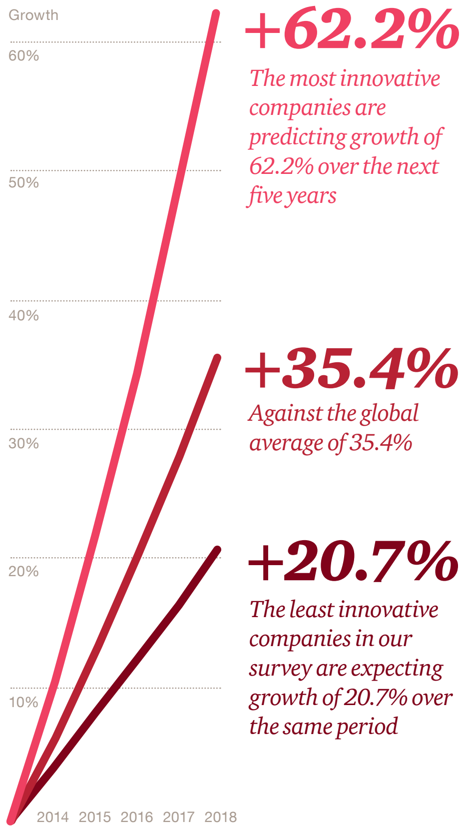
Breakthrough innovation and growth

Top innovators expect US$250 billion five-year revenue boost



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Foreword

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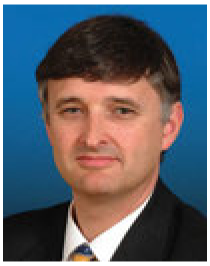

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We're seeing a step change in the importance of innovation to the success of our clients and to the scale of the business benefits delivered. So, we decided to run this survey to start to quantify these benefits and to identify the practices that deliver them.

We asked over 1,700 board-level executives around the world what they see as the role for innovation within their organisation and how they see this changing over the next five years.

Our research shows that, over the last 3 years, leading innovators have grown at a rate 16% higher than the least innovative. Moving forward, these same leading innovators forecast their rate of growth will increase to almost double the global average, and over three times higher than the least innovative companies. That translates into an average for all companies of $500 million in revenue over a 5 year timeframe.

Innovation is becoming a competitive necessity for companies and should be delivering significantly increased revenue growth. If it's not, then executives need to be asking themselves what they could do to improve their innovation process.

There is a transformation underway. Companies are changing the way they innovate. In this report we look at what the current leaders are doing and how their organisation, processes, culture, and other key elements are different, in the hope that others can benefit from these examples.

If innovation is not delivering all that it could be for your company, then please read on.

Rob Shelton
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David Percival
Global Client Innovation Lead

September 2013

About this report

Breakthrough innovation and growth explores the impact that innovation has on growth and examines how leading companies are making innovation work for their organisations. The report explores three key questions:

1. How are companies using innovation to drive growth and what is the return on this investment?

2. How are approaches to innovation changing, particularly in light of a trend towards more disciplined innovation?

3. What are the best practices and critical success factors that deliver tangible business results?

To answer these questions we draw on insights obtained from interviews with board-level executives from 1,757 companies, across more than 25 countries and 30 sectors, who are responsible for overseeing innovation within their company.

This is the largest and most comprehensive study of its kind exploring innovation from a global, multi-sector perspective.

Throughout this report, we refer to incremental, breakthrough and radical innovation:

- Incremental innovations are changes to an existing product or service. The changes to technology and business model are primarily aimed at protecting market share and maintaining margins. Competitors usually respond quickly to incremental innovations.

- Breakthrough innovations make much more substantial changes to technologies and business models. Often called game-changers, breakthrough innovations create greater competitive advantage than incremental innovations. Competitors have greater difficulty responding to breakthrough innovations. As a result, a company with a successful breakthrough innovation increases revenues and margins.

- A radical innovation creates drastic changes to the competitive environment for a product or service, or creates entirely new businesses. Radical innovations occur infrequently but can generate explosive growth in major new categories of products and services.

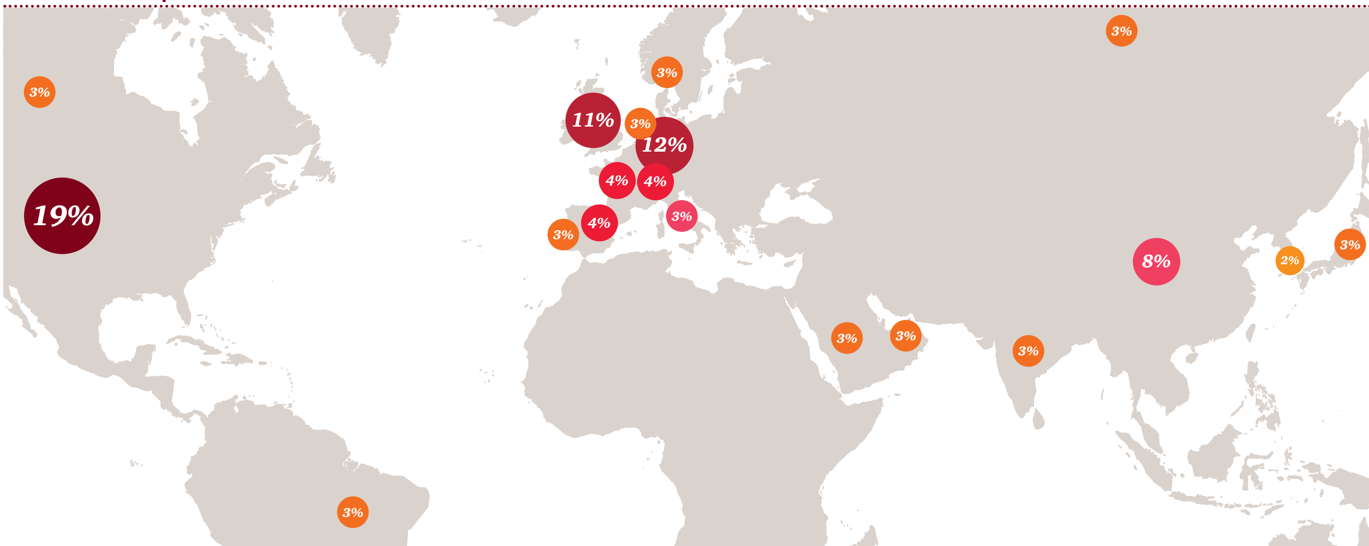
1757
C-suite and executive-level respondents

25 From more than 25 countries

From across more than 30 sectors **30**

This is the largest and most comprehensive study of its kind exploring innovation from a global, multi-sector perspective.

Location of respondents



Sector of respondents

- 14% Industrial manufacturing
- 12% Retail
- 10% Technology
- 6% Entertainment & Media
- 5% Information & communication
- 5% Healthcare providers
- 4% Pharmaceuticals
- 4% Banking
- 4% Automotive
- 4% Petroleum, oil, gas
- 3% Insurance
- 3% Consumer packaged goods
- 3% Utilities
- 2% Medical devices
- 2% Chemicals
- 2% Aerospace and defence
- 2% Metal
- 2% Mining
- 1% Transportation
- 1% Agriculture
- 1% Capital markets
- 1% Business services
- 1% Investment management
- 1% Logistics
- 1% Wholesale
- 1% Engineering and construction
- 4% Other

Role of respondents

- **15%** CMO / Head of Marketing
- **13%** Head of R&D / Product Development
- **13%** HR Director / Head of HR
- **12%** Head of Innovation / Chief Innovation Officer
- **9%** Chief Information Officer (CIO)
- **8%** CFO / FD
- **7%** COO / Head of Operations
- **7%** CEO / MD
- **5%** Head of Strategy / Strategic Planning
- **4%** Chief Technology Officer (CTO)
- **1%** Chairman
- **6%** Other

Executive summary

A clear correlation between innovation and growth

Innovation is a driver for rapid and profitable revenue growth and is recognised by the executives we interviewed as being integral to sustaining the long-term future of their business. For almost half of the 1,757 executives we interviewed (43%), innovation is a 'competitive necessity' for their organisation. In five years' time, that figure increases to 51%.

93%

Ninety three percent of executives indicate that organic growth through innovation will drive the greater proportion of their revenue growth

Executives are looking for growth: 35.4% on average, over the next five years. Twenty six percent of executives say they are aiming for 'aggressive growth' over the same period.

Five years ago, globalisation would have been the most powerful lever for growth and every business would have been talking about China. But now, the growth lever that has the greatest impact is innovation. Ninety three percent of executives tell us that organic growth through innovation will drive the greater proportion of their revenue growth. Only 2% of companies expect their growth to be mainly inorganic (i.e. M&A-driven).

Leading innovators can expect significant rewards both financially and in terms of competitive positioning. Over the last three years, the most innovative companies in our study delivered growth at a rate of 16% above that of the least innovative and they are more bullish about their growth prospects.

In five years' time, the leading innovators in our study forecast that their rate of growth will further increase to almost double the global average, and over three times higher than the least innovative. For the average company, this equates to $0.5bn more revenue than their less innovative peers. Companies who are less innovative need to think about the additional revenue that they are forsaking and the impact this will have on their share price and shareholder returns.

Innovation is transforming business

Leading innovators are taking a more sophisticated approach to innovation:

- Seventy nine percent of the most innovative companies in our study have well-defined innovation strategies, compared with only 47% of the least innovative companies.

- Top innovators treat innovation just like any other business or management process that can be disciplined and successfully scaled. Only a fifth of the most innovative manage innovation informally, compared with a third of the least innovative companies.

- They are targeting a higher proportion of breakthrough and radical innovations, particularly around products, services, technology and business models. In some areas the proportion is around twice that of the less innovative companies.

- They are planning a wider range of innovation operating models. For example, the top 20% of innovators in our study are twice as likely to consider corporate venturing as a means to drive growth.

- They collaborate more than their less innovative peers. When it comes to new products and services that are collaboratively developed with external partners, the most innovative companies collaborate over three times more often (34%) than the least innovative (10%).

The competitive challenge

Business leaders need to realise that innovation pioneers already exist within their own industry and across all parts of the world and that if they are not among those pioneers, they need to be ready to step up to that competitive challenge, to avoid being marginalised.

Innovation is not limited to a small number of industries or countries. There are numerous lessons that can be borrowed, tailored and made to work for any business. Our study starts to lay the ground for this learning.

Chapter 1: Innovation: a powerful driver for growth

At its most powerful, innovation is a driver for rapid and profitable revenue growth. But it can also deliver improved competitive positioning, higher customer satisfaction, and decreased costs.

We believe, as a company, that if we are going to be successful it will primarily be driven by innovation and not just doing things cheaper or faster than anybody else

David Paratore, President and CEO at The NanoSteel Company, Inc.

For almost half of the 1,757 executives we interviewed (43%), innovation is a 'competitive necessity' for their business. In total 83% agree that innovation is important to the success of their company.

When asked about how important innovation will be to their business in five years' time, those figures increase to 51% and 88% respectively, see Figure 1. So executives are in no doubt that innovation will play an integral role in sustaining the long-term future of their business.

David Paratore, President and CEO at The NanoSteel Company, Inc., a business that develops and sells nanotechnology-based steel alloys, says: "We believe, as a company, that if we are going to be successful it will primarily be driven by innovation and not just doing things cheaper or faster than anybody else."

