) **Performance Measurement**



- On-Going Diagnostics
- Hi Performance Standards
- Best Practice Benchmarking
- Realignment of Rewards
- Alliance Functioning
- Knowledge Transfer

### 4) **Benchmarking**



- Critical Measures Analysis
- Competitive Analysis
- Best In Class Standards
- Future Benchmarking

### 5) **Systems Costing**

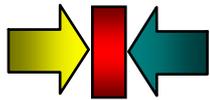


- Total Cost of Ownership
- Target Costing
- Continuous Cost Improvement
- Econometric Modeling

## **Solution-Set Tool-Kit (continued)**



### **6) Interface Improvement**



- Breakdown Points
- Misalignments
- Cross Functional Interaction
- Information Flows

### **7) Non-Value Added Elimination**



- Duplication & Needless Transaction Elimination
- Differentiation-Integration Analysis
- Frictional Cost Analysis

### **8) Cycle Time Acceleration**



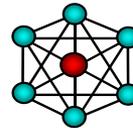
- Cycle Time Analysis
- Time to Market
- Leading & Lagging Indicators
- Forecasting Impacts

### **9) Continuous Innovation**

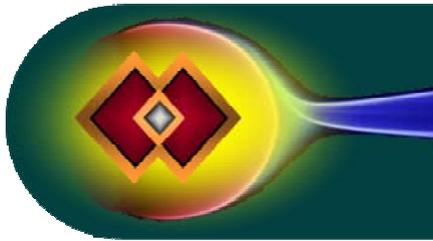


- Co-Creation Capacity
- Designing Breakthroughs
- Process Improvements
- Strengths from Differential Addition

### **10) Network Systems Design**



- Strategic Value Migration
- Leadership & Coordination from Customer back to Suppliers
- Organizational Integration Design for Information and Innovation Flow
- Process for Coordination/Integration of Suppliers
- Econometrics to Promote Win-Win among Value Creators



# ***Engines of Innovation***

*Strategic Focus*

*Leadership & Relationships*

*Legal & Contractual*

*Organizational Frameworks*

*Performance Process*

## **6. ECONOMETRICS**

## Econometrics:

*Change Currency from Price to Innovation*

◆ **Set Performance Metrics for Improvements & New Innovations to Maintain Competitive Advantage**

- Product Improvements
- Service Improvements
- Technology Improvements
- Forecasting Improvements
- Productivity Improvements
- Quality Improvements
- Speed/Cycle Time Improvements
- New Processes
- New Products
- New Services Delivery Capacity
- Integration of Solutions & Systems
- New Core Technologies
- New Delivery Mechanisms
- Technology Breakthroughs
- Faster Adaptation



◆ **Align Rewards Systems with Metrics to Sustain the Shift**

## Two Vermonters



**Hiram:**

**“New Shoes?**

**How much did ya pay for ‘em?”**

**Cyrus:**

**“Dunno, ain’t finished wearin’ ‘em yet.”**

## Econometrics Establishing Metrics & Rewards



### **How do we encourage outside suppliers to contribute their innovations to us?**

Interview with Bob Eaton, Retiring Chairman of Chrysler (prior to takeover by Daimler)

Question: ***What Value were your Strategic Supplier Alliances at Chrysler?***

Answer: ***“They brought us an endless stream of innovation.”***

Question: ***Did you Measure the Value?***

Answer: ***“We did not Measure the Value, but the Alliances were Invaluable.”***

Comment by Thomas Stallkamp: President Chrysler: (prior to takeover)

***“Suppliers are experts...part of a joint team focused on collaboration  
...contracts aren’t based on old style relationships but on allied business and  
engineering systems.”***

**Chrysler was very Profitable**, Then came the Acquisition by Daimler.....

Comment by Wolfgang Bernhard: COO Chrysler group after the Daimler Takeover:

***“Supplier relationships are based solely on competitiveness,  
we give no preference for the incumbent or reward for excellence...only  
competition.”***

**Chrysler then lost several billion dollars**

## Rewards Alignment



- ***Proclaim, Promote, Promulgate***
  - To Leadership & Innovation Champions
  - To Innovation Teams & Partners
  - To Skeptics & Cynics
- ***Be Sure Rewards are Aligned with Metrics***
  - Financial Rewards
  - Psychological Rewards



## Part Five

### ***Designing the Launch***



**This is a Senior Executive Responsibility**

**Make INNOVATION a TOP PRIORITY**

**Vision without Execution is Hallucination!**



**Manage Your Imagination!**

## Still Not Sure I can convince Top Management?

- **Who are *P&G*'s Biggest Customers?**



- **What Happens If Your Competitor Advances into the Innovation Zone?**

## Launch Options



### • **Large Scale**

- STRATEGIC
- Senior Level Sponsorship  
(*Exec Com or Board of Directors*)
- Systemic Across Value Chain

### • **Intermediate Scale**

- BUILD MOMENTUM
- CXO Sponsorship & Internal Champion
- Targets Segment of Value Chain
- Pilot Projects create Proof/Evidence
- Then Proliferate

### • **Small Scale**

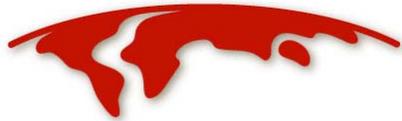
- CREATE CAPABILITY
- Internal Champion
- Targets Limited # Strategic Relationships
- Pilot Projects create Proof/Evidence
- Convince Senior Management to Proliferate

Learn More by visiting the “Services” Section of the [www.EnginesofInnovation.com](http://www.EnginesofInnovation.com) Website.

**ACTION PLAN GOING FORWARD**  
**Wrap-Up**

- ***What's Missing?***
  - ***What's Possible?***
  - ***What Shifts in Thinking?***
  - ***What Should We Do?***
  - ***What Do We Recommend?***
- 1. What Actions should be taken to unleash the innovation potential of our alliance partners & suppliers?***
  - 2. What should you do to create an Engines of Innovation program in your business?***

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**By Robert Porter Lynch**



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