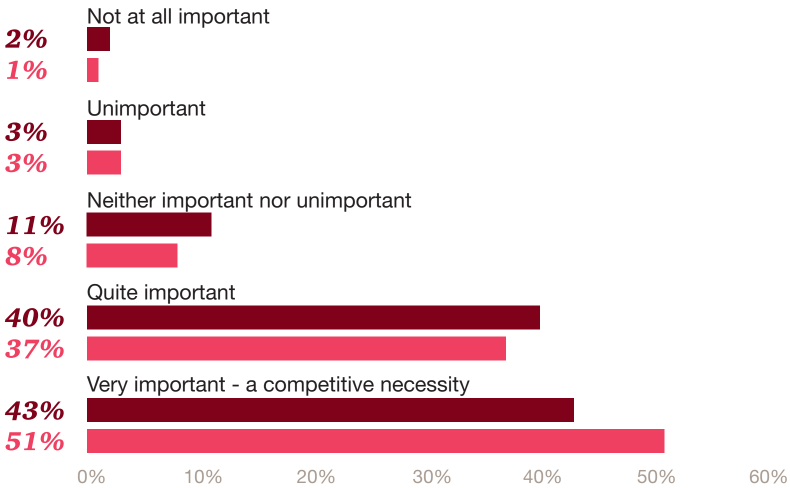
The push to create new value is not so surprising in itself. What is most surprising is that in this challenging economic climate, where many companies still face enormous pressures to reduce costs and become more efficient, many executives are telling us they see innovation on a par with operational effectiveness. In PwC's recent study, *Unleashing the power of innovation*, three quarters (74%) of CEOs regard innovation as equally important to the success of their company as operational effectiveness, if not more.[1] This is the first time in recent history that innovation has been in parity with operations in the C-suite.

Innovating to grow

Growth is a top priority for most (80%) of the companies we interviewed and their plans are ambitious. Executives are planning for 35.4% growth, on average, over the next five years, the equivalent of 6.2% per year. Over a quarter of executives (26%) say that they are aiming for 'aggressive growth' over the next five years.

Figure 1: Innovation will continue to grow in importance over the next five years

How important is innovation to the success of your company?



1 PwC, *Unleashing the power of innovation* (2013), http://www.pwc.com/en_GX/gx/consulting-services/innovation/assets/pwc-unleashing-the-power-of-innovation.pdf

If these ambitious rates of growth are to be achieved, companies recognise that they will need to look beyond the more traditional options for growth, such as mergers and acquisitions and traditional R&D. In fact, only 2% of companies expect their growth to be mainly inorganic (i.e. M&A-driven). The vast majority (93%) indicate that organic growth through innovation will drive the greater proportion of their revenue growth, see Figure 2. An increasingly dynamic and volatile business environment intensifies this craving for organic innovation.

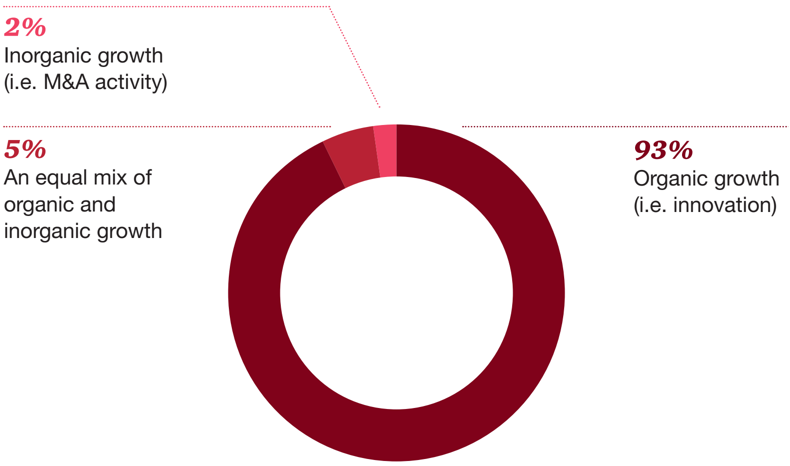
"There are four main levers for revenue growth: innovation, digitisation, customer impact, and globalisation," says David Percival, PwC's Global Client Innovation Lead. "Five years ago, globalisation would have been the most powerful lever for growth and every business would have been talking about China. But now, the growth lever that has the greatest impact is innovation."

Innovation is a growth multiplier

There is a clear correlation between innovation and growth. We ranked the 1,757 businesses that took part in our study to arrive at a top 20% segment of the most innovative companies based on their responses to six different questions (see more details about methodology on page 41). Using publically-available information, we tracked the revenue growth of this top 20% over the past three years, and compared it with the performance of the bottom 20%.[2] The results show that the most innovative 20% had already grown at a rate 16% higher than the least innovative. This equates, on average, to each of the most innovative companies delivering $0.25bn of additional revenue over the last three years, compared with the least innovative.

Figure 2: The vast majority of companies believe their growth will be driven by innovation rather than M&A activity

What will be the biggest contributor to your revenue growth over the next five years?



There are numerous lessons that can be borrowed, tailored and made to work for any business

2 Sources used include individual annual company reports, Bloomberg, Google Finance.

And in the space of only five years, the top 20% of innovators in our study forecast that their rate of growth will further increase to almost double the global average, and over three times higher than the least innovative 20%, see Figure 3. The top innovators (359 companies in total) anticipate a revenue growth of $252bn over the next five years, compared with $93bn for the least innovative 20% (395 companies). This additional $160bn revenue would deliver, on average, nearly $0.5bn more revenue for the leading innovators as compared with their less innovative peers.

Companies who are less innovative need to think about the additional revenue that they are forsaking and the impact this will have on their share price and shareholder returns.

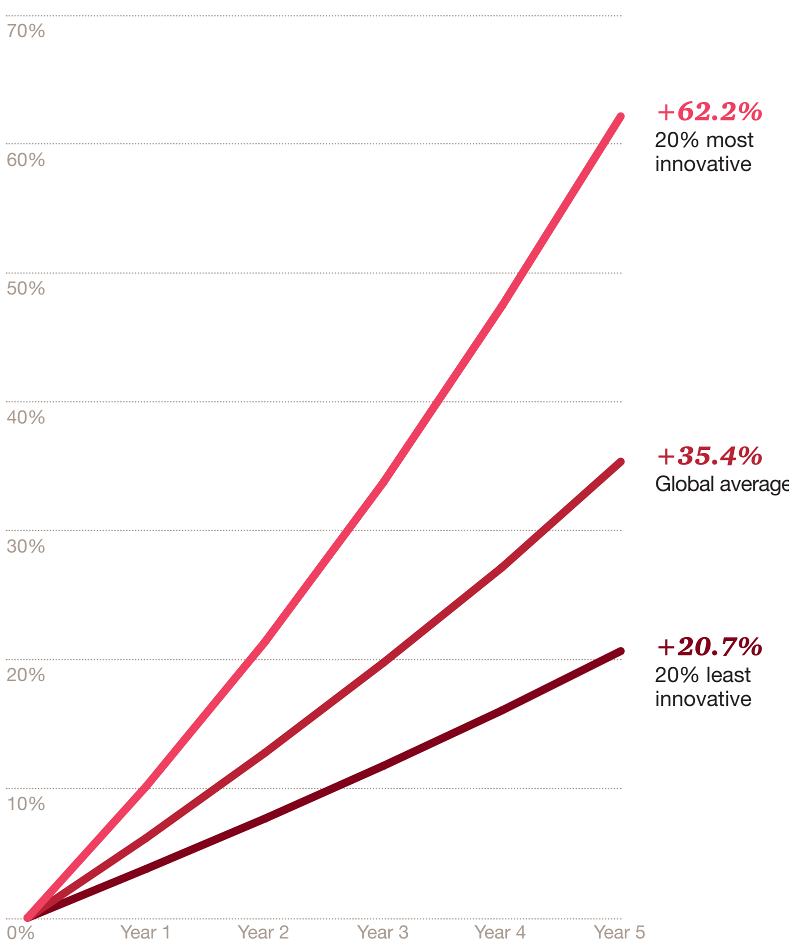
Innovation is for all

Innovation is not restricted to hi-tech industries or to developed economies. Best practices for innovation are being adopted across all industries around the globe.

The widespread rejuvenation of innovation should have a profound impact on the way businesses plan for the future. "Business leaders need to realise that innovation pioneers already exist within their own industry and across all parts of the world," says Rob Shelton, PwC's Global Innovation Strategy Lead, "and if they are not among those pioneers, they have to be ready to step up to that competitive challenge." The threat of more innovative competitors also offers an opportunity to learn from those ahead of the innovative curve: "Because innovation is not limited to a small number of industries or countries, there are numerous lessons that can be borrowed, tailored and made to work for any business," says Shelton.

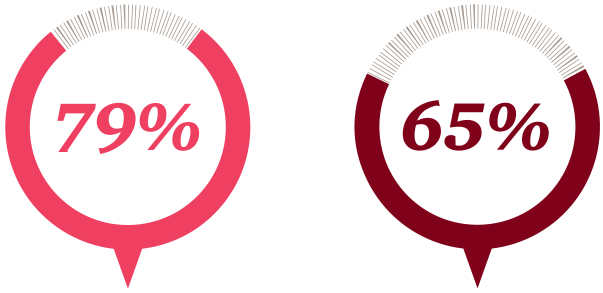
Figure 3: The most innovative companies are set to grow at twice the pace of the global average, and three times the least innovative, over the next five years

Anticipated revenue growth rates over next five years



A view from China: from imitation to innovation

Proportion saying their business model innovation will focus on lower-cost models



China: 79% *Global average: 65%*

Unsurprisingly, the Chinese companies in our study have ambitious growth plans: a third (34%) say they are focused on driving 'aggressive revenue growth' over the next five years, compared with just a quarter (26%) of companies globally.

China's economic history over the last few decades and its large proportion of state-owned enterprises mean that executives have typically not wanted to take too many risks. This has led to a strategy of 'fast-follower' imitation rather than innovation, where Chinese companies copy proven concepts from elsewhere in the world. This approach is reflected in the higher proportion of Chinese companies who describe themselves as innovation 'followers': 38% compared with 30% globally.

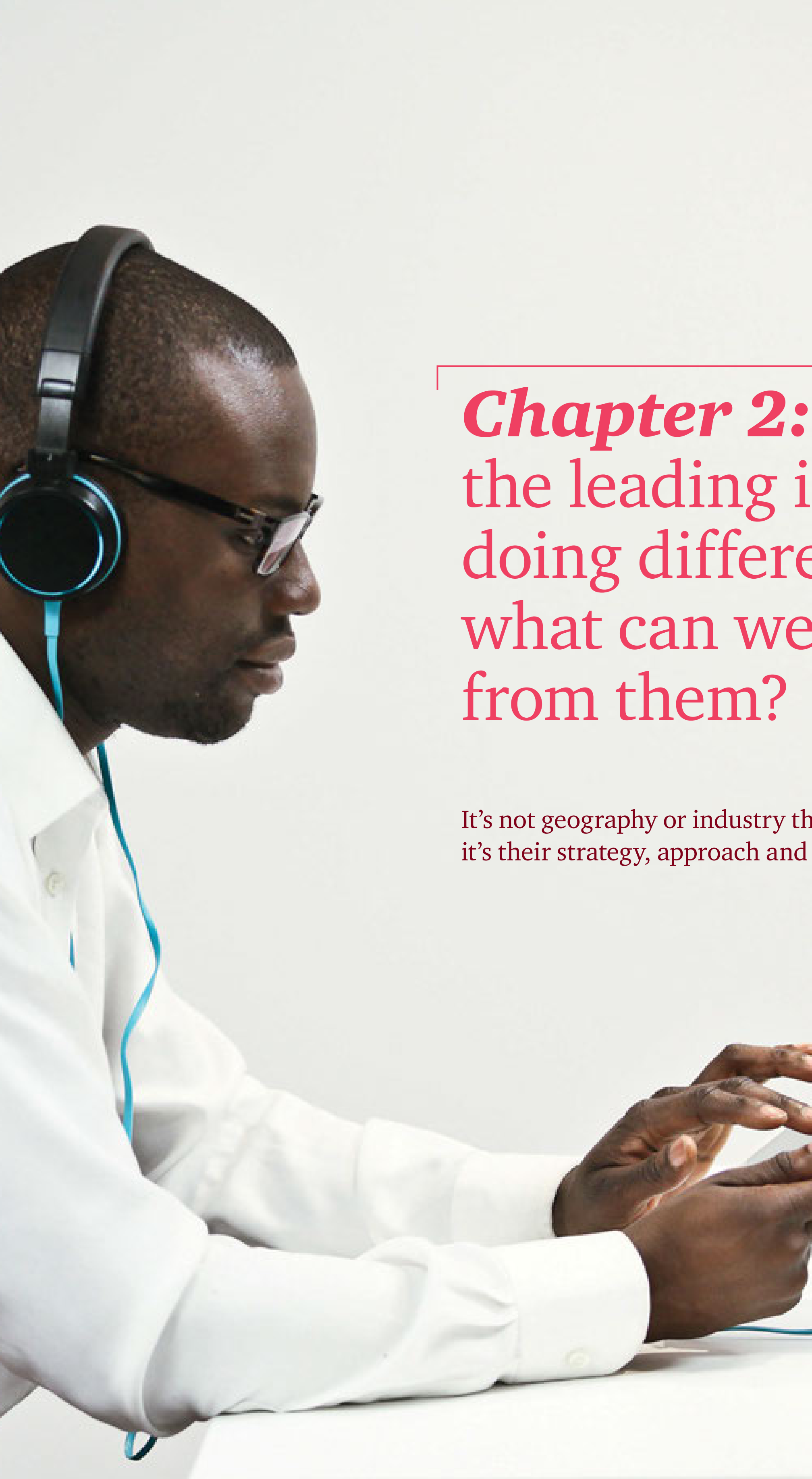
Because of the bias for a fast follower strategy, the speed of execution in Chinese companies is often far faster than other nations. "Chinese companies excel at making incremental improvements really fast ," says Huw Andrews, PwC's China Innovation Lead. "Their ability to create products with 'core functionality' at extremely low cost is well known," he says. This too is supported by our study findings: 79% of Chinese companies say their innovations will be focused on lower cost models compared with 65% globally.

There are signs that this mindset is shifting. 56% of Chinese companies agree that innovation is a 'competitive necessity' compared with just 43% globally. Chinese executives are most concerned about developing the right innovation operating model – 34% compared with 25% globally – they are catching up fast with leading approaches developed elsewhere.

As companies make this transition they are being supported by the Chinese government, which has given companies a clear innovation mandate. Sixty percent of the Chinese companies we interviewed say they take advantage of government funding for innovation, the fourth highest level of all countries in which we carried out research.

Challenges do remain, particularly with collaboration. "Large Chinese companies tend to have a hierarchical culture making it hard for internal functions to truly collaborate. They also have less experience collaborating externally as they tend to be more vertically integrated than companies in the West," says Huw Andrews. "For example, makers of electronic goods tend to use contract manufacturers less; they will set up their own factories."

So what will the future of innovation in China look like? Huw Andrews believes that the picture in China will change rapidly. "Within five years, I think we will see a broader range of innovation activities: from imitation and fast following through to business model innovation. China is already spending more on R&D than any other country apart from USA. Importantly, the larger companies are also starting to integrate deep international experience into their management teams via the 'brain gain' as Chinese professionals from foreign companies return to China, Chinese executives rotate back from overseas postings, and experienced hires join as part of overseas acquisitions," he says.



Chapter 2: What are the leading innovators doing differently and what can we learn from them?

It's not geography or industry that sets innovation leaders apart, it's their strategy, approach and execution.

Companies are concerned with all the key steps for effective innovation

In this chapter we focus on what sets the leaders apart. Understanding what's working (and what's not) can help executives who are looking to improve the innovation capabilities of their organisation.

In summary, the leading innovators:

- innovate with purpose,
- have a well-defined innovation strategy,
- take a more formal and structured approach to innovation,
- are concentrating on a greater proportion of breakthrough and radical innovations,
- are planning a broader range of business model innovation,
- are exploring a wider range of innovation operating models,
- are planning to collaborate much more than the bottom 20%, and generate a greater proportion of revenue from new products and services

Leaders align business and innovation objectives: they innovate with purpose

Leading innovators align their innovation practices with their intended business outcomes. Paul Kenmir, COO for Global Life Europe at insurance firm, Zurich Life, expresses the point well: "What I look for in innovation is something that will generate more income for a set amount of expense, something that allows us to be more efficient and effective in the markets we are aiming at, or something that allows us to access markets we couldn't access using existing approaches."

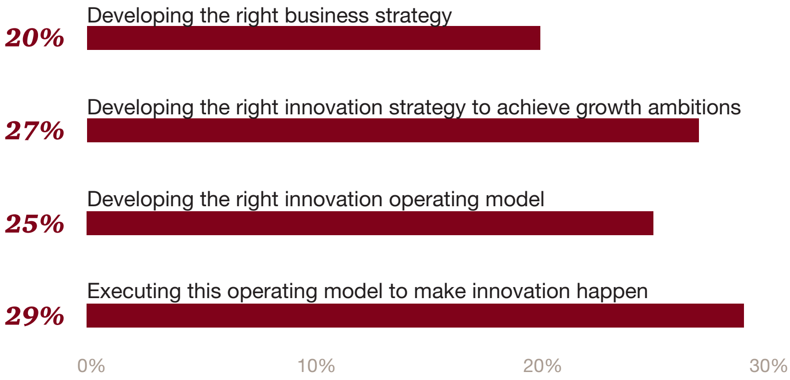
Companies have concerns around all the key steps for effective innovation, see Figure 4. The top 20% innovative companies in our study are more concerned about developing the right innovation strategy (32% compared with a global average of 27% and 20% for the least innovative). All companies, from the most innovative down to the least innovative recognise the importance of executing on innovation (27% for the top innovators compared with 29% global average and 28% for the least innovative companies).

Leaders have a clear innovation strategy

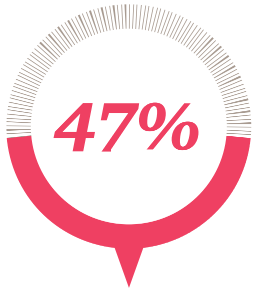
The leading innovators in our study understand the importance of having a coherent innovation strategy: 79% of the top innovators tell us they have a well-defined innovation strategy compared with only 47% of the least innovative companies. They recognise the need for a clear innovation strategy as the foundation for successful execution.

Figure 4: Businesses' current concerns range across the innovation cycle: from developing the right business strategy to executing on innovation

Which of the following is of greatest concern to you currently?



79% of the top 20% agree they have a well-defined innovation strategy



47% of the bottom 20% agree they have a well-defined innovation strategy

Leaders are taking a more formal or structured approach to innovation

The most innovative companies in our study have clear preferences for a more structured innovation approach. Only a fifth (21%) of the most innovative manage innovation informally, compared with a third (32%) of the least innovative companies. In our experience, many leaders are shifting away from total reliance on informal structures.

Leaders are exploring a wider range of innovation operating models

As leading companies look to 'innovate on innovation', they are realising that traditional innovation operating models are inadequate for the desired growth. Leading companies have been experimenting with new innovation operating models including open innovation, incubation, and design thinking for the last decade. The goal was to find better ways to organise and operate innovation for growth. Some of the earlier attempts were successful but many did not work as well as expected. But companies did not give up. They kept experimenting and improving the new operating models.

Today, the new operating models are ready for prime time and leading practices have been identified. For instance, the top 20% of innovators in our study are twice as likely to consider corporate venturing as a means to drive growth.

Leaders focus on a greater proportion of breakthrough and radical innovations

The leading innovators in our study are targeting a higher proportion of breakthrough and radical innovations, particularly around products, services, technology and business models, see Figure 5. In some areas the proportion is around twice that of the less innovative companies.

Including significantly higher amounts of breakthrough and radical innovation is a major shift in the traditional approach to innovation. Historically companies used portfolios heavily weighted toward incremental innovations. Sometimes companies spent as much as 90% of their total investment driving incremental improvements. By paying more attention to breakthrough and radical advances, companies are setting the stage for higher growth rates.

Leaders are planning a broader range of business model innovation

Innovation is no longer just for products and services. Leaders are using innovation to transform the business models that define the way they do business. Companies are innovating and commercialising new value propositions for their customers that provide complete solutions where historically they have provided a single product or service. Some companies are delivering their products and services in new ways, such as Software as a Service and omnichannel retail experiences. And many companies are looking for new ways to monetise their offerings, charging for the quality of the outcome as opposed to the product. Combined with technology innovation, these business model innovations provide a powerful source of growth.

The leading innovators in our study are targeting a higher proportion of breakthrough and radical innovations

Leaders are planning to collaborate more

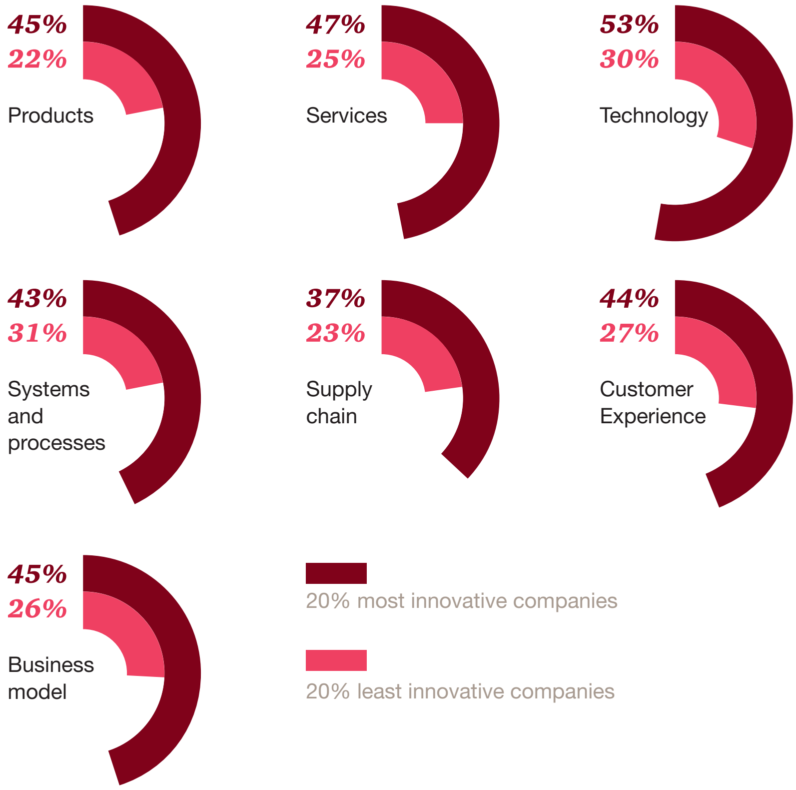
Our innovation leaders have realised the value of collaboration and are pursuing more of it. The 20% most innovative companies co-create almost twice the proportion of their new products and services with customers compared to the 20% least innovative: 25.3% compared with 13.0%. For the proportion of new products and services collaboratively developed with other external partners the difference is even starker: the most innovative collaborate over three times more often (34.0%) than the least innovative (10.0%).

Leaders generate a greater proportion of revenue from new products and services

The most innovative companies generate a greater proportion of revenue from new products and services. In our study, the leading innovators receive 25.0% of their revenue from innovative products and services launched in the last year compared with only 6.6% for the 20% least innovative companies. The experience of BSN Medical, a global medical devices company, confirms this: "As we have increased our focus on innovation, our revenue derived from products less than five years old – has grown from 6% to 20% in the last five years," says Dr Bernhard Müller, Vice President for Global Research & Development.

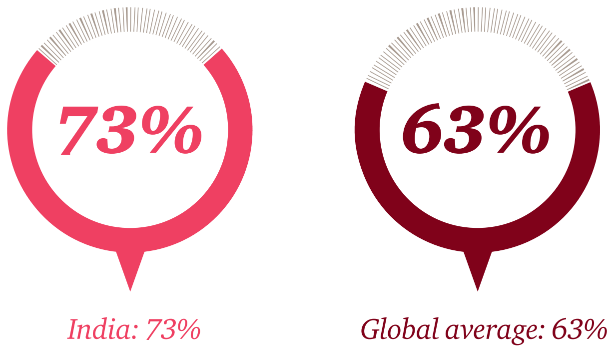
Figure 5: Leading innovators are planning for a greater proportion of breakthrough and radical innovation

How significant will your innovations in the following areas be over the next three years? – All citing 'breakthrough' or 'radical' innovation



A view from India: becoming an innovation leader

Proportion agreeing they have a well-defined strategy



As India moves from being a developing country towards being a developed country its companies are taking huge strides forward and are, in many cases, out-performing international peers. What are the reasons for this? Indian companies are more likely to agree they have a well-defined innovation strategy (73% compared with 63% globally). Only 12% say they manage their innovations informally, compared with 26% globally. Perhaps most importantly, 92% agree innovation is important to the success of their company compared with 83% globally.

Debasish Chakravorty, Vice President and Site Head at India's Piramal Enterprises, a pharmaceutical company, agrees that innovation is a significant contributor to his company's success. "Being a pharmaceuticals company, the regulations we have to follow are quite restrictive thus making innovation with operations very challenging" he argues, "but the majority of our innovations are within the regulatory framework and orientated primarily around a customer-centric focus." Understanding customer needs has helped Piramal to innovate its business model by becoming more backwards and forwards integrated, and offering a complete end-to-end service to customers. "This has allowed us to tap into new opportunities in the market" says Chakravorty.

One of the key innovation drivers for Piramal has been the opportunity to learn from other companies outside of the pharmaceuticals sector. "The Indian government is encouraging companies to innovate," says Debasish Chakravorty, "so that they quickly come up to the level of international standards. One of the ways this happens is through industrial forums which promote innovation and innovation practices across different sectors. Prizes are awarded for innovative problem-solving approaches. This gives an opportunity to learn from how other leading companies solve problems."

The trend towards much greater collaboration is reflected in our study responses. Indian companies, on average, create 26% of their new products and services in collaboration with external partners, compared with 22% globally. An impressive 90% of Indian companies have a plan in place to collaborate with strategic partners. And 58% plan to collaborate with competitors, the second highest level of all the countries where we undertook research.

Do these more innovative approaches really translate into measurable benefits? According to Debasish Chakravorty they do: Piramal makes conscious efforts to quantify the benefits of their innovations. "On a monthly basis we review our performance against innovation targets, both for new innovation projects and those that we would consider to be in the mainstream. Sites or functions who meet and exceed their innovation targets are recognised through various benchmarking exercises and the best are celebrated during the Annual Communications Meeting with the Chairman ."

The road to growth

We found a direct correlation between excellence in innovation and superior revenue growth. While there is no single roadmap for success in innovation, there are lessons that can be borrowed, tailored and made to work for any business. The leading innovators in our study are each anticipating an extra 6% per annum in growth (on average), compared with their less innovative peers. Here's some advice based on what they're doing differently.

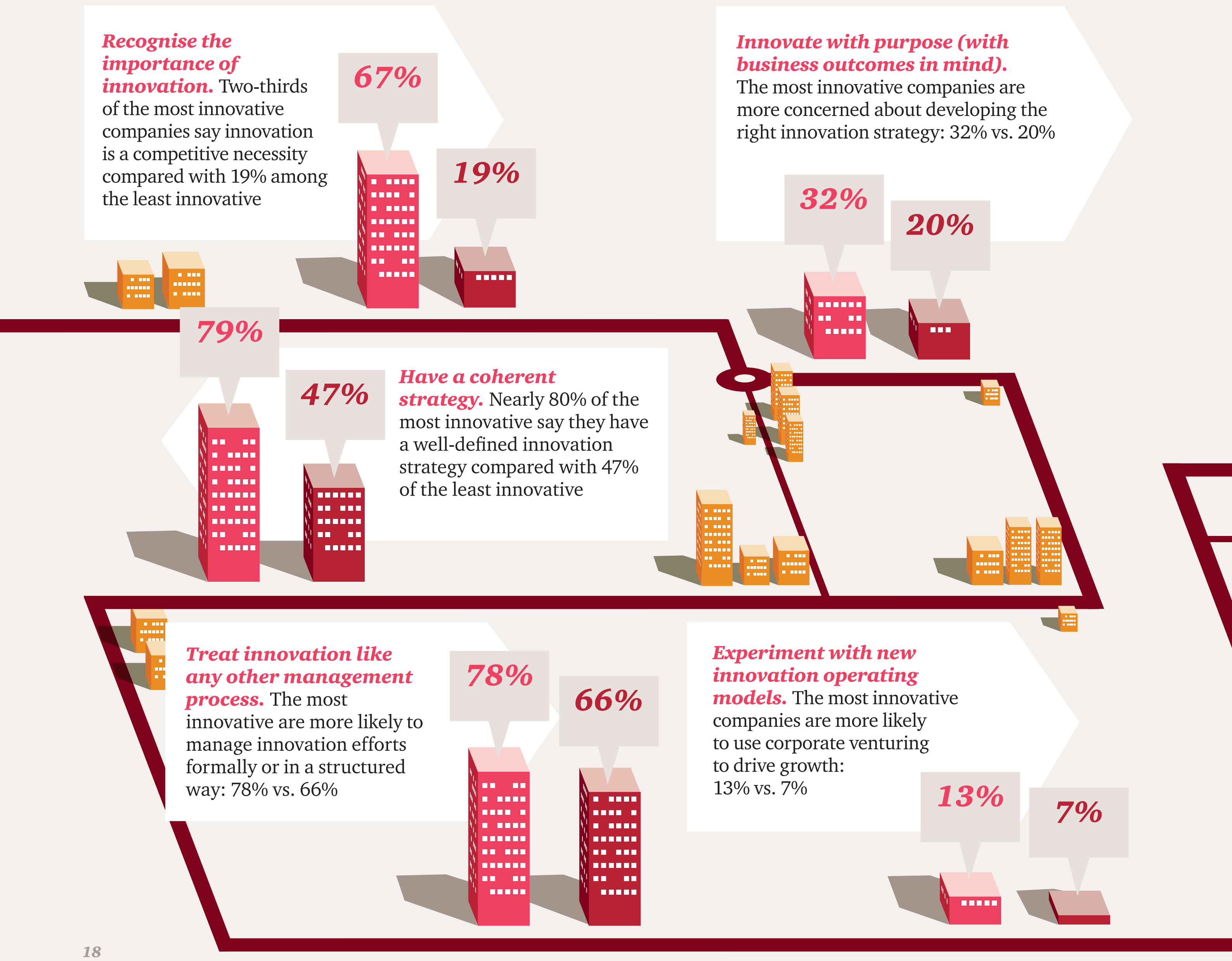
Recognise the importance of innovation. Two-thirds of the most innovative companies say innovation is a competitive necessity compared with 19% among the least innovative

Innovate with purpose (with business outcomes in mind). The most innovative companies are more concerned about developing the right innovation strategy: 32% vs. 20%

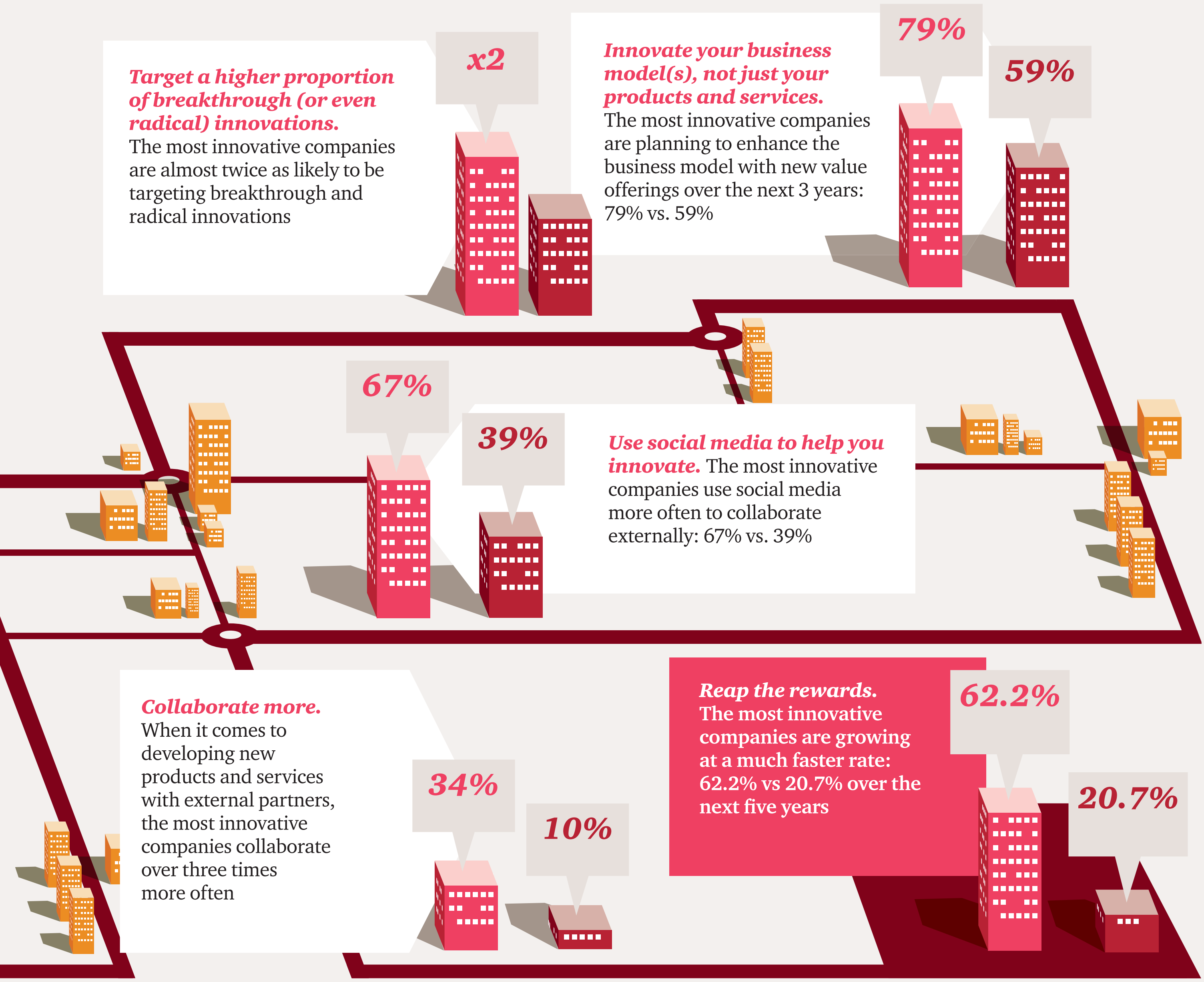
Have a coherent strategy. Nearly 80% of the most innovative say they have a well-defined innovation strategy compared with 47% of the least innovative

Treat innovation like any other management process. The most innovative are more likely to manage innovation efforts formally or in a structured way: 78% vs. 66%

Experiment with new innovation operating models. The most innovative companies are more likely to use corporate venturing to drive growth: 13% vs. 7%



We found a direct correlation between excellence in innovation and superior revenue growth



Chapter 3: Making innovation work for your business

Making innovation work involves answering several crucial questions. How should the organisation be structured? What role should leadership and talent play? How should innovation initiatives be funded?

Most organisations don't seek out pain, they try to avoid it

In this chapter, we explore some of the key challenges to innovation, then go on to offer some practical advice around how to make innovation happen, supported by case studies taken from some of the companies we interviewed.

The challenges

Innovation is not without its hurdles

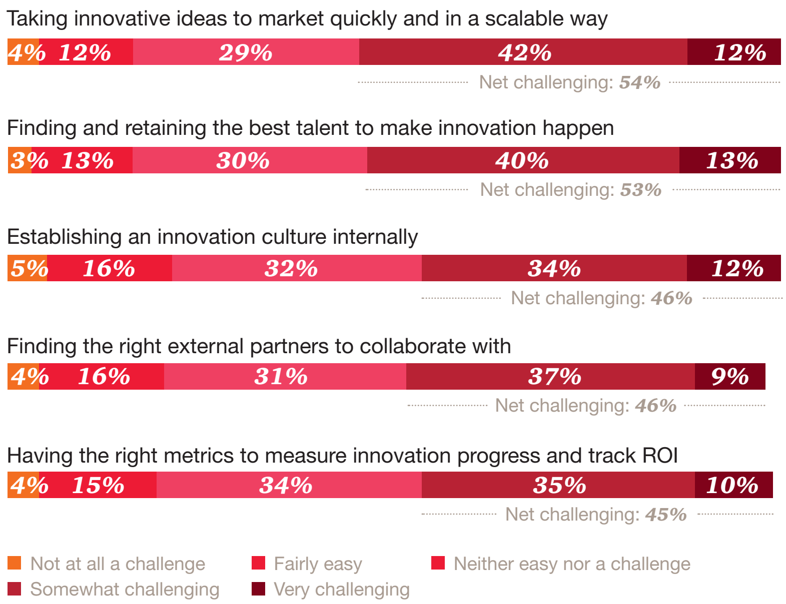
The two biggest challenges facing companies are the ability to take innovative ideas to market quickly and in a scalable way (54%) and finding and retaining the best talent to make innovation happen (53%), see Figure 6. Other challenges - establishing an innovation culture internally, finding the right partners to collaborate with and having the right metrics to measure innovation - were close behind. Not surprisingly, almost every company finds some aspect of innovation challenging.

Many of the challenges arise from the way innovation is managed. The operating models and metrics for 'business as usual' conflict with those needed to drive innovation. Maxim Nogotkov, the founder of Svyaznoy Group of Companies – a Russian retail conglomerate – and Svyaznoy Bank, believes that a company's previous success can actually hinder innovation. "The more powerful and successful a company becomes," he says, "the greater the temptation to maintain the status quo rather than destroy a tried-and-tested approach. Very often, new business models are created by companies that have nothing to lose, and, as a result, demolish the established business models of larger organisations."

In this regard, innovation can be painful: sometimes disruptive or radical innovations necessitate a business cannibalising its own product or service. "Most organisations don't seek out pain, they try to avoid it," says PwC's Global Healthcare Innovation Leader, Chris Wasden. "When they are faced with radical innovation, leaders within an organisation try to stop it because they see it breaking what already works." It takes a genuine commitment to innovation to overcome this mindset.

Figure 6: Taking innovative ideas to market quick and finding and retaining the best talent are cited as the biggest innovation challenges

How challenging do you find the following aspects of making innovation happen within your company?



A Blueprint for successful innovation

The remainder of this chapter looks in detail at the innovation strategy and operating model and offers practical advice and examples on how companies are tackling each of these areas.

Throughout this section, we make reference to PwC's Innovation Blueprint, see Figure 7. This Blueprint helps leaders think through the right construct for growth via innovation, from strategy to disciplined execution. Elements 1 and 2 align innovation with business strategy. Elements 3 to 7 focus on maximising the company's ability to come up with innovative new ideas. Elements 8 to 12 focus on the operational effort, including new ways of working that are necessary to bring these new ideas to market. The result, for those who focus on these core innovation enablers, will be an innovation capability that drives new products, services and business models.

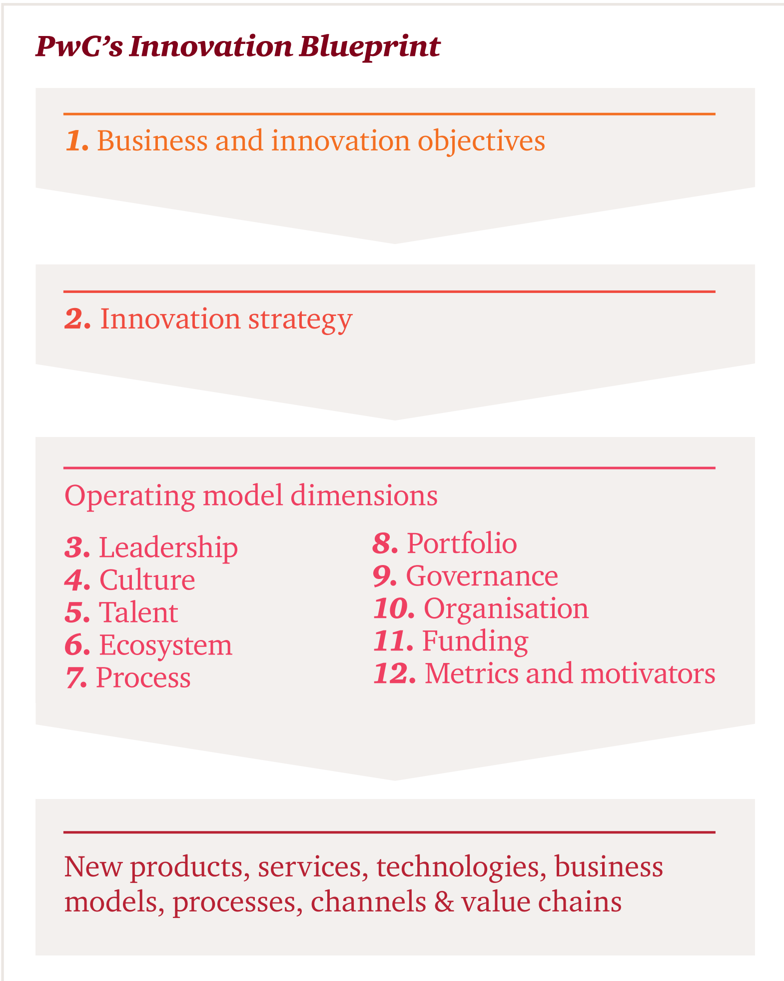
There are leading practices for each of the 12 elements of the Blueprint. And there are differences in the way each company and business unit need to put those leading practices to work.

Stripping away innovation complexity

Innovation is all too often seen as a complex process. The Innovation Blueprint - developed from leading practices - aims to strip back that complexity to the fundamental elements of innovation. The Blueprint ensures all the key pieces are included and balanced, yielding a simpler, more unified innovation capability that is more closely aligned with corporate strategy and business outcomes. Executives are beginning to ask themselves difficult questions about their companies – about their talent, leadership, processes and metrics – to assess whether their existing infrastructure truly supports or hinders innovation. And they recognise the need to do this quickly. Companies that are slow to adapt will stumble, innovations will be stunted, growth will be delayed, diminished, or both.

Figure 7

PwC's Innovation Blueprint provides a framework for thinking through tough choices about innovation



> *We gather customer insights and then try to turn that into specific actions and innovations*
>
> **CEO**, Oil & Gas company.

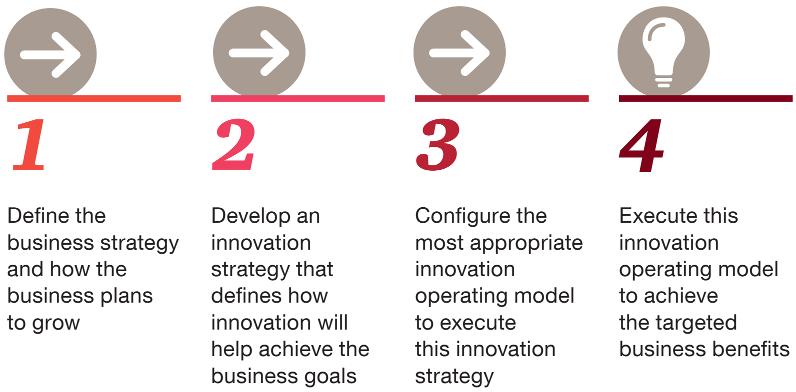
1. Business and innovation objectives

Companies need to have a clear idea of what they want to achieve through innovation. As a result, innovation is often market or customer driven. As one CEO of an oil & gas company explains, “we gather customer insights and then try to turn that into specific actions and innovations. For example, for big haulers we have developed a small device that gives both the driver and the company owner information about driving behaviour, such as when they stop and how fast they travel, so they can optimise their fuel consumption.”

Greater alignment between corporate strategy and innovation execution can be achieved by following a logical progression, see Figure 8.

Companies need to focus their attention on both strategy and execution in equal measures. An important step in this is to make sure the innovation strategy is fully aligned with corporate strategy and that the innovation operating model is up to the job.

Figure 8
A four stage plan to aligning corporate strategy and innovation execution



82% of companies who have a well defined innovation strategy say they have successfully implemented this strategy

2. Innovation strategy

Having a clearly articulated innovation strategy is vital and clearly has a direct impact on successful innovation execution. Over a third of the 1,757 companies we interviewed (37%) do not feel that they have a well-defined innovation strategy and this starts to explain why only 64% of interviewees agree that their company has successfully implemented its innovation strategy so far. This figure rises to 82% for those companies who say they have a well-defined innovation strategy, demonstrating a strong link between having a well-defined innovation strategy and being able to execute it successfully.

In developing a successful innovation strategy, there are three fundamental questions that executives need to ask themselves:

- **How much innovation do we need?** Given the business goals and growth objectives for the organisation, how much innovation is required? Too much innovation is a drain on resources. Too little innovation and opportunities for growth are squandered.

- **What balance of innovation do we need?** What ratio of incremental, breakthrough and radical? What kinds of innovation will deliver against the desired business goals? How should the different types of innovation be utilised across our portfolio?

- **In which areas should we focus our innovation?** Products, services, technology, systems and processes, supply chain, customer experience, business model? It is important to decide which areas of innovation should be prioritised, which will be truly influential in driving growth, and who will be responsible for making them happen. Focus is critical to success. Trying to do everything is a sure way to miss the next big thing.

Companies need to determine whether they should adopt a 'Play to Win' or a 'Play Not to Lose' innovation strategy. 'Play Not to Lose' is a defensive posture that aims at not being blindsided by a competitive move. It is appropriate for groups that are risk averse or unable to be leaders that generate winning innovations. In some competitive environments this makes sense: it is better to play conservatively and avoid taking large risks.

'Play to Win' strategy places more emphasis on achieving leadership via innovation. This appears to be the approach of the most innovative 20%. They are focused on achieving leadership with improved operating models and an eye on creating innovations that deliver above average growth and place them at the front of the pack.

Case study: a governance model for innovation strategy at Bombardier Transportation

Martin Ertl, Chief Innovation Officer of Bombardier Transportation, a rail equipment manufacturer, outlines an effective governance model that works in his organisation. The innovation strategy at Bombardier is developed with clear direction from the Group, he explains, but devolved down to individual divisions to interpret and execute. "The company is divided into six divisions and the Group, which is responsible for the governance," he says. "Strategy and focus fields are developed by the Group and harmonised with the divisions. Every division has an innovation manager who has the freedom to be innovative but who also has to make sure the goals defined by the Group are reached."

3

Good leaders create and foster an environment where innovation is valued and nurtured

3. Leadership

Leadership sets the tone for innovation. Lack of a leadership vision for innovation confuses the people in an organisation and undermines innovative culture. One of the roles of the leadership should be to establish clear boundaries for innovation. How big should the innovations be? What impact would a winning innovation have on the top and bottom line? What can be changed and what should not be changed? These are critical questions that people look to executive leadership to answer.

Good leaders create and foster an environment where innovation is valued and nurtured. They celebrate innovation as a source of learning and growth, and they mitigate the organisational antibodies that attack the ideas and the innovators that come up with things that are truly new and valuable. It is important that leaders promote thoughtful exploration of the best innovations.

In PwC's recent study *Unleashing the power of innovation* CEOs identified the right leadership and culture as the most important ingredients for success. Seven in ten of CEOs see their role as leader or visionary in driving innovation within their organisation.

CEOs also told us that they see the capacity for creativity, willingness to collaborate and readiness to challenge accepted norms as being high on the list of important ingredients for successful innovation.

4. Culture

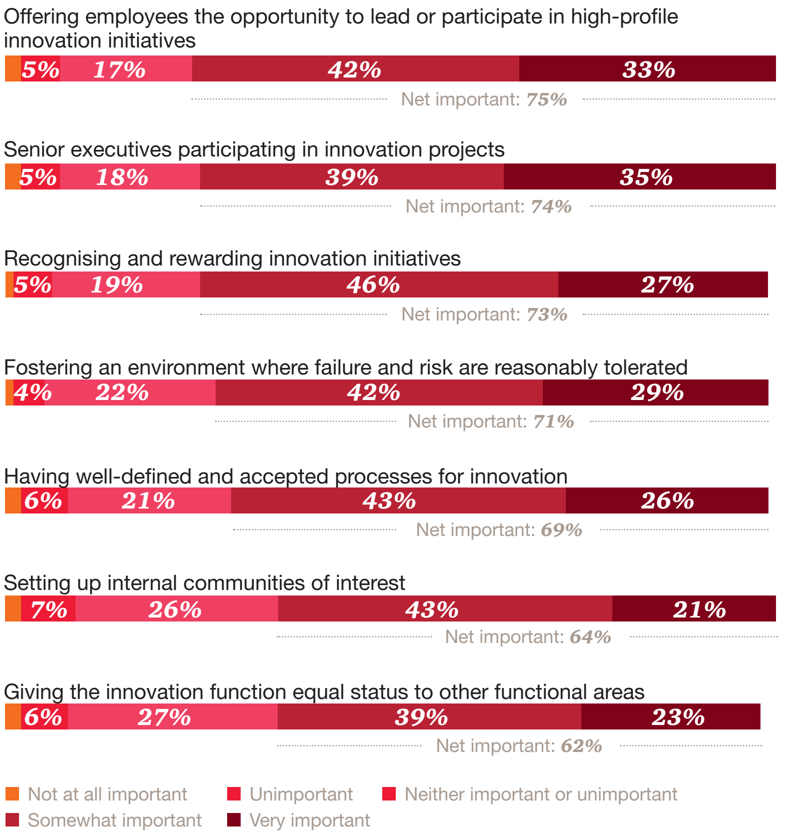
Establishing the right culture depends to a great extent on effective leadership. However, building and maintaining the appropriate innovation culture goes beyond simply having the right leader, see Figure 9. In the short term, when companies are still making the transition to a new innovation strategy and operating model, it is crucial to incentivise the right behaviours. Over the long haul, those behaviours will become the shared cultural norms.

Companies favour an open process that encourages collaboration across the organisation. Innovation does not do well in silos. Gerdus van Eeden, Chief Technology Officer at South-Africa's Multichoice, a pan-African satellite television service operator, agrees. "As the world gets more complex," he says, "so does innovation. There is very seldom a situation in our company where somebody would develop an innovative idea that didn't need input from any other part of the business to make it work."

Seven in ten of the executives interviewed for our survey also feel that a successful innovation culture relies on the organisation's ability to foster an environment where smart exploration is encouraged even if does not always lead to a successful outcome. Leaders know that breakthrough innovations require exploration of entirely new types of business models and technologies. Sometimes, the experiments do not provide the expected results. Sometimes called a failure, those unexpected results are valuable discoveries that can guide the innovation team to bigger and better outcomes.

Figure 9: Establishing and fostering an innovative culture is a subtle mix of encouraging the right behaviours and giving people the means to take ownership of their innovation efforts

How important are each of the following to creating and fostering an innovative culture?



Case study: Prudence Insurance's 'innovation fitness'

H. C. Barke, President and CEO of Prudence Insurance Brokers LLC and Prudentia Insurance Brokers & Consultancy JLT, a Dubai financial services firm, believes that developing an innovative culture doesn't happen by chance, it is something that has to be worked at. "It is important to build up an 'innovation fitness'," he argues, "it is just like going to the gym: for it to be effective you have to dedicate 40 minutes of your day, every day, to improving your innovation efforts and creating the right culture. If you want it to happen, it can't be optional, it has to be compulsory."

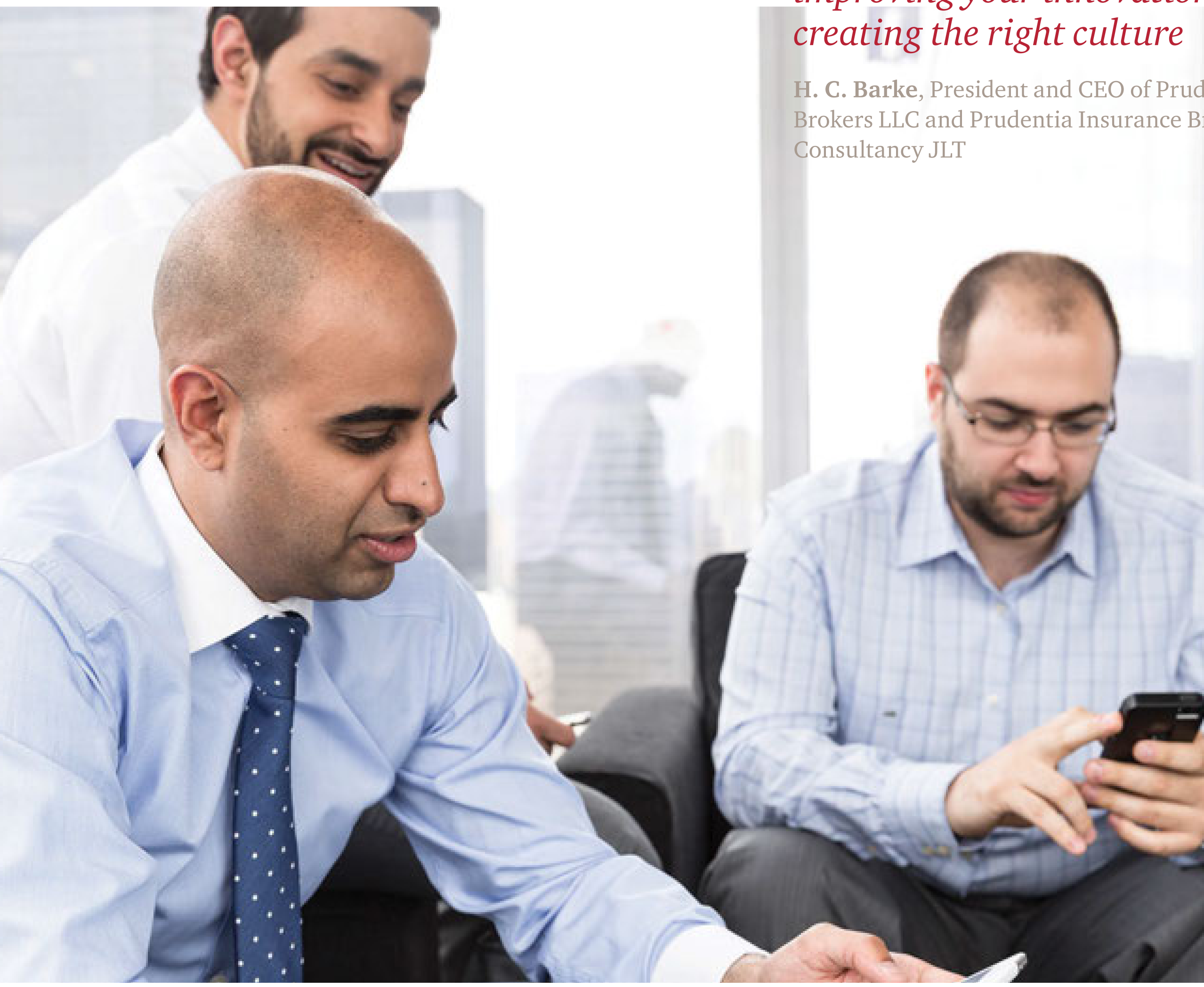
71%

71% agree that fostering an environment where failure and risk are reasonably tolerated is an important aspect of innovation culture.

In our experience leaders create an 'intrapreneurial' innovation culture – an environment that encourages entrepreneurial behaviours and the leveraging of resources internal to the company. That intrapreneurial culture combines the vitality of a start-up with the strengths of an established company – a hard combination to beat.

For it to be effective you have to dedicate 40 minutes of your day, every day, to improving your innovation efforts and creating the right culture

H. C. Barke, President and CEO of Prudence Insurance Brokers LLC and Prudentia Insurance Brokers & Consultancy JLT



5

In order to progress into the unknown, we need people who are more transformational in their thinking, with backgrounds outside the industry, and who are not intent on maintaining the status quo

CEO, Oil & Gas company

5. Talent

Finding and retaining the best talent is cited as the second biggest challenge to making innovation happen – see Figure 6 above. Finding innovation talent inside the company requires a fresh look at your people and the skills they possess. Three quarters of executives we interviewed say offering employees the opportunity to participate and lead high-profile innovation initiatives is important, and 73% believe recognising and rewarding innovation is important – see Figure 9. For the 20% most innovative companies in our study, these figures rise to 82% and 77%.

Peer nominated awards and recognition are good motivators. "People like to feel valued," says Gerdus van Eeden of Multichoice, "because it motivates them to look for more innovation opportunities to bring to the table. Rewarding and recognising people are important parts of celebrating success." In our experience, the best breakthrough innovators want to be recognised as somebody who makes a difference – to their profession, to the company, and sometimes to the world.

Case study: maximising the impact of talent for radical innovation

Understanding the skills required to execute different types of innovation and assigning the right people to the appropriate task is of critical importance. According to one CEO of an oil & gas business, it is important to bring fresh perspectives into the talent pool. "We are considering breakthrough and radical innovations, such as what our retail sites will look like in 20 years' time," he says. "We are asking ourselves all kinds of questions about the types of customer, products and services that should be on offer. This may lead to a totally different business model. In order to progress into the unknown, we need people who are more transformational in their thinking, with backgrounds outside the industry, and who are not intent on maintaining the status quo."

19.3%

Average proportion of products and services co-created with customers

21.8%

Average proportion of products and services co-created with external partners

6. Ecosystem

Innovation is not just dependant on how smart your people are, but how well those smart people connect with other smart people. PwC's Rob Shelton adds: "There are a billion IQ points outside your organisation that you can use if you know how to collaborate effectively."

Business leaders recognise that the best ideas don't always exist within their own company. This is reflected in our study findings: companies are collaborating in large amounts with a diverse range of partners from suppliers to academics and even competitors, see Figure 10.

Cross-sector collaboration is a growing trend as the clear lines between industries start to blur. Banking, technology and telecoms businesses, for example, have co-developed online banking facilities in a secure way for customers.

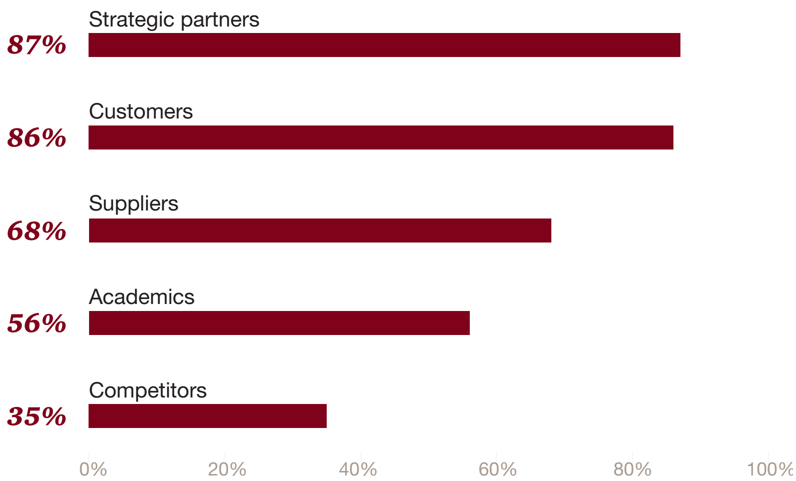
Case study: making collaboration work at Paymentflex

Leading organisations constantly look for long-term partners that they can collaborate with on innovation initiatives. Taking a long-term view enables both parties to plan their resources and invest in building up a trusted partnership. Stephen Hucal, founder of Paymentflex, a North American, financial services technology company, agrees. "For collaboration to work requires trust," he says. "If two partners don't trust each other, they won't be able to work together to solve a problem for mutual benefit. Cynicism and lack of trust are the two biggest stumbling blocks to effective collaboration. My advice is to trust others: if they don't meet the expectation you put on them, that's their problem not yours."

However, organisations are not intrinsically good at collaboration. They compete naturally but find collaboration much harder. Leaders are not content to accept this shortcoming. Top performing innovators help their people learn, and develop leading practices and tools for meaningful collaboration.

Figure 10: Companies are looking to collaborate with a range of partners to make innovation happen, including customers and even competitors

With which of the following do you have a plan to collaborate over the next three years?



Design thinking, the rejuvenation of corporate venturing and the use of incubators is noticeably stronger in leading companies

7. Process

Almost seven in ten (69%) executives in our study believe that having well-defined innovation processes is important for establishing an innovative culture, see Figure 9 above. But what does a well-defined process look like?

Effective innovation processes are iterative, beginning with the collection of ideas and progressing through stages of idea prioritisation, experimentation and decision-making about which ideas should be commercialised and ending with the delivery and monetisation of the innovation. When it works well, this process allows for the rapid development of successful ideas, and the fast failure of bad ones. Dyson, for example, generated 5721 prototypes in just four years before releasing its revolutionary—and highly successful—cyclonic upright vacuum cleaner.

To make breakthrough innovations happen, companies are looking to new models such as open innovation (collaboration with outside partners), design thinking (looking at the need from an anthropologist's perspective), corporate venturing, and incubators (small groups of intrapreneurs that use rapid prototyping), see Figure 11. These new approaches are being used by a small but significant proportion of companies. Corporate venturing, for example, is the most popular approach among technology companies, and design thinking is very popular in medical devices, see Figure 12.

Figure 11: Companies believe open innovation will drive the most growth, but new approaches such as incubators and corporate venturing are on the ascendancy

Which of these approaches do you think will lead to innovations that drive the most growth for your company?

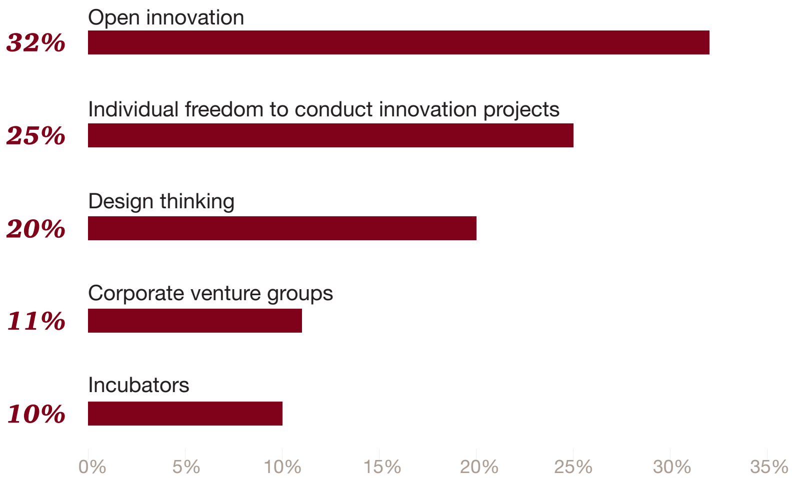


Figure 12: New innovation processes, such as corporate venturing and design thinking, are popular among sectors as diverse as medical devices and mining

Open innovation		**Individual freedom**	
Insurance	41%	Logistics & Transportation	31%
Healthcare	40%	Technology	30%
Metals	38%	Banking	29%
Utilities	38%	**Design thinking**	
Pharmaceuticals	36%	Retail	34%
Aerospace and defence	35%	Medical devices	32%
Consumer packaged goods	35%	**Corporate venture groups**	
Oil & Gas	35%	Mining	28%
Retail	34%		
Entertainment	33%		
Automotive	32%		
Chemicals	32%		
Media	32%		
Agriculture	30%		
Industrial manufacturing	27%		

This chart reflects the number one choice of new innovation processes for each of the sectors. Most sectors picked open innovation, but some other sectors have a clear preference for some of the other approaches.

"Design thinking, the rejuvenation of corporate venturing and the use of incubators is noticeably stronger in leading companies," says PwC's Rob Shelton. "Companies often start with individual freedom or open innovation and progress to other models. Within five years I think we are going to see a different landscape, where incubation becomes more of a norm and corporate venturing and design thinking becomes more widespread."

Case study: small working groups empower individual employees to be innovative at Zurich Life

Setting aside time from the working week to allow every employee to focus on innovation makes everybody in the company a potential innovator. At Zurich Life, a global financial services business with more than 60,000 employees, small groups of employees are tasked with finding innovative solutions to problems. "These working groups are usually formed of a mix of high talent individuals from different countries," says Paul Kenmir. "They have a relatively short space of time - nothing more than six months - and no particular allocation of budget or time. What they come up with gets presented back to senior management. We don't lift them out of the marketplace, we don't even lift them out of their day jobs."

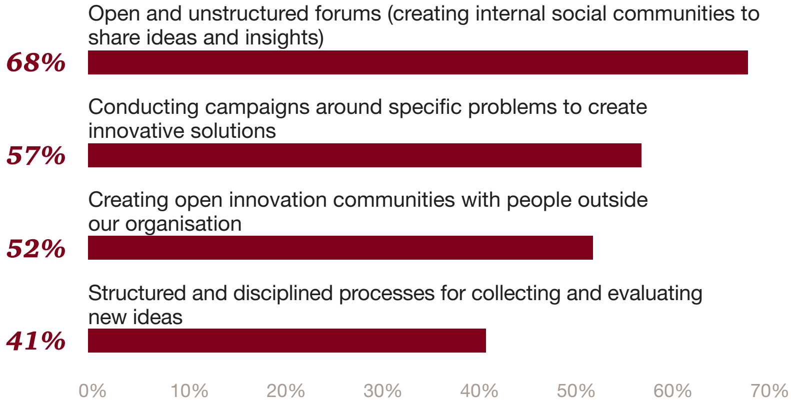
Has this approach been successful? "Innovating in this way offers personal development for the individuals involved as well as the opportunity for the company to solve problems in new ways. The other reason we do this," says Kenmir, "is to create truly global networks; in an organisation of our size, it is difficult for people to know which colleagues people should connect with to solve particular problems."

Technology has been a catalyst for introducing many of these new innovation operating models and driving innovative ideas. However, companies need to apply the developed technology to the desired business outcome, not the other way around. "Often innovation activities around the use of technology are being used solely to improve the IT function, rather than genuinely innovate into the market," says Chris Curran, Chief Technologist at PwC. "There needs to be closer alignment between technology and innovation goals so that CTOs can play a more vital role in supporting the rest of the business."

Social media can increase innovation through the number of potential interactions people can have with different experiences and points of view. This can be helpful in challenging received wisdom and testing new concepts. Yet social media is still in its infancy. At present the majority of companies are using social media in open and unstructured ways rather in a disciplined way to collect and evaluate new ideas, see Figure 13. "In the long-term we would expect a shift towards more structured and disciplined approaches to social media," says PwC's Chris Curran.

Figure 13: Companies are still learning how to use social media effectively to support innovation efforts; only four in ten are using it in structured and disciplined ways.

Does your company leverage social media to support innovation efforts in any of the following ways?



It's not just innovating products, it is innovating the way we do business

8. Portfolio

Companies looking to achieve high levels of growth need to look beyond incremental, product-based innovation. More breakthrough and radical innovations (i.e. non-incremental) across all areas of the business are needed to drive higher growth rates. These involve significant departures from the status quo and have the potential to change the rules of the game or to create an entirely new game such as Virgin Galactic's space tourism.

Our study shows that businesses are opting for a higher proportion of breakthrough and radical innovation than in the past, see Figure 14. The shift is even more pronounced for the Top 20%. They have a much higher proportion of breakthrough and radical innovations in their portfolio, typically between 40% and 50%.

And there are other signs of the innovation transformation in the portfolio. While product innovation remains a priority, an unprecedented number of companies are now focusing their attention on innovating their business model. Executives have shifted their mindsets and portfolios to embrace new levers for growth such as enhanced value propositions, monetising in new ways, and significantly improved customer experience. Priorities vary widely by sector – see Figure 15 – with technology and services emerging as top priority areas for sectors as diverse as insurance, utilities and retail.

Figure 14a: The proportion of breakthrough and radical innovations that companies are looking to introduce is increasing, just as the focus of innovation is widening

How significant will your innovations be in the following areas over the next three years?

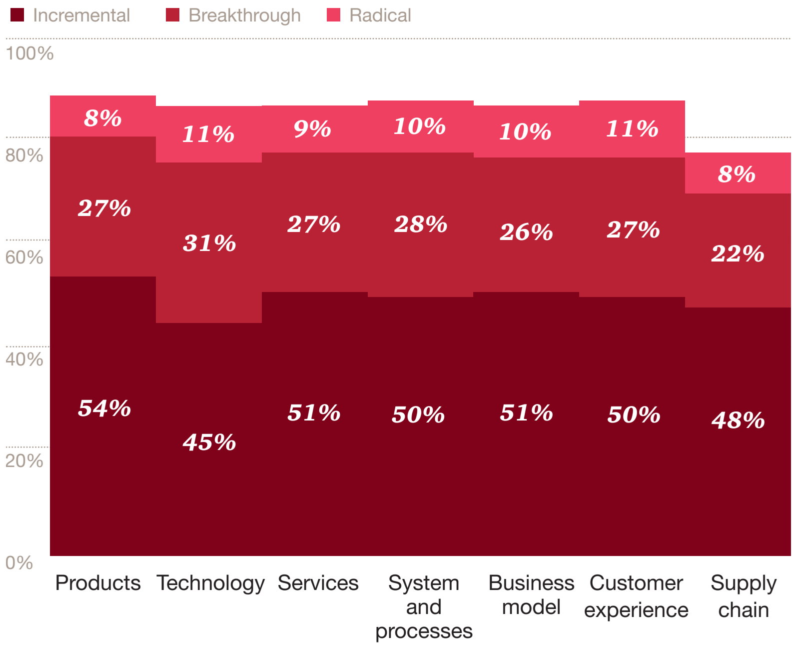
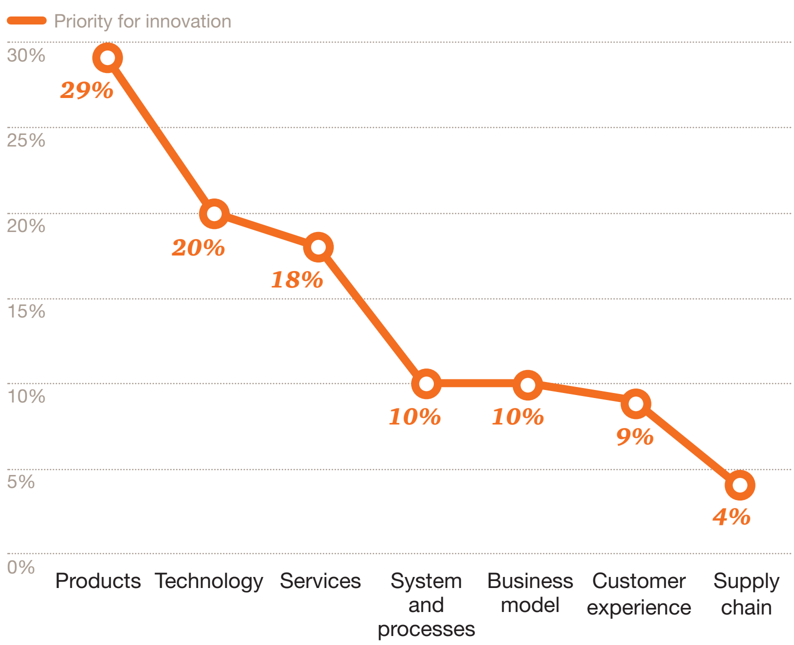


Figure 14b

Which is your priority for the next 12 months?



Seventy one percent of the companies who are planning to innovate their business model, will introduce new value offerings, see figure 16. New value comes from changing what is delivered to customers. "Companies that pair service and product innovation –providing customers with a solution – will reap rewards including higher revenues, better returns on their innovation investments, stronger brand loyalty, and bigger market share," says PwC's Rob Shelton.

Case study: business model innovation at The NanoSteel Company, Inc.

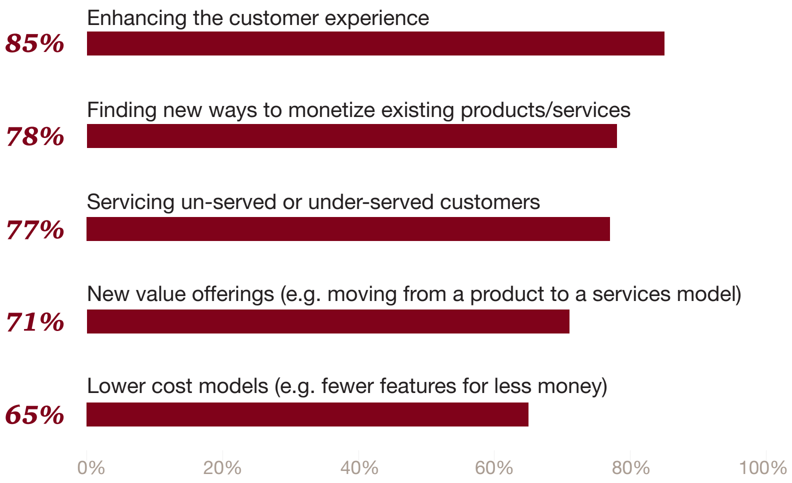
"One of our most significant innovations," says David Paratore, President and CEO of The NanoSteel Company, Inc., "has been the change in our royalty business model." This innovation was driven by the desire to unlock more value from the products NanoSteel is designing. "In order to maximise the value of our technology, it was deemed best to generate royalties from those companies reaping the benefit which in our case are the tier one automotive companies, not the steel producers" says Paratore. "We explored what worked in other companies and the model used by Dolby seemed to resonate. So we tested it, with some of the auto OEMs, who were receptive to the idea, before rolling out the model to the industry."

Figure 15: Innovation priorities vary widely by sector, with the focus being spread across products, technology and services

Products		**Technology**	
Medical devices	46%	Entertainment & Media	28%
Pharmaceuticals	45%	Technology	28%
Agriculture	40%	Insurance	22%
Industrial manufacturing	36%	Utilities	22%
Aerospace and defence	34%	**Services**	
Consumer packaged goods	33%	Logistics & Transportation	43%
Entertainment	32%	Mining	27%
Automotive	32%	Retail	26%
Metals	32%		
Chemicals	28%		
Healthcare	27%		
Oil & Gas	25%		
Banking	24%		

Figure 16: Business model innovation will be widespread and take on many forms

Which of the following business model innovations will you be implementing over the next three years?



9

Every organisation has somebody who has successfully launched a commercial product, but they are not always involved in the innovation hierarchy

9. Governance

Governance is a vital ingredient for success but is often overlooked, underplayed, or misplaced. Governance must match the innovation operating model; companies using incubators, venturing, and design thinking will have different governance approaches than those using open, unstructured innovation. Whatever the organisational structure and approach, several elements are required:

First, governance must include senior executives in an active role. Engaged executives provide vital coaching and direction of innovation teams. These are highly valued interactions that motivate talent and reinforce the innovation culture.

Second, the governing body must establish tough criteria for approval and funding. They must be willing to say "No" very often. All leading innovators know there are far too many opportunities and not enough time and resources to do them all. Saying no is essential to getting the innovation job done. It also sets the bar high for the quality that innovation teams need to bring forward.

Third, governance must also ensure innovation does not become isolated from the overall organisation. Sometimes the innovation teams become 'lost in innovation space' and fail to maintain sufficient contact with the brand, channel understanding, and customer insights. That sort of isolation diminishes the innovation success rate. But even worse, innovation isolation releases organisational antibodies that limit or even kill great innovations. One of the major roles of the governing team is to ensure good relations with the overall organisation and quickly mitigate any organisational antibodies.

Finally, good governance ensures decision making and the entrepreneurial spirit are supported throughout the organisation. The best ideas must be identified quickly, championed at all levels and developed further into commercial propositions, close to the resources that have the capabilities.

For John Sviokla, PwC's Head of Global Thought Leadership and Innovation, getting the governance right means handing responsibility to people with the right experience and attitudes. "Every organisation has somebody who has successfully launched a commercial product," he says, "but they are not always involved in the innovation hierarchy. They may not have the status but they do have the expertise. These are the people who should oversee and have the majority of the voting rights in the judging process."

10. Organisation

It is a common misconception that innovation is a serendipitous and unstructured activity that cannot be planned for, forced or disciplined. The best organisations strike a careful balance between fostering creativity and imposing structure.

The majority of interviewees say that their company manages its innovation processes either formally (32%) or in a structured way (41%), see Figure 17.

"Organisations that are disciplined about other processes can be surprisingly ill-disciplined about innovation," says PwC' John Sviokla. "In an undisciplined world, open innovation without purpose and collaborative innovation without a strategy doesn't yield results."

The key issue is therefore not whether innovation should be disciplined, but what is the right kind and amount of discipline. According to Chris Wasden, PwC's Global Healthcare Innovation Leader, the discipline that works today, in operationally-focused companies, is not the discipline needed to create the business of tomorrow.

Having a well-defined organisational structure around innovation helps build alignment and higher performance through the sharing of best practices, resources and mental models for growth and innovation. These drive disciplined execution and lead to repeatable and scalable innovation commercialisations. The majority of executives say they set up their innovation structures to support individual product areas (72%) or business units (61%), see Figure 18. Fewer hand responsibility to separate facilities in individual markets.

Aligning innovation to business units ensures the innovation teams do not become isolated from the rest of the organisation.

Figure 17: The majority of companies tend to manage their innovation process with a degree of discipline, either formally or in a structured way

Which of the following best describes the way your company manages its innovation process?

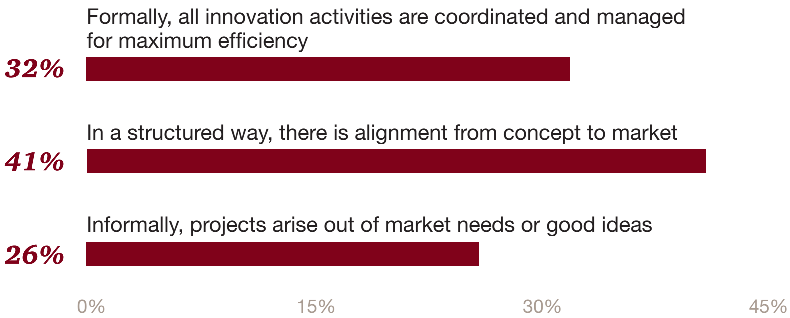
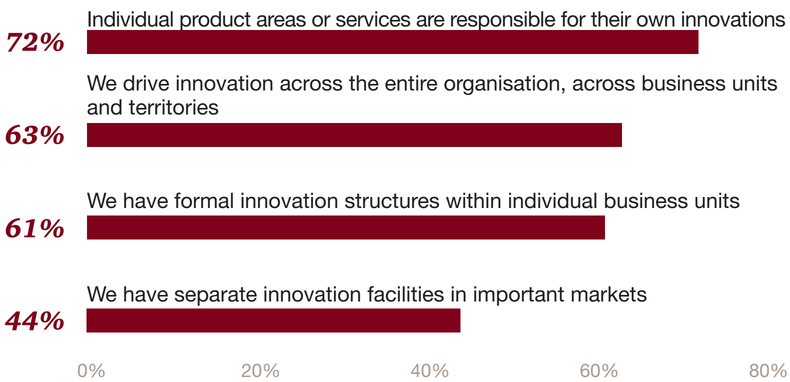


Figure 18: Companies are more likely to devolve responsibility for innovation to individual products and services than to individual markets

Which of the following approaches to managing innovation does your company take?



Of companies take advantage of government funding to support their innovation efforts

11. Funding

Breakthrough innovation requires dedicated funding that does not have to compete with operational funding requirements. As PwC's Global Healthcare Innovation Leader, says, "Innovation budgets should be protected and not able to be used for the operations of the day-to-day business." Innovation doesn't operate on an annual budgeting cycle. Instead innovation resourced need to be deployed on a milestone basis.

Experience shows it is far more important to manage how the funds are spent, rather than worrying excessively about budgets. To put a sharper point on it, dedicating more funds to innovation will not automatically generate growth. Growth will arise from innovation funds being used effectively.

In terms of external funding for innovation, under half of the 1,757 companies interviewed take advantage of any form of government funding for innovation (48%) or tax incentives (45%). This picture does vary across the globe, with more companies taking advantage of government support in France, The Netherlands, the Nordic countries and China and fewer in Russia, Saudi Arabia and the UAE.

Innovation budgets should be protected and not able to be used for the operations of the day-to-day business

12. Metrics

What aspects of innovation need to be measured? What are reasonable targets? These are two questions that continue to perplex executives. And there is no consensus. Interviews show that there is a broad range of metrics used across industries.

Paul Kenmir of Zurich Life sets metrics for each of the firm's innovation initiatives and measures long-term performance against each of these. "Our measure of a successful innovation project," he says, "is effectively full payback within five years and an internal rate of return probably exceeding 12%."

However, the true measure of innovation success cannot only be seen through a financial lens. Leading companies define measurements that go well beyond the traditional ROI. Examples include: proportion of revenue from new products and services; increased customer satisfaction associated with new offerings; as well as process measures such as quantity and quality of ideas in the pipeline and time to market. As innovation portfolios diversify, metrics for breakthrough and truly radical innovations need to change to reflect the new processes and types of value created.

Our measure of a successful innovation project is effectively full payback within five years and an internal rate of return probably exceeding 12%

Paul Kenmir, Zurich Life

Conclusions and key takeaways

The results of our study clearly demonstrate the huge increase in the importance of innovation and the scale of the benefits delivered.

Companies that are too complacent about their existing innovation capabilities, or not prepared to adopt new innovation models, risk being overtaken by more innovative competitors. To address this opportunity requires tough choices: where to invest, which talent to promote to leadership roles, and which operating models will drive the most growth.

Companies that are too complacent about their existing innovation capabilities, or not prepared to adopt new innovation models risk being overtaken by more innovative competitors

We close this report with seven key questions every executive should ask themselves about their business and the role they play in support its innovation efforts.

1. **Are you paying enough attention to innovation?** Innovation is quickly moving up the agenda for all businesses, becoming a competitive necessity and the main driver for growth. When was the last time that innovation was discussed at your management board?

2. **Do you have an innovation strategy?** Innovation needs to be thought of as process which can be disciplined. A coherent innovation strategy aligns all elements of an organisation to its corporate goals. How do you plan to harness innovation to accelerate growth?

3. **Is your innovation portfolio right?** Innovation portfolios are evolving, including a greater proportion of breakthrough, radical, and non-product innovation and a much broader range of areas to innovate. How well-balanced is your portfolio and where are you prioritising your innovation resources and investments?

4. **What is your innovation timespan?** Companies too focused on the short-term never challenge existing thinking, while those too focused on the long-term overlook immediate delivery. A balanced perspective is needed. Are you creating the business of tomorrow while running the business of today?

5. **Is innovation an integral part of the executive and organisational mindset?** Are operational efficiency and innovation metrics part of all management meetings? Are the resources, investments, processes, organisation and governance sufficient to provide the space for innovation to thrive?

6. **Do you know how to explore and find the really great innovations that drive unprecedented levels of growth?** Is exploration something that people are incentivised to do? Do the innovation processes use leading practices to ensure high speed prototyping, exploration, and learning?

7. **Are you an innovation blocker or enabler?** Executives too comfortable with the status quo are one of the greatest barriers to greater innovation. Do you have the mechanisms in place to commercialise and scale your innovations? The last mile of turning innovations into significant revenue growth is often the hardest.

Want to find out more?

For help and advice with your innovation strategy and process, please contact one of our innovation leaders.

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We look forward to speaking to you.

Appendix: a note on methodology

We would like to thank the 1,757 executives who took part in our study.

Our quantitative and qualitative research was conducted among board-level executives responsible for innovation within their company. In this context innovation was taken to encompass products, services, business model and customer experience. Twenty percent of interviews were from companies that generate more than $1bn+ revenue. Interviews were conducted by PwC and Meridian West.

For the purpose of our analysis, from the 1,757 companies interviewed we have identified the top 20% innovators (359 companies), and the bottom 20% innovators (395 companies) to compare and contrast their relative characteristics and experiences. These companies were identified based on a balanced scorecard comprising their responses to the following six areas explored in our study:

- How important the interviewee said innovation is to their company;
- Their appetite for innovation (on a scale from ‘innovation laggard’ to ‘innovation pioneer’);
- The proportion of annual revenue derived from major products or services launched in the previous year;
- The proportion of annual revenue spent on innovation;
- The proportion of products and services co-developed with external partners;
- Their projected revenue growth over the next five years.

For each of the six attributes every company was given a score between 1 and 5. The most innovative 20% of companies scored a total of 23 or more out of 30, whilst the least innovative 20% of companies scored a total of between 7 and 15 out of 30.

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